Mid Year Review
of
Central Public Sector Enterprises
for 2006-2007

(April-September)

सत्यमेव जयते

Government of India
Ministry of Heavy Industries and Public Enterprises
Department of Public Enterprises
New Delhi

Contents

1. Introduction

1.1 The Central Public Sector Enterprises (CPSEs) comprise enterprises established by the Government of India (GOI) as Government companies under Section 617 of the Companies Act, and wherein the equity holding of the GOI is more than 50 per cent. It also includes statutory corporations constituted under specific statutes of the Parliament. The CPSEs do not, however, include departmental undertakings, banking institutions and enterprises where equity holding of the GOI is 50% or less.

1.2 The cumulative investment of all CPSEs as on 31.3.2006 was Rs. 3,93,057 crore and that of net worth at Rs. 4,12,737 crore. All the CPSEs put together contributed around 11.12 percent to the GDP at market price in 2005-06. While the profit making CPSEs earned a net profit of Rs.76,240 crore in 2005-06, the loss of loss making CPSEs was Rs.5,942 crore. The dividend declared by CPSEs during the year was Rs. 22,886 crore. Contribution to central exchequer by way of dividend, interest payment and taxes stood at Rs. 1,25,384 crore during 2005-06.

1.3 There were altogether 245 CPSEs as on 31.3.2006, out of which 225 were in operation and 20 were under construction. The **mid-year review** is based on the results of 202 enterprises (out of the 225 operating enterprises) that furnished information.

2. Economy, during April-September, 2006

2.1 The domestic economy showed a robust growth in the first half of the 2006-07. The nominal GDP at current price, increased by 13.83% during April-September, 2006 over the corresponding period of the previous year. While 'trade, hotels, transport and communication sector' with a share of 25.51% in GDP recorded a growth of 16.40%, 'the manufacturing sector' with a share of 16.67% in GDP grew by 15.07%. These were followed by 'construction' (14.95%) having a share of 6.97%, 'mining and quarrying' (14.65%) having a share of 2.60%, 'financing, insurance, real estate and business services' (14.38%) having a share of 15.23% and 'community, social and personal services' (12.94%) having a share of 14.29% in GDP. 'Agriculture, forestry & fishing' with a share of 16.59% in GDP and 'electricity, gas and water supply' with a share of 2.13% in GDP recorded less than double-digit growth of 9.39% and 8.12% in nominal terms respectively (Table 1).

Table 1

Gross Domestic Product (GDP), at current prices (April-September, 2006)

(Rs. in crore)

Sl. No.	Industry	GDP During April-September		Nominal Growth
		2005	2006	Rate
1.	Agriculture, forestry and fishing	253839	277668	9.39
2.	Mining and quarrying	37935	43487	14.65
3.	Manufacturing	242452	278986	15.07
4.	Electricity, gas and water supply	32933	35608	8.12
5.	Construction	101494	116667	14.95
6.	Trade, hotels, transport and communication	366780	426935	16.40
7.	Financing, insurance, real estate and business services	222882	254923	14.38
8.	Community, social and personal services	211655	239039	12.94
	GDP at factor cost	**1469970**	**1673313**	**13.83**

Source : CSO Press release November, 2006

3. Performance of CPSEs

3.1 In tune with the upswing in the domestic economy, the Central Public Sector Enterprises (CPSEs) also showed an impressive performance during the first half of 2006-07, on all the (financial) parameters of sales, gross margin and net profit. Gross sales of all the CPSEs put together grew by 24.07% during April-September, 2006 over the corresponding period of 2005 (Table 2). Gross margin showed an increase of 12.63% and net profit grew by 18.18% during this period. Interest payment and depreciation were also higher by 4.81% and 7.18% respectively. Growth in tax provisions during April-September, 2006 was also higher (14.02%) by Rs.1596 crore over the corresponding period of 2005-06.

Table 2

Performance of CPSEs, during April-September, 2006

(Rs. in crore)

Sl. No.	Particulars	Performance during April-September		% change over the corresponding period in the previous year	
		2006 (Provisional)	2005 (Provisional)	April-September, 2006	April – March 2005-06
1	2	3	4	6	7
1.	Gross Sales	468221	377370	24.07	13.66
2.	Gross Margin (PBDITEP)	73169	64962	12.63	6.59
3.	Depreciation	17455	16285	7.18	2.66
4.	Gross Profit (PBITEP)	55714	48677	14.46	7.54
5.	Interest	10484	10003	4.81	0.64
6.	Tax provisions	12982	11386	14.02	4.96
7.	Net Profit/Loss(-) before EP	32249	27289	18.18	14.43
8.	Net Extra Ordinary Items/ Prior Period Adjustment (EP)	3216	-5349	6112.64	5922.32
9.	Net Profit	35465	27235	30.22	33.97

4. Employment in CPSEs and Wages & Salaries

4.1 As on 31.3.2006, there were 16.49 lakh people employed in the 245 CPSEs excluding casual workers. The total salary & wages paid to these employees during the full year of 2005-06 stood at Rs. 45,624.94 crore, which was 6.73% of the total expenditure (Rs.6,78,263.22 crore) of CPSEs during 2005-06.

4.2 During the first half of 2006-07, the total expenditure of 202 CPSEs stood at Rs.4,10,398.17 crore. The total expenditure on Salary and Wages during first half of 2006-07, works out to Rs.27,619.80 crore for April-September 2006-07, if calculated as 6.73% of the total expenditure incurred during this period.

5. Turnover of CPSEs

5.1 The turnover of all the CPSEs, during the first half of 2006-07 showed a growth of 24.07 % over the corresponding period last year (Table-3). The larger sectors of 'manufacturing' and 'services' showed a growth in turnover by 31.66 % and 14.47 % respectively during this period. While 'mining' and 'electricity' showed a growth in turnover by 5.98 % and 12.92 % respectively, the CPSEs under the 'agriculture sector' showed an increase in turnover by 60.64%.

5.2 Turnover in various cognate groups like 'agro based industries' (60.64%), 'petroleum (refinery & marketing)' (36.19%), 'heavy engineering' (33.40%), 'trade and marketing' (23.52%), 'steel' (22.38%) and 'consumer goods' (20.21%) showed a spectacular growth. The other groups which recorded growth in turnover were ‘transmission’ (19.76%), ‘other metals and minerals’ (18.45%), ‘chemicals & pharmaceuticals’ (17.83%), ‘tourist services’ (15.06%), ‘fertilizers’ (13.53%), ‘contract and construction services’ (13.83%), ‘electricity generation’ (12.35%), ‘transportation services’ (9.65%), ‘financial services’ (8.61 %), ‘crude oil’ (7.29%), ‘telecommunications and information technology services’ (1.41%) and ‘industrial development and technical consultancy services’ (1.20%).

5.3 However, the CPSEs under the cognate groups of ‘transportation equipments’ (-49.62%), ‘textiles’ (-5.37%), ‘medium and light engineering’ (-0.18%) and coal and lignite (-0.12%) witnessed a negative growth in turnover during April-September, 2006 over the corresponding period of 2005 (Table 3).

Table–3

Turnover of CPSEs, during (April-September) 2006-07

(Rs. in crore)

Sl. No	Cognate Group	Turnover during		% change over the corresponding period in the previous year	
		April - September 2006	April - September 2005	April– September, 2006	April – March 2005-06
1	2	3	4	5	6
I.	**Agriculture**				
	1.1 Agro based industries	89.75	55.87	60.64	15.52
	Total (I)	**89.75**	**55.87**	**60.64**	**15.52**

1	2	3	4	5	6
II.	**Mining**				
	2.1 Coal & Lignite	16796.81	16816.55	-0.12	7.05
	2.2 Crude Oil	28683.67	26735.47	7.29	6.50
	2.3 other Minerals & Metals	6402.73	5405.24	18.45	21.08
	Total (II)	**51883.21**	**48957.26**	**5.98**	**8.27**
III.	**Manufacturing**				
	3.1 Steel	22691.15	18541.24	22.38	-1.19
	3.2 Petroleum	268683.83	197281.55	36.19	24.36
	3.3 Fertilizers	4978.15	4384.81	13.53	4.29
	3.4 Chemicals & Pharmaceuticals	409.32	347.38	17.83	-26.48
	3.5 Heavy Engineering	6848.31	5133.58	33.40	38.82
	3.6 Medium & Light Engineering	3359.87	3365.89	-0.18	13.24
	3.7 Transportation Equipment	3454.83	6596.32	-47.62	17.23
	3.8 Consumer Goods	710.79	591.30	20.21	20.62
	3.9 Textiles	277.46	293.21	-5.37	-2.37
	Total (III)	**311413.71**	**236535.28**	**31.66**	**21.38**
IV.	**Electricity**				
	4.1 Generation	18477.04	16445.44	12.35	14.32
	4.2 Transmission	1636.93	1366.84	19.76	25.15
	Total (IV)	**20113.97**	**17812.28**	**12.92**	**15.16**

1	2	3	4	5	6
V.	**Services**				
	5.1 Trading and Marketing	47073.90	38110.14	23.52	-5.57
	5.2 Transport Services	8225.05	7501.43	9.65	-30.50
	5.3 Contract & Construction Services	2094.57	1840.09	13.83	38.73
	5.4 Industrial Development & Techn. Consultancy Services	1393.58	1377.01	1.20	8.37
	5.5 Tourist Services	208.06	180.83	15.06	5.91
	5.6 Financial Services	5631.25	5184.96	8.61	-3.11
	5.7 Telecommunication and Information Technology Services	20094.22	19814.99	1.41	6.81
	Total (V)	**84720.63**	**74009.45**	**14.47**	**- 3.39**
	Grand Total (I+II+III+IV+V)	**468221.27**	**377370.14**	**24.07**	**13.66**

6. Profit & Loss of CPSEs

6.1 The net profit of all the reporting CPSEs put together increased from Rs. 27,288.56 crore in April-September, 2005 to Rs. 32,248.71 crore in April-September, 2006 recording a growth of 18.18% (Table 4). The ‘manufacturing sector’ recorded the highest growth in net profits by 46.53 percent during this period followed by ‘mining’ (19.03%), ‘electricity’ (11.26%), and ‘services’ (5.64%). However, the agriculture sector showed negative growth wherein the losses have

Table-4
Sector / Cognate Group-wise Profit / Loss(-) of CPSEs, during April-September 2006-07

(Rs. in crore)

Sl. No	Cognate Group	Profit / Loss(-) during April-September		% change over the corresponding period in the previous year	
		2006	2005	April–September, 2006	April – March 2005-06
1	**2**	**3**	**4**	**5**	**6**
I.	**Agriculture**				
	1.1 Agro based industries	-12.82	-11.48	11.67*	-28.57
	Total (I)	**-12.82**	**-11.48**	**11.67***	**-28.57**
II	**Mining**				
	2.1 Coal & Lignite	4671.33	3644.85	28.16	69.59
	2.2 Crude Oil	9072.24	8272.91	9.66	11.90
	2.3 other Minerals & Metals	2450.65	1687.26	45.24	38.79
	Total (II)	**16194.22**	**13605.02**	**19.03**	**28.13**
III.	**Manufacturing**				
	3.1 Steel	3444.70	3163.99	8.87	-40.69
	3.2 Petroleum	2287.36	1611.08	41.98	-75.32
	3.3 Fertilizers	-621.61	-533.41	16.54*	14.98
	3.4 Chemicals & Pharmaceuticals	-34.10	-58.49	-41.70**	62.56
	3.5 Heavy Engineering	461.03	138.39	233.14	217.24

1	2	3	4	5	6
	3.6 Medium & Light Engineering	-413.81	-325.15	27.27*	-40.93
	3.7 Transportation Equipment	467.21	540.18	-13.51	48.52
	3.8 Consumer Goods	-332.01	-430.11	-22.81**	-127.00
	3.9 Textiles	-509.61	-865.44	-41.12**	-35.96
	Total (III)	**4749.16**	**3241.04**	**46.53**	**-57.44**
IV.	**Electricity**				
	4.1 Generation	4973.39	4452.60	11.70	7.22
	4.2 Transmission	458.17	429.24	6.74	42.74
	Total (IV)	**5431.56**	**4881.84**	**11.26**	**10.04**
V.	**Services**				
	5.1 Trading and Marketing	139.84	107.53	30.05	411.75
	5.2 Transport Services	1097.70	1029.80	6.59	21.88
	5.3 Contract & Construction Services	-141.51	-148.34	-4.60**	-33.26
	5.4 Industrial Development & Technical Consultancy Services	114.07	115.45	-1.20	61.84
	5.5 Tourist Services	12.38	-0.35	–	161.48
	5.6 Financial Services	1204.27	1278.74	-5.82	-6.41
	5.7 Telecommunication and Information Technology Services	3459.84	3189.31	8.48	-5.66
	Total (V)	**5886.59**	**5572.14**	**5.64**	**1.72**
	Grand Total(I+II+III+IV+V)	**32248.71**	**27288.56**	**18.18**	**-4.00**

Note: * Refers to increase in losses.
** Refers to decrease in losses.

further aggravated showing an increase of 11.67 percent from a loss of Rs. 11.48 crore in April-September, 2005 to Rs. 12.82 crore during the corresponding period of 2006 despite increase in turnover by 60.64%. This is due to the increase in losses of Andaman & Nicobar Island Forest & Plantation Development Corp. Ltd. from Rs.0.18 crore in first half of 2005-06 to 4.09 crore in first half of 2006-07 on account of suspension of the orders of Hon'ble Supreme Court. Necessary revival / restructuring package in respect of this corporation is, however, under consideration of the Ministry of Environment & Forests.

6.2 Out of the 22 cognate groups of CPSEs, while 12 recorded positive growth in net profit, 3 groups namely transportation equipments(-13.51%), industrial development and technical services(-1.20%) and financial services(-5.82%) showed negative growth in net profit during this period. The 'tourist services' group and the 'heavy engineering' group experienced a boom in 'net profit' during this period. While the tourist sector experienced turnaround from losses to profit, the heavy engineering sector a recorded a growth of 233.14% during April-September, 2006 over the corresponding period last year. While cognate groups like 'chemicals and pharmaceuticals'(-41.70%), 'consumer goods'(-22.81%), 'textiles'(-41.12%) and contract and construction services(-4.60%) have indicated decreasing trend in losses during April-September, 2006 compared to the corresponding period of 2005, the losses in groups like agro-based industries, fertilizers and medium and light engineering further aggravated by 11.67%, 16.54% and 27.27% respectively, during this period.

6.3 The losses of both India Tourism Development Corp. Ltd. (ITDC) and of its subsidiaries as well as that of Hotel Corporation of India Limited fell down by 54% and 250% respectively over the previous year due to improved performance of hotels and flight catering units.

6.4 Increase in profits of 'heavy engineering' group has been particularly due to increase in profit of BHEL by 54% on account of increase in its level of operation and fall in losses of Heavy Engineering Corp. Ltd. by 99% due to financial restructuring.

7. Developments relating to CPSEs

7.1 Pay Revision Committee for Executives of CPSEs

7.1.1 With a view to revise the scales of pay of Board level and below the Board level executives including non-unionised Supervisors of CPSEs in pursuance of the IDA pattern scales of pay w.e.f. 1.1.2007, the Government set up the **Second Pay Revision Committee** on 30.11.2006. The Committee is headed by Mr. Justice M.J. Rao, Retired Judge, Supreme Court of India. The other Members are Dr. Nitish Sengupta (Economist and former Member Secretary, Planning Commission, Government of India), Shri P.C. Parekh (former Secretary, Department of Coal, Government of India) and Shri R.S.S.L.N. Bhaskarudu (former Managing Director, Maruti Udyog Limited and ex-Chairman, Public Enterprises Selection Board). Secretary and Joint Secretary, Department of Public Enterprises are Ex-officio Member and Member Secretary respectively. The Committee is to make its recommendations within a period of 18 months.

7.2 Wage Revision for Workers of CPSEs

7.2.1 The managements of CPSEs have the freedom to negotiate revision of pay scales for the workmen in pursuance of the IDA pattern scales of pay under certain stipulated conditions. The last wage negotiation entered into between managements and the workers' unions came into effect from 1.1.1997 for the 10-year periodicity and from 1.1.2002 for the five-year periodicity. The Government has given its approval for the 7th Round of Wage Negotiations for unionized employees of CPSEs. The settlement would be applicable with effect from 1.1.2007. Guidelines in this regard were issued on 9.11.2006. The Board guidelines inter-alia include wage settlement for a period of 10 years with 100% DA neutralization. The enhanced expenditure has, however, to be absorbed by the companies and no budgetary support will be given.

7.3 Managerial Autonomy to CPSEs

7.3.1 Under the Articles of Association, the Board of Directors of CPSEs enjoy certain amount of operational autonomy in respect of recruitment, promotion and other service conditions of below the Board level employees. The Board of Directors of a CPSE also exercise certain delegated financial powers subject to broad policy guidelines issued by the Government from time to time. Empowerment of the CPSEs as per the prevailing conditions is a continuous process particularly in the competitive environment. Keeping in view the stipulations made in the National Common Minimum Programme (NCMP) that full managerial and commercial autonomy will be devolved to successful profit making companies operating in a competitive environment, the Government set up an Ad Hoc Group of Experts (AGE) in April, 2005 to review the powers of the Board of Directors of CPSEs. Based on the recommendations of this Group, the Government in August, 2005 delegated enhanced powers to Navratna, Miniratna and other profit making CPSEs.

7.3.2 While Navratna CPSEs enjoy unlimited powers to incur capital expenditure, the Miniratna - I can incur capital expenditure upto Rs. 500 crore or equal to 50% of the networth and Miniratna – II upto Rs. 250 crore or equal to 50% of the networth without the approval of the Government in a year. The other profit making CPSEs are also empowered to incur capital expenditure upto Rs. 150 crore or equal to 50% of the networth. Powers relating to formation of joint ventures/wholly owned subsidiary in India or abroad with the investment limit upto Rs. 1000 crore or 15% of the networth for single project or 30% of the networth for all projects taken together have been delegated to Navratna CPSEs. The Miniratna CPSEs also got the powers to formulate joint ventures/subsidiaries in India with an investment upto Rs. 500 crore or 15% of the networth for single project or 30% of the networth for all projects taken together in case of Miniratna – I CPSEs and upto Rs. 250 crore or 15% of the networth for single project or 30% of the networth for all projects taken together in case of Miniratna - II CPSEs. In addition, such CPSEs enjoy powers relating to mergers and acquisitions, sanction of business tours of functional Directors, human resource development etc. However, these powers are subject to observance of certain conditions.

7.4 Board Structure of CPSEs

7.4.1 As per the existing policy of the Government, the Board of Directors of CPSEs comprise full time functional Directors. While the number of functional Directors could be

50% of total strength, the Part time Non-official Directors has to be at least one third of the total strength and the part time Government Directors is restricted to two. The CPSEs have been categorized in four schedules namely ‘A’, ‘B’, ‘C’, and ‘D’ and the pay scales of full time Directors are decided as per the schedule of the company. Generally, the Chief Executive i.e. the Chairman/Chairman-cum-Managing Director/ Managing Director get the pay as per schedule of the company and other full time functional Directors are put one level below that of the schedule of the company for fixing their pay scales.

7.4.2 The post of full time Directors are created by the concerned administrative Ministries/Departments in consultation with the Department of Public Enterprises and the Public Enterprises Selection Board. During 2006-07 (till February, 2007) only one post of full time functional Director was created in schedule ‘C’ scale of pay.

7.4.3 The existing schedule of the company can, nevertheless, be upgraded to the next schedule based on certain criteria and the performance of the company. During 2006-07 (till February, 2007) three CPSEs were upgraded in higher schedule.

7.4.4 The existing full time functional Directors are some time granted higher schedule of pay as personal to him/her depending upon his performance vis a vis stagnation in the existing schedule. During the said period only one Chief Executive of CPSE was granted higher scale of pay as personal to him.

7.4.5 Besides the full time Functional Directors and Government Directors, the CPSEs have non-official part-time

Directors. The selection of these Directors is done by a Search Committee headed by the Chairman, Public Enterprises Selection Board in case of Navratna and Mini-ratna companies. During the year 2006-07 (till December, 2006) the names of 106 persons were recommended by the Search Committee/ PESB for appointment as non-official Directors on the Board of 38 CPSEs. In addition, the selection of non-official part-time Directors in other companies is done by the Public Enterprises Selection Board.

7.5 Revival / Restructuring of CPSEs

7.5.1 The National Common Minimum Programme (NCMP) stipulates that the Government is committed to a strong and effective public sector whose social objectives are met by its commercial functioning. While every effort will be made to modernize and restructure public sector companies and revive sick industry, the chronically loss making companies will either be sold off, or closed, after all workers have got their legitimate dues and compensation. It also stipulates that the private industry will be inducted to turn around companies that have potential for revival.

7.5.2 In tune with these stipulations, the Government set up a Board for Reconstruction of Public Sector Enterprises (BRPSE) in December, 2004 to advise the Government inter alia on measures to be taken to restructure / revive CPSEs. The Board comprises a part-time Chairman, three part-time Non-Official Members and three part-time Official Members including Secretary, Department of Expenditure, Secretary, Department of Disinvestment and Secretary, Department of Public Enterprises. There is a full-time Secretary for BRPSE in the level of Additional Secretary to the Government of India. In addition, the Chairman, Public Enterprises Selection

Board, the Chairman, Standing Conference on Public Enterprises and the Chairman, Oil and Natural Gas Corporation Limited are the permanent invitees in the meetings of the BRPSE. The Board is serviced by the Department of Public Enterprises.

7.5.3 A company is considered 'sick' for the purpose of referring it to BRPSE if it has accumulated losses in any financial year equal to 50% or more of its average net worth during 4 years immediately preceding such financial year and / or a company which is a sick company within the meaning of Sick Industrial Companies (Special Provisions) Act, 1985 (SICA). Furthermore, it is the concerned administrative Ministries /Departments who are required to send proposals of their CPSEs identified as 'sick' for consideration of the BRPSE. The Board is expected to make its recommendations within 2 months of the date of making reference to it.

7.5.4 Until February 2007, the BRPSE received cases of 56 CPSEs from 14 administrative Ministries/Departments for its consideration and making suitable recommendations for revival etc. The Board has made recommendations in respect of 40 CPSEs including two enterprises namely Bharat Ophthalmic Glass Limited and Bharat Yantra Nigam Limited for winding up. Based on the recommendations of BRPSE the Government approved the revival schemes in respect of 25 cases envisaging assistance (from Government of India) of Rs. 1951.30 crore in cash by way of equity/loan/grant and Rs. 5709.44 crore in non-cash by way of waiver of interest/loan/ guarantee fees, conversion of loan into equity/debentures, provision of guarantee etc. The Government has also approved winding up of one company namely Bharat Ophthalmic Glass Limited.

7.5.5 During 2006-07 (till 28.2.2007), the BRPSE received the cases of 12 CPSEs for consideration. The Board made recommendations in respect of 9 CPSEs for revival and one CPSE for winding up during the year namely Bharat Ophthalmic Glass Limited (BOGL).

7.5.6 Based on the recommendations of the BRPSE the Government approved the revival of 10 companies namely (i) Tungabhadra Steel Products Limited(TSPL), (ii) Hindustan Insecticides Limited(HIL), (iii) Mineral Exploration Corporation Limited(MECL), (iv) Central Electronics Limited(CEL), (v) Eastern Coalfields Limited(ECL), (vi) Bharat Pumps and Compressors Limited(BPCL), (vii) Bengal Chemicals and Pharmaceuticals Limited(BCPL), (viii) HMT Machine Tools Limited(HMTL), (ix) MECON Limited(MECON) and (x) Andrew Yule & Company Limited envisaging a total assistance (from Government of India) of Rs. 2429.09 crore including Rs. 1026.56 crore cash assistance and Rs. 1402.53 crore non-cash assistance. The Government has also approved the winding up of BOGL which will involve a cash assistance of Rs. 9.80 crore.

7.5.7 The Government does not, however, have to give any budgetary support in respect of Eastern Coalfields Limited(ECL) as the investment of Rs. 2956.83 crore envisaged for the revival plan will come from the internal resources of the company and cash assistant from CPSE and State Governments of West Bengal and Jharkhand. Coal India Limited being the holding company for ECL will provide non-cash assistance of Rs. 2470.77 crore in the form of conversion / waiver of loan, interest etc. and Rs. 14 crore per annum as service charges. The Government of West Bengal and the Government of Jharkhand have also committed to provide non-cash assistance of Rs. 18 crore per annum for a period of five years since 2004-05 for the revival plan of ECL.

Besides the case of ECL, the Oil and Natural Gas Corporation Limited(ONGC) and Bharat Heavy Electricals Limited (BHEL) would extend cash assistance to the extent of Rs. 150 crore and Rs. 20 crore respectively to Bharat Pumps and Compressors Limited(BPCL) which is proposed to be revived through formation of a joint venture.

7.6 Memorandum of Understanding (MOU)

7.6.1 The Government of India constituted a Committee in 1984 to review the government policy in respect of Central Public Sector Enterprises. Following the recommendations of this Committee, the Government introduced the concept of Memorandum of Understanding(MOU) in 1988 with a view to improve the performance of CPSEs through introducing an objective system of evaluation of the performance of CPSEs.

7.6.2 The Memorandum of Understanding is a freely negotiated instrument, which clearly specifies the intentions, obligations and mutual responsibilities of both the parties. It is signed between the Government (through the Secretary of the concerned administrative Ministry/Department) and the management of CPSE (through its Chief Executive). The MOU is an attempt to move away from management by controls (and procedures) to management by results and objectives.

7.6.3 While 112 companies signed MOUs for 2006-07, it was decided that all CPSEs, including ‘sick and loss making’ and those ‘under construction’ will also sign MOUs for the year 2007-08. While the subsidiary companies will sign MOUs with their holding companies, all the independent companies will sign MOUs with their respective Ministries / Departments.

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