

No. 3(11)/2011-DPE (MoU)
Government of India
Ministry of Heavy Industries & Public Enterprises
Department of Public Enterprises
(MoU Division)
Web-site: <http://dpemou.nic.in/>
E-mail: mou-dpe@nic.in

Public Enterprises Bhavan,
Block No. 14, 3rd Floor,
CGO Complex, Lodhi Road,
New Delhi -110 003
Dated: 31st October, 2011

OFFICE MEMORANDUM

Subject: Guidelines for Memorandum of Understanding (MoU) between CPSE and Government Department /Ministry for the year 2012-13.

Please find attached a copy of the Guidelines for drafting of MoU for the Financial Year 2012-13.. Please note the following key features:

1.1 **Applicability:** All CPSEs (Holding as well as Subsidiaries), without exception, are required to sign MoUs ; while the Apex/Holding companies are mandated to sign MoUs with their administrative Ministries/Departments, the Subsidiary companies are to sign MoUs with their respective Apex/Holding companies on the same lines as MoU signed between a CPSE and Government of India. The MoU formats for all CPSEs, including the Subsidiaries, are as attached. Those CPSEs who do not adhere to DPE's schedule for signing of MoU will have their MoU performance rated as "Poor".

1.2 **Financial Targets (Static parameters):** The basic targets of Gross Sales, Turnover, Gross Margin, Net Profit, Net Worth should be determined on the basis of (i) projection based on last five years' actuals (ii) reference to sectoral as well as industrial growth (iii) forecast of growth outlook for the ensuing year (iv) benchmarking with peer Companies at national and global level , subject to the condition that they are not less than the expected achievement in the previous year 2011-12. Financial Parameters should be fixed using DPE's definitions as appearing in these guidelines (**Annexure-I**). Some common definitional errors (**Annexure- II**) should be avoided.

1.3 **Non-financial Targets:** The non-financial targets should be SMART (Specific, Measurable, Attainable, Results-oriented, Tangible). Targets should be included to

assess the performance of the CPSE under Corporate Social Responsibility, R&D, Sustainable Development, Human Resource Management and Corporate Governance, for which 5% weightage on each are earmarked. Major ongoing projects being monitored by the Department of Statistics and Program Implementation should be included.

1.3.1 To the extent possible, the targets for non-financial parameters should be independently verifiable, and CPSE should also specify the agency and means of their verification in draft MoU. In absence of the supporting documents for Non-financial parameters, evaluation based on such criteria whose weightage is as much as 50%, becomes very subjective and the evaluation is reduced to simple acceptance of the figures furnished by the management of CPSEs. The administrative Ministry concerned is entrusted with the responsibility of ensuring that a complete set of documentary evidence for every parameter, both financial and non-financial is submitted by the CPSE to DPE. Without this DPE would be handicapped in its evaluation of the performance of the defaulting CPSEs. *This would entail an automatic downgrading by at least one notch from the rating claimed by CPSEs in respect of the parameters for which documentary evidence have not been submitted to DPE.*

1.4 **Group Targets:** The performances of some CPSEs are inter-dependent because their operations cut across different Ministries/Departments. CPSEs in the sectors of Energy, Engineering and Transport, etc. can be cited as examples. The actual performance in respect of a few parameters incorporated in MoUs like Project Implementation, Power Generation; Offtake, etc. depend upon the fulfillment of commitment by others. In such circumstances, MoU targets of the concerned CPSEs should be so fixed that they are jointly and severally responsible for their performance, and for achievement of the targets.

1.5 **Revision of Targets:** It is seen at the time of MoU Evaluation that the revision (downward) of MoU Targets is sought by a few CPSEs on account of various reasons. This is not a healthy trend as it amounts to re-fixing of targets when the achievement for the year is almost known. This is against the spirit of the MoU system, which is basically an agreement between the management of the CPSE and the Ministry/Department, under which the enterprise undertakes to achieve the targets set

for different parameters *at the beginning of the year*.

In order to discourage this unhealthy trend and to make the MoU target setting more realistic and objective, DPE may take up with the High Power Committee on MoU a proposal that any CPSE whose performance evaluation of MoU is based on revised (downward revision) targets, would not be eligible for any kind of award including MoU Excellence Award and Certificates.

MoU targets should be consistent with the proposed Annual Plan, Budget and Results Framework Document (RFD) of the Ministry/Department and Corporate Plan of the CPSE for 2012-13. As such, once the MoUs are signed, any revision of targets is not permissible. MoU targets are unconditional and non-provisional. **However, the power to permit offsets while performance evaluation of MoU for developments beyond the control of the CPSE (force majeure), based on recommendations of DPE and Task Force, will continue to remain with the HPC.**

1.6 **Task Force:** Task Force on MoU is a neutral and independent body of experts that assist the High Power Committee on MoU and Department of Public Enterprises in setting annual targets of CPSEs at the beginning of the year and performance evaluation of MoUs at the end of the year. For the year 2012-13, CPSEs have been categorized into 12 syndicate groups including “Sick and Loss Making CPSEs – 2 Groups” and “Section 25 CPSEs”; Task Force on MoU for each syndicate normally has 6 members comprising of 1 Convenor (Senior most among the members), 1 Finance/ CA expert and renowned and eminent persons in the field each of Corporate Social Responsibility, R&D, Sustainable Development, Human Resource Management and Corporate Governance. There is one Chairman of the Task Force on MoU. The list of Task Force members, syndicate wise, is available on DPE website <http://www.dpemou.nic.in>.


1.7 The Task Force will commence negotiation meetings from **January 2012** to analyse, discuss and finalise the MoUs in respect of Apex/Holding CPSEs as well as Subsidiary Companies.

1.8 **Time-line:** An advance copy of the draft MoU for 2012-13, including enclosed Annexures and a copy of the Annual Plan, Budget, Corporate Plan of the CPSE and its Subsidiary companies, may be sent directly to DPE, Planning Commission and



Ministry of Statistics and Programme Implementation in hard and soft copies by **30.11.2011**. The main copy, after the approval of the Board of Directors, can be sent to DPE through the Administrative Ministry/Department by the **15.12.2011**.

2. CPSEs (Holding as well as Subsidiaries) under the administrative control of your Ministry/Department may be advised to draft MOUs for the year 2012-13 on the basis of the enclosed Guidelines. These guidelines are also available on DPE website **<http://www.dpemou.nic.in>**.
3. CPSEs may draw attention to Ministry of Corporate Affairs Notification dated 28th February 2011 regarding submission of financial data as per Schedule-VI under Section 211 of the Companies Act and subsequent amendments, if any, and follow the said procedure for MoU.
4. CPSE may draw attention to Ministry of Corporate Affairs Notification dated 5th October 2011 regarding submission of their Balance Sheet, Profit & Loss Account and other documents as required under Section 220 of the Companies Act using the Extensible Business Reporting Language (XBRL) taxonomy, which is applicable to (i) all companies listed with any Stock Exchange(s) in India and their Indian subsidiaries; or (ii) all companies having paid up capital of rupees five crore or above; or (iii) all companies having turnover of rupees hundred crore or above. Such CPSEs should submit to DPE financial data for MoU in XBRL taxonomy.
5. CPSEs are advised to implement the IFRS converged Indian Accounting Standards (IND AS), while projecting the Financial parameters in the MoU for which the date of implementation will be notified by the Ministry of Corporate Affairs.
6. Modifications, if any, in these guidelines will be issued before the negotiation meetings of CPSEs with the Task Force.


(J.R. Panigrahi)
Director (MoU)
Tel: 011-2436 0841

To: Secretaries to the Government of India (as per list)

Copy to: Chief Executives of PSEs (as per list)

INDEX

GUIDELINES FOR DRAFTING OF MoU FOR THE YEAR 2012-13

Sl. No.	Contents	Page No
1	Mission & Objectives of the CPSE	1
2	Commitments / Assistance from the Government	2
3	Performance Assessment Targets and their Determination	2
4	Enclosures with Draft MoU	9
5	MoU Signing Process & Timelines	10
6	MoU Evaluation	11
7	MoU Excellence Awards	13
8	List of Annexures	14-52



MoU Guidelines for the drafting of MoU for the year 2012-13

Memorandum of Understanding (MoU) is a negotiated agreement and contract between the **Government** and the **Management** of the Central Public Sector Enterprise (CPSE). It is intended to evaluate the performance of the CPSE at the end of the year vis-à-vis the targets fixed in the beginning of the year. CPSE shall follow the below listed guidelines and format while drafting the MoU document.

Part I

1. MISSION AND OBJECTIVES OF THE CPSE

1.1 MISSION/VISION:

Mission should be a concise statement incorporating the rationale for the existence of the enterprise and its business/activities.

The Mission statement should be formulated keeping in view fresh initiatives being planned or /and under active consideration by the enterprise.

1.2 OBJECTIVES OF THE CPSE

The objectives should be related to the mission of the enterprise and listed in order of priority as approved by the Board of Directors of the enterprise.

These objectives should cover quantitative and qualitative; commercial and non-commercial; and static as well as dynamic aspects of the operations of the enterprise.

Efforts should be made to ensure that all the objectives get reflected in the MoU Assessment Format.

1.3 COMMITMENTS / ASSISTANCE FROM THE GOVERNMENT

Commitments/assistance expected from the Government should be relevant and related to the fulfilment of the agreed performance targets.

These obligations should have a direct bearing on the performance of the enterprise, and their effect on the performance should be quantified. However, the targets fixed should not be made conditional or provisional.

2. PERFORMANCE ASSESSMENT TARGETS AND THEIR DETERMINATION

- 2.1.1 Performance evaluation is based on the 'Balanced Score Card' approach and includes both "financial" and "non-financial parameters" having equal weights of 50% each. However, in the case of syndicate groups "Sick and Loss Making CPSEs" and "Section 25 CPSEs" the weights for financial and non-financial parameters are 40% and 60% respectively.
- 2.1.2 With a view to distinguishing 'excellent performance' from 'poor performance', 5 different performance targets should be fixed in the MoU assessment format on a 5 point -scale in the ascending order, that is, (1) 'Excellent', (2) 'Very Good', (3) ' Good', (4) ' Fair' and (5) ' Poor'.
- 2.1.3 The **basic target (B.T.)** will be placed in "Good" column in respect of CPSEs which are in growth phase and are operating below 100% capacity utilization. For CPSEs which are performing near or above 100% capacity utilization and are fully operative, the **basic target** will be placed in "Very Good" column.
- 2.1.4 No provisional or conditional target fixation is permissible. Hence, all performance targets are unconditional.
- 2.1.5 Once the MoUs are signed between the CPSEs and the administrative Ministries/Departments, **no revision of targets will be permitted.** The MoU Task Force have the flexibility to select appropriate financial and non-financial parameters, weightage for each of these parameters, spread between basic and other targets subject to broad DPE guidelines. **The power to permit offsets while performance evaluation of MoU for happenings beyond the control of the**



CPSE (force majeure), based on recommendations of DPE and Task Force, will however, continue to remain with the HPC.

2.2 Financial Targets (Static):

Definitions of Financial Parameters: All the financial parameters should conform to definitions which are adopted in the Public Enterprises Survey and laid before the Parliament every year are given in **Annexure - I** attached.

2.2.1 Common definitional errors relating to definitional issues on the financial parameters (refer **Annexure -II**) should be avoided.

2.2.2 CPSE will give a self certification (**Annexure- X**) at the end of the MoU to the effect that while arriving at the targets for negotiation by calculating the financial parameters and management ratios, the definitions and norms laid down in the MoU guidelines of DPE have been strictly and scrupulously followed and no deviations have been made.

2.2.3 The targets set should be realistic, growth oriented and challenging. These targets should be reflected in the Budget Estimates (BE) for the year 2012-13. The target set in MoU should be consistent with those approved by the Planning Commission and the Ministry of Finance. **While evaluating the MoU for the past few years, it has been observed that in the case of a number of CPSEs there is a large difference between the targets fixed and the actual achievements for that year. It is observed that some CPSEs under-pitch their projected performance for the coming year to plead their case for soft targets. In such cases, while undertaking the performance evaluation of MoU, DPE/Task Force will have the liberty to call upon the CMD of the CPSE to explain plausible reasons for such under pitching of targets and over-achievement with grossly high variations.** DPE may take up this issue with the High Power Committee on MoU and suggest for an imposition of penalty marks on CPSE's MoU Score as adjudged by the Task Force. Thus, while fixing targets for the MoU for the year 2012-13, the following methodology shall be followed:

2.2.4 To determine the basic target (BT) for primary parameters like **Gross Sales, Turnover, Gross Margin, Net Profit, Net Worth**, the actual achievement of past 5 years (**Annexure-IX**) can be taken and a **trend line projected** by using any suitable regression method; the projections so estimated can be modulated considering factors

such as business environment, projects under implementation and Company's growth forecast to arrive at Basic Target. Basic financial targets should be generally determined by projecting an ambitious growth over achievement or targets of the previous year, unless there was a bad performance in the previous year. In such cases of bad performance, a modest growth on average of the last 3 years' actual performance should be taken as basic target. The targets for other financial parameters and management ratios can then be derived. For CPSEs which have only recently started signing MoUs, the projection shall be done using available data.

2.2.5 The difference in target values between "Very Good" and "Good"; "Good" and "Fair"; and "Fair" and "Poor" columns should be at least 5%.

2.2.6 The difference between "Excellent" and "Very Good" targets: For the CPSEs in Manufacturing, Mining & Metals, Contract & Consultancies, Transport & Tourism sectors etc. which are in the growth phase and operating below 100% capacity utilization, the differential of 10% between "Excellent" and "Very Good" should be maintained. In case of CPSEs operating at or above 100% capacity utilization, the Task Force may fix the differential between "Excellent" and "Very Good" targets in the range of 5% to 10%.

2.2.7 In case of benchmarking targets with national and/or international standards, the discretion of Task Force on MoU will apply.

2.3 Non-Financial Targets

2.3.1 A CPSE can select non-financial parameters in consultation with the administrative Ministry/Department which are considered crucial to its functioning and fulfillment of its objectives. However, non-financial targets fixed should be **SMART (Specific, Measurable, Attainable, Results-oriented, Tangible)**, clearly identifiable and verifiable and which should be decided a priori. The draft MoU would necessarily mention about the documentary evidence and authority/source of this document in respect of all non-financial parameters. While setting targets for non-financial parameters at the time of MoU negotiation meetings and similarly, at the time of showing achievements of targets during self evaluation, CPSEs should obtain prior approval of their Board of Directors and then send it to DPE through their administrative Ministry/Department.

2.3.2 **Dynamic Parameters**

During the deliberations of the MoU negotiation meeting, if the Task Force comes to the conclusion that any of the dynamic parameter(s) as indicated in the MoU Assessment Format is not relevant to a particular CPSE, then the Task Force may evolve new parameters and adjust the balance weight relevant to that particular CPSE.

2.3.3 Ongoing projects implemented by CPSEs of various central Ministries and monitored by Ministry of Statistics and Programme Implementation should be included in non financial targets.

2.3.4 **Sector-specific Parameters**

Task Force will identify/evolve suitable sector specific parameters that reflect how the macro environment affects the performance of a particular CPSE, which is beyond the control of the CPSE management and pertain to the industry/sector in which the CPSE operates.

2.3.5 **Enterprise-specific Parameters**

Enterprise-specific parameters relate to parameters like safety, environment, and ecological considerations, i.e. parameters that do not get reflected in increased profits either during the year of investments or later, but are considered important from the viewpoint of the society.

2.3.6 In regard to both “Sector-specific” and “Enterprise-specific” parameters, the Task Force may alter weights in consultation with the Administrative Ministry where fine-tuning is felt necessary and may also club the parameters together under Non-financial parameters, without any distinction between them.

2.3.7 **Corporate Social Responsibility**

The guidelines lay stress on the link of Corporate Social Responsibility with sustainable development and define Corporate Social Responsibility (CSR) as a philosophy wherein organizations serve the interest of society by taking

responsibility for the impact of their activities on customers, employees, shareholders, communities and the environment in all aspects of their operations.

“Corporate Social Responsibility” has been included as a compulsory element under the ‘Non-financial parameters’ with a mandatory weightage of 5%. Department of Public Enterprises has already issued Guidelines on Corporate Social Responsibility for CPSEs vide O.M. No.15(3)/2007-DPE(GM) dated 9.4.2010 with subsequent amendments which are available in DPE website <http://dpe.nic.in/newgl/glch1223pdf>. A CPSE should include targets to assess its performance under Corporate Social Responsibility.

The template for review of CSR activities/projects of CPSEs and awarding of score/marks in MoU by the Syndicate Task Force is given in **Annexure—XI**.

2.3.8 **Research & Development**

“Research & Development” (R&D) has been included as a compulsory element under the ‘Non-financial parameters’ with a mandatory weightage of 5%. The basic rationale behind R&D activities is the changed business environment, highly competitive markets, the rapid pace of change in technology, stringent quality control criteria, heightened expectations and demands of customers, lack of transfer of technology and know-how from competitors, etc.

Department of Public Enterprises has issued Guidelines on Research & Development for CPSEs vide O.M. No. 3(9)/2010-DPE (MoU) dated 23rd September 2011 and is available on website <http://dpemou.nic.in/MOUFiles/R&D.pdf>.

R&D Performance Target Setting cum Evaluation Template is given in **Annexure—XII**.

CPSE will submit the requisite information on R & D in the prescribed Target Setting cum Evaluation Template given at Annexure -XII at the time of (i) submission of draft MoU to the Task Force Syndicates and (ii) submission of self-evaluation report on or before 31st August each year i.e. just before MoU Performance Evaluation by the Task Force.

CPSE is not required to fill up the Score allotted for each Table as the Task Force, on consideration of actual achievement verified by Independent Expert or Research

Advisory Committee of CPSE, will allot the marks on R&D during evaluation of the MoU.

2.3.9 Sustainable Development:

“Sustainable Development” (SD) has been included as a compulsory element under the ‘Non-financial parameters’ with a mandatory weightage of 5%.

Sustainable Development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Sustainable Development involves an enduring, balanced approach to economic activity, social progress and environmental responsibility.

Department of Public Enterprises has issued Guidelines on Research & Development for CPSEs vide O.M. No. 3(9)/2010-DPE (MoU) dated 23rd September 2011 and is available on website http://dpemou.nic.in/MOUFiles/Sustainable_Dev.pdf.

CPSE will submit the requisite information on Sustainable Development in the prescribed Target Setting cum Evaluation Template given at **Annexure -XIII** at the time of (i) submission of draft MoU to the Task Force Syndicates and (ii) submission of self-evaluation report on or before 31st August each year i.e. just before MoU Performance Evaluation by the Task Force.

CPSE is not required to fill up the Score allotted for each Table as the same will be allotted by the Task Force during evaluation of the MoU.

2.3.10 Compliance of Corporate Governance

Corporate Governance involves a set of relationships between a company’s management, its Board, its shareholders and other stakeholders and it provides a principled process and structure through which the objectives of the company, the means of attaining the objectives and systems of monitoring performance are also set. It is about commitment to values, ethical business conduct, and transparency and makes a distinction between personal and corporate funds in the management of a company.

Department of Public Enterprises has issued guidelines on Corporate Governance

