



Asian Regional Seminar on Public Financial Management

PFM Reforms: The lessons learnt -promises and tears

**PEs- From Commanding Heights towards a new
Governance Framework**

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The background²

- 1947 Dawn of Independence- agrarian economy
- Industrial Policy Resolution 1948- certain areas reserved for Government
- PEs- Commanding Heights of the Economy
- *Emphasized:*
 - Employment
 - Industrializing regions
 - Strategic areas focused upon
 - Less focus on efficiency and performance

The result

3

- *Bengal Chemicals:*

 - \$35 million to revive
primarily to save jobs

 - Phenol and hair oil production

- *Nagaland Pulp and Paper:*

 - \$85 m. capital infusion to save 5000 jobs

 - Capacity utilisation-3.5% to 8% only

Decisions political rather than economic

PE management not held accountable for results

Quantum of subsidies unclear⁴

- 2 types of subsidies- overt and hidden

Sub optimal return on capital

Subsidized loans

Loans repaid late

- Study in 1994 of Central PEs only (Reddy and Joshi)
- Such hidden subsidy totaled \$2 Billion *per annum* in the years 1990-1993

New Governance Framework: Memorandum of Understanding (MOU)



- What has changed since then?
- Better focus on performance and results
- The new approach is called Memorandum of Understanding (MOU)

Outline of the presentation of MoU system



1. Background , Introduction, Philosophy of MoU system and International experience.
2. Objectives of the MoU System
3. Process of MoU Exercise .
4. Role of Ad-hoc Task Force members.
5. Role of HPC function.
6. How to calculate the composite score.

Outline of the presentation of MoU system

7. Coverage of MoU system in CPSE.
8. Performance of signing of CPSE.
9. Incentive under the MoU system.
10. New decision of MoU system.
11. Impact of the MOU System on
Performance of Public Enterprises

Objectives of the MoU System

- i. Improve the performance of PSEs through increased management autonomy;
- ii. Remove the haziness in goals and objectives;
- iii. Evaluate management performance through objective criteria; and
- iv. Provide incentives for better future performance.

Introduction



MOU is a mutually negotiated agreement between the Management of the CPSE and the concerned Administrative Ministry.



Performance Evaluation

- Performance evaluation is based on a 5 point measurement scale, starting with “Excellent (1)” to “Poor (5)”.
- Equal weight (50%) is assigned to financial and non-financial criteria.

Implementation Steps for MoU exercise



- I. Preparation of MoU Guidelines, which are issued in 30TH November each year.

- II. Submission of draft MoU by CPSEs through administrative Ministry on the basis of the MoU guidelines by 24TH December,2013.

Contd..

Implementation Steps for MoU exercise



- III.** Examination of draft MoUs (December – January) by the MoU Division and preparation of critiques to be circulated to the Task Force Members.

- IV.** Fixing of dates and venue for MoU negotiation meetings that starts from Second week of January.

Implementation Steps for MoU exercise



- V. Holding the MoU negotiation meetings about 220 including subsidiaries to finalize the MoUs in the presence of the Task Force (January – March) each year.

- VI. Preparation and circulation of the Minutes of the MoU negotiation meetings to CPSEs and concerned administrative Ministry after approval of the Convener.

Contd..

Implementation Steps for MoU exercise



- VII.** Submission of the revised MoU by CPSEs through administrative Ministries as per the Minutes.

- viii.** Examination of revised MoUs for authentication by DPE.

- IX.** All MoUs have to be signed before 31st March of every year.

High Power Committee (HPC) on MoU

- High Power Committee (HPC)/(COS) is the Apex Committee *vis-à-vis* the MoU system in CPSEs
- Cabinet Secretary as Chairman, HPC approves the final scores of CPSEs based on the performance evaluation done in DPE.

Composition of HPC

1. Cabinet Secretary, Chairman

Other members

2. Finance Secretary

3. Secretary (Expenditure)

4. Secretary (Planning Commission)

5. Secretary (Stat. & Prog. Impl.)

6. Chairman (PESB)

7. Chief Economic Adviser

8. Chairman Tariff Commission

9. Secretary (Public Enterprises)

10. Secretary (Performance Management)

Ad-hoc Task Force on MoU



Constitution of Task Force

- MoU Task Force is a neutral body to oversee the MoU negotiation meetings.
- The Members of the Task Force are ex-Civil Servants, ex-Chief Executives of CPSEs, Professionals and academicians from relevant disciplines.
- Task Force is formed every year with the approval of Cabinet Secretary, Chairman of HPC

Contd...

Constitution of Task Force

- At present there are 65 Task Force Members who are divided into sector-wise Syndicate Groups.

- There are 11 syndicate groups .

Namely:

1. Agriculture , Fertilizer, Chemicals and Parma
2. Steel , Coal and other minerals
3. Crude Oil & Gas & Petroleum
4. Engineering, Transport equipment and Consumer Goods.
5. Power Generation & Transmission
6. Trading & Marketing
7. Contract & Consultancy
8. Transport , Tourism & Financial Service
9. Electronics, Telecommunication & Information Technology
10. CPSE registered under Sec 25
11. Sick and loss making CPSEs

Constitution of Task Force



- Each Syndicate consists 6-7 members headed by a Convener.
- Task Force members are entitled for a Sitting Fee of Rs. 5000/- per day for attending the meetings and conveyance (Economic Class Air Fare for outside members), local Task Force members will get @800/- as conveyance.

Functions of Task Force

- Each Syndicate carved out of the Task Force oversees the MoU negotiations.
- The various Syndicates have been influential in setting the MoU Targets.
- The Syndicate evaluate the performance of CPSEs at the end of year on the basis of actual achievement vis-à-vis the MoU targets.

Resource Persons from CPSEs



- The DPE writes to CPSEs each year, to send Resource Persons on loan basis to assist the Department in preparation of critiques, coordination of MoU negotiation meetings, recording the minutes of meetings and authentication of revised MoU.
- They also help in preparation of Advisory on Generic and Specific issues based on the Minutes of the meeting.
- They also assist DPE at the time of performance evaluation

MoU Performance Evaluation

- MoU performance is evaluated at the end of year by DPE on the basis of actual achievement vis-à-vis the MoU targets.
- Financial performance of CPSEs is evaluated based on audited data. MOU Guidelines defining financial term consistent with those used in the Public Enterprise Survey were issued.
- Non-financial parameters are evaluated based on the information provided by CPSEs.
- Evaluation reports of CPSEs are examined and vetted by respective Task Force Syndicate Groups.

MoU Performance Evaluation

- After the approval, the MoU composite scores and ratings are circulated to respective CPSEs/Ministries.
- The grading of the MoU composition scores are as follows:

<u>MoU composite score</u>	<u>Grading</u>
1.00 -1.50	Excellent
1.51 -2.50	Very good
2.51 -3.50	Good
3.51 -4.50	Fair
4.51 -5.00	Poor

HOW IS EVALUATION DONE

- **THE EVALUATION OF MOU SIGNING ENTERPRISES IS DONE AT THE END OF YEAR BY ATF ON THE BASIS OF ACTUAL ACHIEVEMENT VIS-A-VIS MOU TARGETS.**
- **WHERE THE PERFORMANCES EXCEEDS TARGETS BY PREDETERMINED STIPULATED LEVEL , THE ENTERPRISE IS RANKED AS “EXCELLENT” AND WHEN TARGET IS JUST MET, ENTERPRISE IS RANKED AS VERY GOOD. IN OTHER CASES WHERE TARGETS ARE NOT MET, ENTERPRISE IS RANKED AS ‘GOOD’/ ‘FAIR’/ ‘POOR’ DEPENDING ON TARGETS.**

MOU TARGETS AT THE BEGINNING OF THE YEAR

Step 1

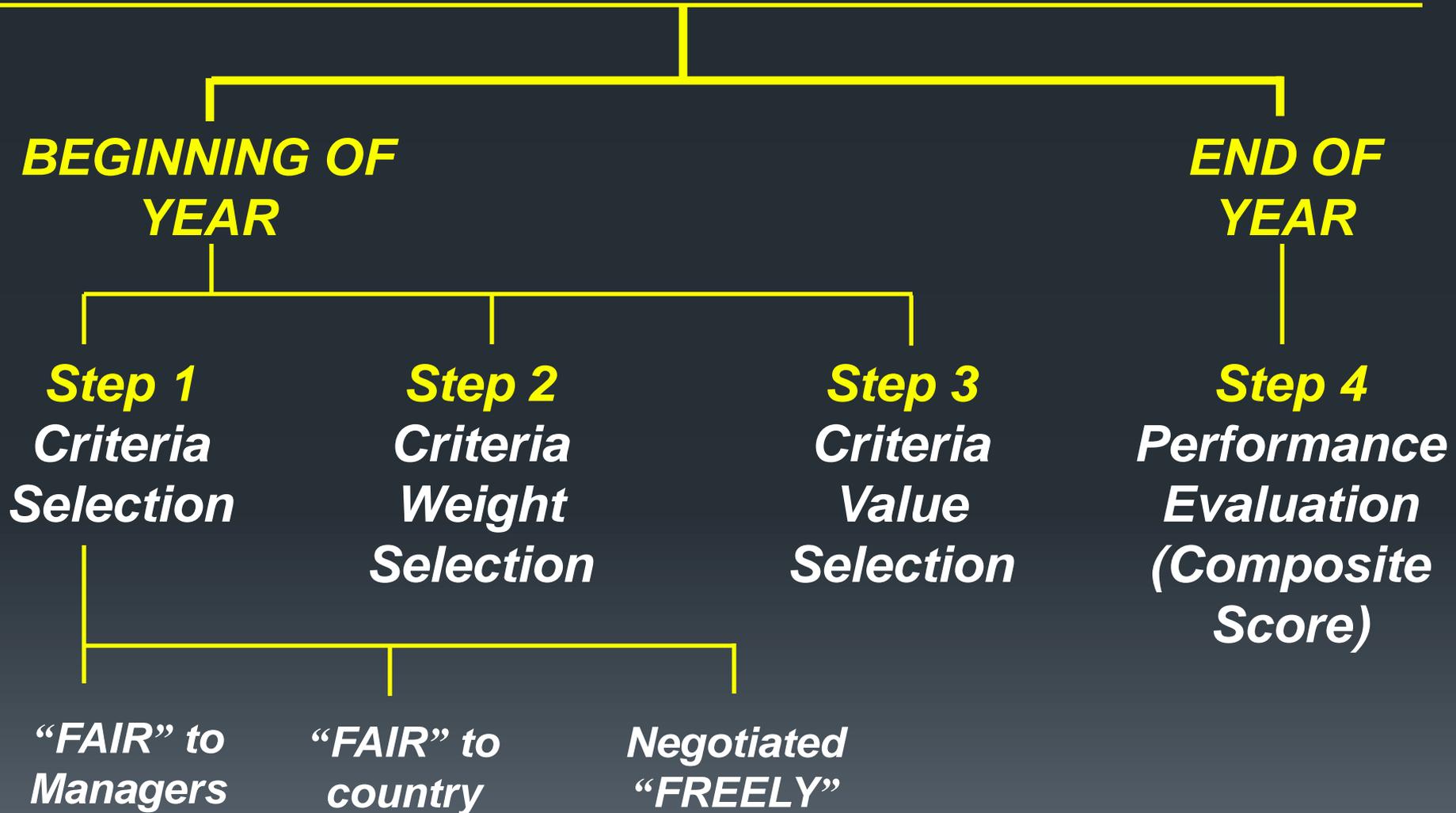
Step 2

Step 3

Criterion	Units	Weight	Criterion Values				
			5. Excellent	4. Very Good	3. Good	2. Fair	1. Poor
1. Gross Margin	Dinar Thousand	.50	400	385	350	300	250
2. Customer Satisfaction	%	.30	80	70	65	60	55
3. Construction of Plant Extension	Months	.20	6	8	12	14	16

MOU

PROPOSED PERFORMANCE EVALUATION SYSTEM



At the end of the year the achievements of this government agency were as follows:

i.)	Gross margin	385 Thousand
ii.)	Customer Satisfaction	75%
iii.)	Construction of Plant Extension	5 months

How to Calculate Composite Score

Criterion	Units	Weight	Criterion Values					Achievement	Raw Score	Weighted Raw Score
			5 Excellent	4 Very Good	3 Good	2 Fair	1 Poor			
1. Gross margin	Dinar Thousand	.50	400	385	350	300	250	385 Thousand	4	2.00
2. Customer Satisfaction	%	.30	80	70	65	60	55	75 %	4.5	1.35
3. Construction of Plant Extension	Months	.20	6	8	12	14	16	5 Months	5	1.00

Calculation of Composite Score at End of Year

Criterion	Units	Weight	Achievement	Raw Score	Weighted Raw Score
1. Gross margin	Dinar Thousand	.50	385 Thousand	4	2.00
2. Level of Customer Satisfaction	%	.30	75 %	4.5	1.35
3. Construction Plant Extension	Months	.20	5 Months	1	1.00
COMPOSITE SCORE					4.35

Coverage of CPSEs under the MoU System

Year	No. of MOU's signed	Year	No. of MOU's signed
1987-88	4	2000-2001	107
1988-89	11	2001-2002	104
1989-90	18	2002-2003	100
1990-91	23	2003-2004	96
1991-92	72	2004-2005	99
1992-93	98	2005-2006	102
1993-94	101	2006-2007	113
1994-95	100	2007-2008	144
1995-96	104	2008-2009	147
1996-97	110	2009-2010	197
1997-98	108	2010-2011	202
1998-99	108	2011-2012	197
1999-2000	108	2012-2013	195
		2013-2014	198

Performance of the MoU signing CPSEs:

Rating	No. of Public Sector Enterprises					
Year	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Excellent	55	47	74	67	76	75
V.Good	34	34	30	42	39	39
Good	15	25	20	24	33	38
Fair	08	17	20	24	25	36
Poor	00	01	01	02	00	02
Total	112	124	145	161	173	190

MoU Conferences



- MoU Full Task Force meeting is held in the month of December i.e. before the commencement of the MoU negotiation meetings.
- A meeting of Conveners has been held in the past after the completion of MoU negotiation meetings to get the feed-backs.
- Chief Executive Conference for CPSEs is held to give away the MoU Excellence Awards to excellent performing CPSEs.

Incentives under the MoU system



- Non-monetary incentive is in the form of MoU Excellence Awards and MoU Excellence Certificates.
- Apart from the monetary and non-monetary incentives, 75% of the weightage in the ACR of Chief Executives is linked to MoU performance of the concerned CPSEs
- The Jagannath Rao Committee (Second Pay Committee) has recommended that MoU performance evaluation will be the basic criteria for the variable component of the salaries in CPSEs.

RECENT DECISIONS

- MOU Evaluation of CPSEs only once during the year on the basis of audited data.
- MOU score to be submitted by 31st August.
- MOU score and rating to be finalized by concerned syndicate group.
- Once MOUs are signed, no revision of targets.

RECENT DECISIONS

Contd...

- Total number of MOU Excellence Awards to be 12.
- 1 each from 10 syndicate groups
- 1 from listed CPSEs
- 1 from turnaround sick and loss making CPSEs
- All remaining Excellent CPSEs to get Merit Certificates.
- Compliance of Corporate Governance one of the criteria for consideration of MOU awards.

The Power of Performance Management

- **What Gets Measured Gets Done**
- **If You Don't Measure Results, You Can't Tell Success From Failure**
- **If You Can't See Success, You Can't Reward It**
- **If You Can't Succeed, You Can't Probably Rewarding Failure**
- **If You Can't See Success, You Can't Learn From It**
- **If You Recognize Failure, You Can't Correct It**
- **If You Can Demonstrate Results, You Can Win Public Support**



Impact of MOU System

KOSPI 2,039.27 -14.55	SHANGHAI 2,289.87 -39.59	RUPEE/£ 99.30 -0.21	BRENT CRUDE 97.79 \$/BBL -0.60	LME COPPER 6,738.75 \$/TN -95.68	LME NICKEL 17,170 \$/TN -604.33
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NTPC on the prowl for sick private power plants

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NEW DELHI: With the cost of land acquisition on the rise, India's leading public sector units including NTPC Ltd, which have so far followed the greenfield route for growth, are now exploring inorganic route to increase their foothold in the power sector.

At a recent meeting with power minister Piyush Goyal, NTPC was asked to examine if its plans to put up 11,000 megawatt (MW) of planned greenfield capacity could be replaced by inorganic growth — acquiring new projects.

As reported first by *HT*, NTPC has already chalked out a plan to acquire ₹30,000 crore worth of coal-based power projects across the country by the year end. In this connection, it has recently floated an expression of interest and has received over 31 responses from across the country.

"It may be examined whether 11,000 MW of the total 13th Plan (2018-23) targeted capacity may



IT IS TOO EARLY TO COMMENT ON THIS... MY APPROACH IS TO LOOK AT ALL OPTIONS WITH AN OPEN MIND AND THEN DO WHAT IS IN THE BEST INTEREST OF THIS COUNTRY AND SECTOR

PIYUSH GOYAL, power minister

be postponed for further development in case major steps may not have been taken and in the alternative NTPC may consider the inorganic growth approach for increasing its portfolio," said the minutes of the meeting with heads of central power public sector units.

The shift, the note added, is because there is a need to adopt a country-first approach so that national assets in any sector are utilised to the maximum.

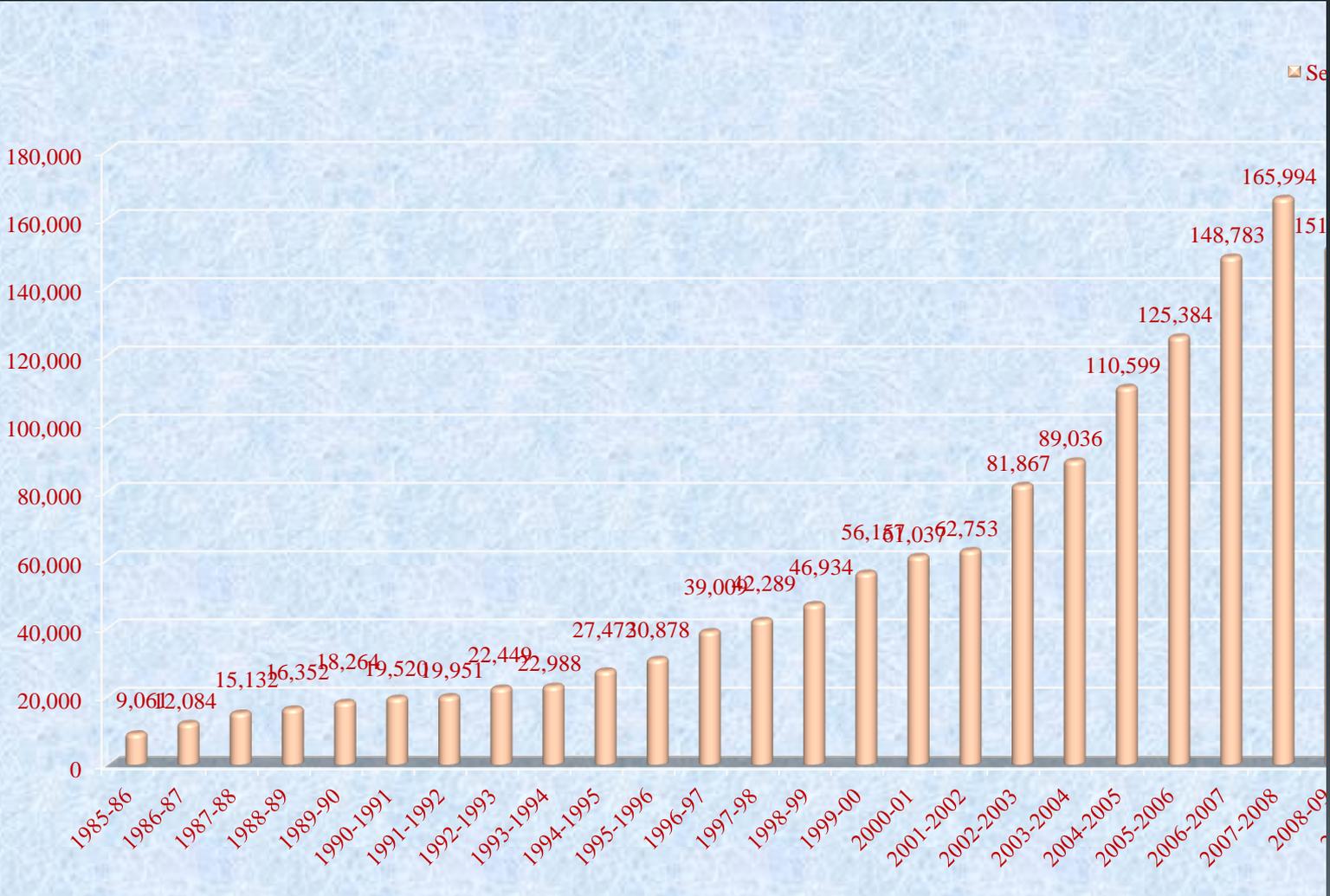
Simply put, it means that as most gas-based power capacities planned by various companies are lying stranded for want of fuel, NTPC has been asked to

look at acquiring coal-based power plants to keep up with its targeted capacity addition.

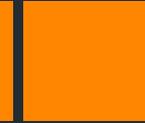
"It is too early to comment on this... my approach is to look at all options with an open mind and then do what is in the best interest of this country and sector," Goyal told *HT*.

NTPC is India's leading thermal power company, which a current capacity of 43,000 MW. It plans to add 14,000 MW during the 12th Plan period (2012-1017) and is on a lookout for 5,000 MW of capacity addition through acquisition. For the 13th Plan, it is likely to add a total capacity of 20,000 MW.

Contribution of CPSEs to Exchequer

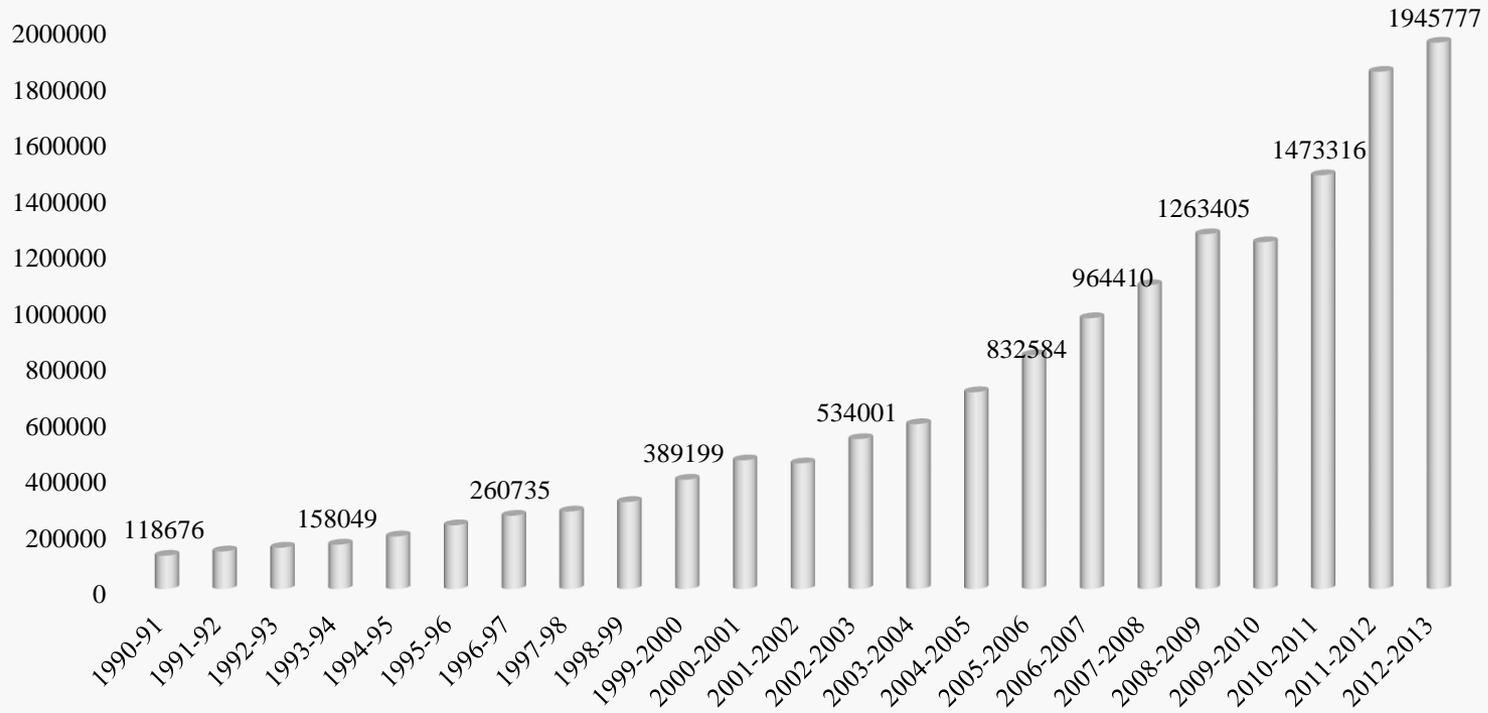


Turnover



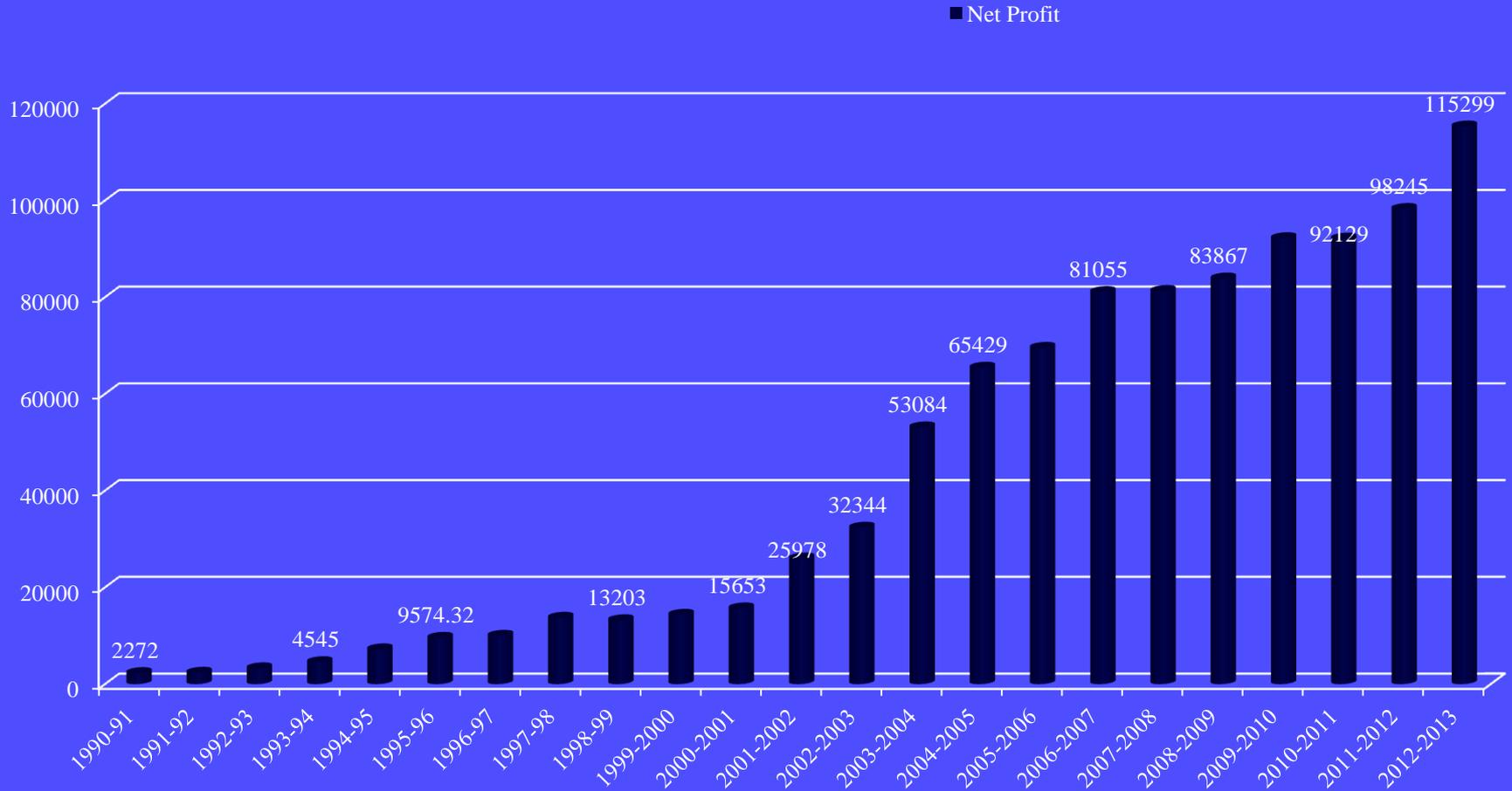
Turnover

■ Turnover



Net Profit

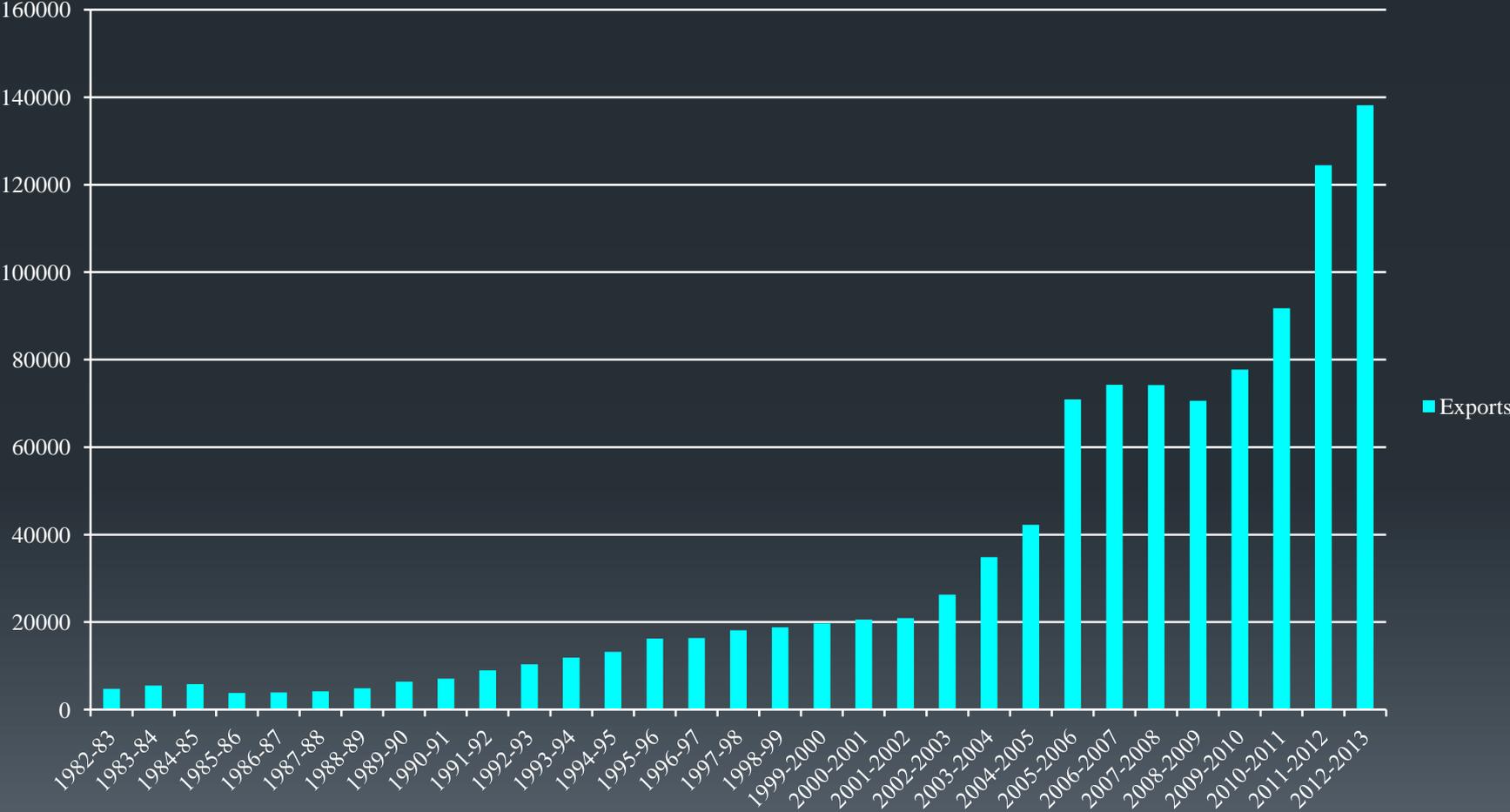
Net Profit



Exports



Exports



Net Worth

Net Worth (Rs cr)

