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Performance Contracts: A Case Study of the Steel Authority of India

Introduction

The Steel Authority of India (SAIL) is the fifth largest public sector company in India with an investment of Rs.63 billion. It has a production capacity of over 10 million tonnes of steel; a turnover of Rs.101 billion and has under it four integrated steel plants set up as fresh investments by the Government of India between the 1950s and 1970s, and two old plants acquired as sick plants from the private sector. It is a company registered under the Indian Companies Act. The Government recently divested five per cent of its equity to financial institutions and the public.

SAIL started as a unitary board-managed company in 1950 when it was known as Hindustan Steels Limited. It became a holding company in the 1970s when the number of plants under it increased and reverted back being a unitary board-managed company with individual plants functioning as divisions. The two, acquired sick plants were kept as subsidiaries along with two other subsidiaries. The company presently has 190,629 employees.

Although there is one steel plant run by TATAs in the private sector, once it was decided in the 1950s to set up steel plants in the public sector exclusively, no other private competition was allowed until 1991, when the policy changed. The steel sector was under an administered price regime until the end of 1991 when controls on steel prices were lifted.

It is intended to show through this study how the Indian policy of performance contracting evolved and how it was possible to prepare this steel giant for the liberalised ambience of the 1990s through the instrument of PCs, or MOUs (Memorandum of Understanding) as they are known in India. Since this was the first PSE to attempt the MOU, the experience gained from it became extremely useful in applying it to other PSEs.

Before we take up the actual case study, it would be useful to consider the background of how the Indian policy came to be adopted and how it developed. This will also highlight how the efforts on the part of SAIL to stay out of the system initially, actually showed the merit of the system finally adopted, as compared to the French system.

Introduction and Evolution of MOUs in India

Performance contracts for Public Sector Units are known as MOUs in India. The MOU (The Memorandum of Understanding) is rooted in an evaluation system which not only looks at performance comprehensively, i.e. at both commercial and non-commercial criteria of performance in their static and dynamic aspects, but also ensures and forces improvement of performance of managements and industries by making the autonomy and accountability aspects clearer and more transparent. It is an annual document which is an intrinsic part of a long-term corporate plan in which the Government (represented by the Secretary in the line ministry) and the public enterprise represented by its CEO lay down their mutual obligations and responsibilities based on the missions and objectives of the public investment and after mutual negotiations. The idea is to choose appropriate criteria, assign mutually acceptable priorities to them and decide at the beginning of the year how the achievement of targets (and deviations therefrom) will be evaluated. The crux of the evaluation system is to set the evaluation parameters in advance and before the actual performance is delivered. Further, the process of negotiation is assisted by an objective third body which finally evaluates the performance and brings greater objectivity into the system.

The importance of introducing MOUs was first realised and recommended by a Committee to Review the Policy for the Public Enterprises: (Arjun Sengupta Committee) which submitted its Report in 1985. The Committee was appointed to suggest ways of improving public sector performance, perception of which was universally negative in India. The Committee concluded that an MOU was the best form of interface between the Government and the PSE management and this would ensure operational autonomy for the public enterprise managements with corresponding accountability for results, thereby reducing day-to-day Government interventions. While making the suggestion for the introduction of MOUs, the aforesaid Committee had the French "Performance Contract" system in mind, but in view of the inadequacies of that system in the Indian context, the Korean form of "Signalling System" was adopted with suitable modifications from 1969 to 1990 on the basis of the recommendations made by the Suresh Kumar Committee of the Department of Public Enterprises.

The first set of MOUs in India were signed for the year 1967/68. These MOUs were closer to the French system and did not contain either criteria weights or criteria values. As a result, it was not possible to evaluate the performance of MOU-signing enterprises. The change from the French to the Signalling System in 1969 enabled an objective performance evaluation of MOU-signing public enterprises for the first time. This change will be highlighted in this study.

MOU System as Currently Implemented in India

The MOU system has the following elements:

Corporate Mission

Every enterprise must have a corporate mission which is a succinct statement of its reason for existence and addresses the question regarding what business the enterprise is engaged in and, in effect is the superordinate objective of the enterprise.

Corporate Objectives

The corporate objectives stem from the corporate mission and are inter-linked with one another. Stated objectives relate to *what* an enterprise is expected to do. The *how* relates to the strategy for achievement of the objectives and the two are often confused in the MOUs. Objectives are required to be quantified and given a time horizon. Further, it is considered desirable that:

- Objectives covering the key performance area of an enterprise should be few in number and capture performance, both financial and social, adequately.
- Areas which are not in the main line of business should be excluded, but the balance sheet may reflect their costs.
- Objectives should preferably relate to outcomes rather than processes.
- Objectives should be listed according to the priority attached to their attainment by the owner. The Memorandum of Association (MOA) should be used in culling out the objectives. In cases where the MOA does not refer to any social obligations, these should not figure in the objectives.

Performance Criteria

The corporate objectives must have performance indicators, called performance criteria in the MOU system. Looking at the performance criteria differently, they reflect the key performance areas of an enterprise. By implication, performance criteria and key performance areas are inter-related. The performance criterion must have a specific measure which is both objective and growth-oriented. The selection of a proper performance criterion is as important as the selection of an appropriate measure. For instance there is very little point in measuring R&D performance in terms of funds utilised unless a nexus between the two has already been established. Further it is considered desirable that:

- Performance criteria, like corporate objectives, should be limited.
- There should be a congruence between objectives and performance criteria.
- There should not be any duplication in the selection of performance criteria.
- Selected performance criteria should be measurable and their evaluation method predetermined and laid down in the MOU.

Criteria Targets

A performance criterion has five levels of targeting, ranging from 'excellent' to 'poor' with 'very good', 'good' and 'average', as the three intervening levels. The Performance Budget and/or Plan Targets are required to be placed under the 'very good' column and not 'excellent', in order to ensure continuous effort on the part of the enterprise to really strive for 'excellence'.

Criteria Weights

A performance criterion is assigned a weight (on a scale ranging from 0 to 1) in such a manner such that the sum of the weights of all the criteria add up to 1. The weight attached to a particular criterion depends on the subjective assessment of its relative importance by the owner.

Composite Score

A composite score of performance from 1 (excellent) to 5 (poor) is computed by evaluating the actual achievement with reference to the targets set on a 5-point scale and determining their weighted average on the basis of weights assigned to each criterion.

Evaluation Mechanism of MOU, HPC & ATF

The real and unique feature of the Indian system is the institutional arrangement for evaluation of the contract by an objective third body consisting of a High Power Committee headed by the head of service in India and assisted by an ad hoc body of experts outside the Government called ATF (Ad Hoc Task Force) who bring to bear on the system an objectivity which is generally not available in the normal governmental set-up. This is the significant departure from all traditional methods of evaluation which are internal to the Governments.

A copy of the checklist giving guidelines for drawing up MOU is attached as Annex I.

SAIL MOUs 1987-94

Steel Authority of India Limited (SAIL) was the first of the public sectors which signed a MOU with the Government of India in 1967-68. Since then, SAIL has signed a MOU with the Government every year. There have been gradual changes in the structure of the MOU document due to changes in environment and government policies.

MOUs 1987-88 and 1988-89

These were the very first years when the Korean type of contract had not been adopted. Hence they were more in the nature of a performance information system, more useful to the Board of the company than the owner, i.e. the Government. It will be seen that no mission was defined and that there was no agreement as to the manner of evaluation. However, Government did grant some delegation of powers which were not available to other PSUs.

Further, the obligations of SAIL and Government were defined clearly in the document. It had the following characteristics:

- Focus on production, product-mix, techno-economic parameters, financial performance, equipment availability, project milestones, investment approvals by government, ensuring infrastructural support of coal and power.

The relative importance of each parameter on percentage weightage basis was not spelt out at that time.

- It helped SAIL to define plant-wise performance criteria and to fix accountability for attaining the specified objectives.

Therefore, it remained an internal control document, which made little impact on PSU-Government interface or on existing traditional methods of evaluation which were quite clearly found to be inadequate for the Government to extract enhanced performance from PSUs. Performance could neither be rated nor compared in any acceptable manner.

MOUs of SAIL after 1988-89

In 1988/89, the Korean system was adopted, but SAIL showed initial reluctance to conform to the new system because they felt that time and labour spent by them in developing their MOUs would be a waste and, perhaps, there was some reluctance on their part to be exposed to some kind of inter-firm comparison. The composite score under the newly introduced system made such a comparison possible. In this,

MOU 1990-91

In this document the focus was on:

	Parameter	Weightage
(i)	Production weightage	27.5%
(ii)	Projects including R & D	15%
(iii)	Gross Margin/Capital Employed	12.5%
(iv)	Customer Satisfaction	10%
(v)	% Tested in Saleable Steel	15%
(vi)	Sp. Energy Consumption (Cost reduction measure)	10%
(vii)	HRD Areas	10%

Production still remained highest in priority but with a much lower weightage. A shift was made to cost control and cost reduction under Government direction. HRD was added as a new criterion.

The performance of SAIL was evaluated at the end of the year. The composite score was 1.98, which means 'Very Good'. It meant that SAIL was improving on its record of the previous year.

MOU 1991-92

	Parameters	Weightage
(i)	production weightage	25%
(ii)	project including R & D	15%
(iii)	cost control measure (incl. sp. energy consumption inventory reduction)	25%
(iv)	gross margin/capital employed	15%
(v)	customer satisfaction	10%
(vi)	HRD area	10%

The focus on production was declining (in 1989/90 – 60%, 1990/91 – 27.5%, and 1991/92 – 25%) and the cost control measure to improve financial performance was being given utmost importance, to the extent of 25% in 1991/92.

The performance of SAIL, evaluated at the end of year, was 1.59 which was 'Very Good' on the 5-point scale but bordering on an 'Excellent' rating (1.5 and below is rated 'Excellent').

MOU 1992-93

Parameters chosen were predominantly on profit and profit-related parameters in the following manner:

	<u>Parameters</u>	<u>Weightage</u>
i)	production	15%
ii)	profit & profit-related parameters	50%
iii)	HRD Areas	15%
iv)	project, including R & D	10%
v)	customer satisfaction and commercial parameters	10%

In 1992-93, there was a clear focus on profit generation with weightage as high 50 per cent. This was a deliberate government policy to make PSEs behave commercially in order to give a better return to the nation. The high weightage to profit meant that without a good commercial performance, no PSE could get a high performance score or rating. The national policy of reducing the burden of PSEs on the budget was thus given a concrete shape.

Performance was rated 1.36, which is 'Excellent' on 5-point scale. SAIL was able to meet the desire of the owner at an excellent level of performance.

MOU 1993-94

In order to ensure the timely completion of modernisation, focus was given to the Milestone Performance Index of projects. The weightage is 19 per cent (inclusive of R&D projects). Production weightage is 14 per cent and financial performance weightage is 50 per cent. The focus now is in the following order:

- financial performance;
- projects;
- production.

The provisional score is estimated at 1.36, which gives them an 'Excellent' rating.

An Overview of MOU Document of SAIL

- There has been a shift from no *evaluation* to *production-oriented* evaluation to *finance-oriented* evaluation.

- SAIL reacted to a competitive environment simulated through the MOU process before liberalisation and hence finds itself in a strong position to compete globally.

Since 1989-90, when SAIL has been evaluated, the performance of the MOU composite score, which shows a Net Profit and Gross Margin to Capital Employed (the two major financial parameters), and production of Saleable Steel is as follows:

Year	MOU Composite Score	Net Profit	Gross Margin/CE	Prod. of Sal. Steel (MT)
1989-90	2.31	224.96	15.83	7.063
1990-91	1.98	248.26	16.75	7.365
1991-92	1.59	367.30	19.71	8.029
1992-93	1.36	423.40	20.58	8.335

As seen, there is steady improvement in the MOU Composite Score, financial performance of SAIL, as well as production. This proves the general point that the composite score is a very good and eminently adequate indicator of performance in its totality and it is able to capture all elements of performance expected from a PSE (and not only financial performance.) One can, however, make an MOU evaluation criterion finance-oriented if that is the most important public purpose, as is the situation in India today.

There is as yet no specific central incentive scheme of monetary return in India; but a scheme has already been prepared and is being considered for approval by government. In the meantime, non-monetary awards, such as the Prime Minister's certificate of 'excellence', are being given. SAIL has still to receive its first certificate for its 1992/93 performance.

There is no legal basis for these "PCs" in India. That is why they are called MOUs. However, as yet there has been no case of difference between the PSE and the Ministry which could not be resolved by the High Power Committee.

Procedure followed in SAIL for drawing up MOUs

In SAIL, The vice-chairman is responsible for formulation of MOUs. The vice-chairman is assisted by a group of executives with multi-disciplinary backgrounds.

The draft MOU, drawn up with the help of functional directorates, is discussed in

a meeting presided over by the chairman where other directors and chief executives and senior officers are present.

The draft MOU is sent to the Ministry of Steel (MOS) where it is analysed and discussed by SAIL and MOS before sending it to the Department of Public Enterprises which services the High Power Committee.

The Ad Hoc Task Force bridges the gap between MOS and SAIL in terms of technical competency and the findings of the document. The revised draft MOU document is sent for the approval of the High Power Committee and then signed by the chairman and the secretary (Steel).

The performance is discussed at board level every month, at minister's level in each quarter and at end of the year at SAIL, MOS and DPE level.

MOU and SAIL

MOU justifies the choice of the right key performance areas in the case of SAIL, since it becomes the basis of Annual Performance Plans which are more detailed documents signed between the chairman of the company and the chief executive of plants/units. These APPs are further analysed and a detailed microplan for each shop is prepared with detailed activities, responsibilities and time-frame which helps in attaining objectives-fulfilment, which in turn helps in obtaining key performance areas for MOU.

The above is the general procedure followed in all PSEs in India generally, with marginal modification. Currently about 125 MOUs are signed every year in India.

Lessons of Experience

The initial problem centred around the procedure for evaluating the initial efforts made by SAIL, ONGC & BEHL, three of the biggest PSEs of India. The MOUs were based on the French System and were more in the nature of creating a performance information system rather than a performance evaluation system. It was virtually impossible to be objective because any variation could be subjectively judged by the evaluator unless there was prior mutual agreement on the manner of judging variations. Nor did this result in conferment of any greater autonomy on the managers. At that time, we were looking at the South Korean signalling system which had the added features of prior agreement on criteria for judgement and an agreement as to how to evaluate variation by having a rating system for levels of performance. We were then able to show, based on a theoretical exercise for the same MOU, that the exact performance of a PSE could be evaluated in terms of a

rating or a number, which would be both fair to the manager as well as to the owner because of a prior agreement on both the level of performance and the variation from targets. A prior agreement as to the importance of criteria for the achievement of objectives was therefore the crux of the system and crucial for the enhancement of its performance.

The second most important issue was who should evaluate. Initially, it was assumed that the secretary of the department/s signing the MOU would also evaluate it (because he was traditionally doing it, and traditionally wore many hats). It was with some difficulty that we were able to convince the Government that the signatory to the contract should not also be allowed to evaluate it. This is how the High Power Committee and Ad Hoc Task Force work became empowered to look into the functioning of ministries/ departments in respect of the MOU. This was a great victory for the reformists of the system since it was an implied acceptance that line ministries in administrative charge of PSE should also be up for evaluation if they play a role in the contract, and that too by a third party.

Implementation of the Indian Government policy in regard to performance contracts is indeed a saga in managing change in an extremely complex and vast administrative and corporate structure. One had to fight deep-rooted mindsets and a control system which was both rigid and arrogant and also chary of relaxing or loosening any of its controls. It is for this reason that, whatever has been achieved in this area in the last five to six years, which is not inconsiderable, it is indeed a tribute to dedicated work and patient plodding of a few who were entrusted with the task, for they were taking on a frozen civil service behaviour pattern. But above all, given the general environment of a controlled regime, to introduce reforms to the controllers and to make them conform to them was due to the fact that the Prime Minister was himself behind the reforms, rather than the work of any individual. The late Mr Rajiv Gandhi was positively behind the system (and he actually participated in SAIL's first MOU negotiations) and so was Shri V P. Singh. Shri Chandrasekhar was not there long enough to be assessed, but Shri P. V. Narasimha Rao actually adopted this as part of the New Industrial Policy, which is in itself a tribute to the system being valid in all situations.

These three aspects are being highlighted because not only are they important but they emerged as most important lessons in the development of MOU of SAIL. The study therefore brings into focus the step by step development of MOU policy itself in India. We can now say that the policy has stabilised in a manner that enables us to look clearly at performance and its enhancement critically and transparently through the MOU document. It is for this reason that the MOU (or PC) can now be a basic instrument which can help not only the privatisation process of a PSE by making the performance and its process transparent to any investors.

- (b) Commercial and non-commercial aspects of the PSEs operation?
 - (c) Static as well as Dynamic aspects of the PSEs operation?
5. Are these objectives in conformity with the Corporate Plan of the PSE?
 6. Are these objectives too many in number? If so, reduce the number to a manageable size.
 7. Do these objectives contradict one another? If so, eliminate the contradictions or highlight the trade-offs.

Part II. A. Commitments of the PSE

A.1 Performance Criteria and Criteria Weights

8. Do the performance criteria cover the priority objectives as stated in Part I?
9. Have these criteria been defined clearly?
10. Only key performance criteria with reference to the enterprise's business operations should form part of MOU.
11. The aim should be to include outcome objectives (that which measure end results) rather than process objectives (that which measure the means).
12. Please ensure that, wherever relevant, the MOU should contain criteria measuring PSEs performance with respect to 'Project Implementation' and 'Foreign Exchange Saving/Earnings'.
13. Is there any duplication in the criteria listed in the MOU? If so, is it avoidable or is it intended to serve a special purpose (e.g. to emphasise or highlight an important aspect of enterprise performance)?
14. Do the weights assigned to the criteria correspond with the stated priorities in the objectives? Do they reflect the perceived relative importance of the various criteria in the judgement of the PSE/Ministry?
15. Do the criteria listed in the MOU cover important qualitative aspects of enterprise performance? Have these criteria been translated into measurable quantitative indicators? If this is not feasible in certain cases (these should be few), does the MOU lay down a methodology for the

evaluation of performance with reference to such indicators?

16. Have the indicators measuring qualitative aspect of enterprise performance been given due relative weightage depending upon the nature of the activities of PSEs?
17. Do not include any 'social (or, non-commercial) obligation' unless it has been case on the PSE by the Government (Statutory obligations, or voluntary actions by the PSE in the interest of good industrial or neighbourhood relations do not qualify for inclusion).

A.2 **Criteria Values and Targets**

18. Is the target setting realistic and growth oriented?
19. Are the MOU targets identical with Plan and Budgetary Targets?
20. For qualitative indicators, the targets for each of the points on the 5-point scale should be indicated in the performance matrix itself.
21. The methodology adopted for fixing targets for qualitative parameters to be annexed.
22. The Ministry/Departments budget and MOU targets should synchronise as both the documents are required to be placed in the Parliament around the same time and variation, if any, could lead to serious consequences. For other targets not found in the Ministry/Departments budget the source should be the Performance/Capital/Revenue Budget(s) of the PSE. For those targets which cannot be located in either the Ministry's or PSE's documents, then the source basis of the same should be given in the MOU itself.
23. BE 93-94 (not RE 93-94) and BE 94-95 figures for various performance criteria are to be indicated in the performance matrix itself as separate columns.
24. The source for these figures should be mentioned in the MOU as follows. BE 93-94 and BE 94-95 figures for various performance criteria if taken from Ministry/Department Budget to be termed as BE (M/D) and if taken from the PSE Budget to be termed as BE (PSE). Those which are not from either documents to be pointed out clearly by marking them a * sign.
25. BE 94-95 figure with respect to each of the performance indicators is the

basic target and should be placed in 'very good' column, i.e. under point '2' on the 5-point scale. Under no circumstances BE 94-95 figure is to be placed in the 'Excellent' column (i.e. column I).

26. Even the placement of the basic target in the 'very good' column is based on the assumption that it represents an improvement over previous year's BE figures (i.e. BE 1993-94). Where this is not the case, the basic target, even if it is in conformity with the BE 1994-95 figure, should be placed in column 3 of the 5-point scale (i.e. the 'good' column), unless there are special reasons (recorded in the MOU) warranting its placement in column 2.
27. The difference in target values between 'Excellent' and 'Very Good'; 'Very Good' and 'Good'; 'Good' and 'Fair'; 'Fair' and 'Poor' columns should be uniform. Undue advantage should not be permitted to be derived by keeping a relatively lower margin between excellent and very good columns on the pleas that it is more difficult to achieve anything beyond very good. On the other hand, the gap between 'Very Good' and 'Good', 'Fair' and 'Poor' should not be too steep.

If the difference is not uniform between various point on the 5-point scale, then standard deviation for the variable in question should be mentioned clearly in the footnotes and the deviations should be related to the standard deviation.

28. Does the MOU contain the past five years' performance data on criteria included in the MOU?
29. Following note to be put beneath the performance matrix:
- "Normal variations/escalations in inputs have been taken into account while working out MOU targets".
30. For financial ratios clearly indicate if average, opening or closing capital employed/net worth is taken for computation.
31. All financial performance parameters to conform to DPE definitions given in 'Public Enterprises Survey'.
32. 50% weight in the MOU for the year 1994-95 has to be given to the following two financial criteria:

Gross Margin	-	20%	<u>This guideline is sacrosanct.</u>
Net Profit/Capital Employed	-	30%	

Weightage for all other indicators including other financial parameters like turnover, cost reduction, etc., should be accommodated within the remaining 50%.

33. In addition, each MOU must include the following criteria:

Criteria		Weight	1	2	3	4	5
			Excellent	Very Good	Good	Average	Poor
1	Timely submission if Draft MOU for 1995-96 after due discussion with admin. department	2%	Before 8 Dec. 1994	15 Dec. 1994	22 Dec. 1994	29 Dec. 1994	5 Jan. 1994
2	Timely submission of Performance Evaluation Report (composite score) for the 1993-94 MOUs on the basis of the provisional data	1%	Before 30 April 1994	2 May 1994	4 May 1994	6 May 1994	8 May 1994

Part II. B. The Government's Responsibility

35. Are the responsibilities of the Government stipulated in this section confined to those few which are directly related to the 1994-95 performance targets undertaken by the PSEs in the MOU?
36. Is the delegation of power asked for relevant and related to agreed performance targets?

Part II. C. Modality for Monitoring the MOU

37. Is the modality of information flow and the frequency of monitoring clearly mentioned in the MOU?
38. Is the MOU precise, clear and simple?

For further details and clarifications, please write to the following:

Economic Adviser
DEPARTMENT OF PUBLIC ENTERPRISES
Ministry of Industry
Government of India
Lok Udyog Bhavan
14 CGO Complex
Lodi Road
New Delhi 110003
Fax: 436-2646

Memorandum of Understanding between the Ministry of Steel and the Steel Authority of India Limited (SAIL), 1993-94

1. Mission

"To be a leading Company in the Iron and Steel business and sustain growth through internal generation of resources."

2. Long-term Objectives

The long-term objectives of SAIL are:

- 2.1 To harness market potential in a competitive environment through dedicated customer service and continuously enhancing quality levels.
- 2.2 To supply quality steels at internationally competitive prices and become a leading exporter.
- 2.3 Through increasing production, to become one of the largest steel producers in the world and to continue to be a leading supplier of iron and steel in India.
- 2.4 To maintain and promote a committed and motivated workforce.
- 2.5 To acknowledge responsibility towards maintaining ecological balance and effectuate schemes that would help preserve the natural environment.

3. Commitment by SAIL

During 1993-94, SAIL undertakes to fulfil the following commitments:

- 3.1 For ensuring excellence in customer service at the same time maintaining high level of efficiency in its marketing operations, greater emphasis will be laid on customer satisfaction. For this SAIL commits to produce 87.5% of standard tested steel of total saleable steel.

3.2 SAIL commits itself to attain the following financial objectives:

3.2.1 Financial Results of SAIL (Sales Turnover, Gross Margin, Net Profit and Net Profit to Capital Employed) as per details given in Annex I (A) and Financial Results of IISCO as per Annex I (B).

3.2.2 SAIL, in the year 1993-94, commits to produce 8,600 million tonnes of Saleable Steel. Plant-wise targets for Capacity Utilisation and Production are listed at Annex II.

3.2.3 SAIL commits to export 3,500,000 tonnes of saleable steel.

The above STATIC performance indices as mentioned above will measure results achieved in 1993-94.

3.3 In addition, SAIL commits itself to four DYNAMIC efficiency parameters where the efforts are being put in now but the results will be evident only in the years to come.

3.3.1 SAIL has drawn out a detailed training plan which emphasise improvements in the quality of training. The Percentage of Employees trained will be 30% during 1993-94.

3.3.2 SAIL will also continue to give utmost importance to employees participation at grassroots level through Quality Circles (QC). QC project completion will be to the extent of 1200.

3.3.3 The major project milestones for SAIL plants during 1993-94 will be as per Annex 3 and Milestone Performance Index (MPI) will be calculated as per Annex 5.

3.3.4 SAIL's Research and Development Group commits to complete the projects listed in Annex 4 during 1993-94. These projects would ensure improvements in productivity and quality of process and product and performance will be calculated as per Annex 5.

4. **Commitment by MOS**

To ensure that SAIL can achieve the targets set for 1993-94 and meet its project milestones on time. The Ministry of Steel commits itself to the following:

- 4.1 Investment/Modernisation proposals for SAIL plants and Indian Iron and Steel Company will be cleared as per the timetable in Annex 6.
- 4.2 The Ministry of Steel will ensure adequate availability of coal, power and railway wagons as given in Annexes 7A, 7B and 7C.

In the event of shortfall in the availability of coal, power and railway movement, the requirements of which are given in Annexes 7A, 7B and 7C, SAIL's production will reduce by a corresponding amount and quality of operations will be affected. A shortfall of 100,000 tonnes of coking coal results in a loss of about 80,000 tonnes of crude steel and correspondingly 64,000 tonnes of saleable steel. In addition, erratic supplies, gradewise, necessitate frequent changes in coal blend which adversely affect the productivity of Blast Furnaces. An increase of 1% in ash content of coking coal causes a loss of 3 - 3.5% in productivity of blast furnaces.

- 4.3 Ministry of Steel will assist SAIL in getting 'Environmental Clearance' from the Department of Environment for all those projects which have met all required information needs, within three months of submission of proposal to the Department of Environment.

5. **DELEGATION OF POWERS**

Ministry of Steel will assist SAIL to obtain additional delegations to attain its long and short term objectives as specified in the MOU during the course of the year. These are given in Annex 8.

- 6. The weightage and scales given in Annex 9 will form the guiding principles for evaluating the overall performance of SAIL.

7. JOINT REVIEW

7.1 To achieve the objectives of the MOU, the evaluation system adopted to review fulfilment of obligations on both sides shall be through a joint review meeting structured as follows:-

- i) By regular review at Board level of SAIL.
- ii) By quarterly review at SAIL and Ministry of Steel level.

M.R.R. Nair
Chairman
Steel Authority of India Limited

V. Krishnan
Secretary
Ministry of Steel

ANNEX II cont'd

Delegations sought by SAIL, to be pursued by the Ministry of Steel

The Ministry of Steel will assist SAIL to obtain additional delegations to attain its long and short term objectives as specified in MOU for following during the course of year:

- (i) To commission feasibility reports by Indian consultants; and upto Rs. 50 Lakhs in foreign exchange, if done by foreign consultant.
- (ii) To commission DPRs upto Rs. 5 crores by Indian consultants and upto 1 crore in foreign exchange, if done by foreign consultant provided the project/scheme stands incorporated in the Plan, Annual Plan Budget and Capital Budget of SAIL and there is a feasibility report of approved by the competent authority preceding the decision to commission the DPR.
- (iii) To incur expenditure upto Rs.5 crores on preparatory work for each project approved by SAIL Board and pending Government's approval, provided it is financed through SAIL's internal resources.
- (iv) To sanction expenditure on projects upto Rs.100 crores in respect of new investments provided the projects are included in the approved plan and will be financed by internal resources (present delegation is Rs. 50 crores).
- (v) To sanction expenditure on replacement and renewal of assets due to normal wear and tear for an amount upto Rs.200 crores (present delegation is Rs.100 crores).
- (vi) SAIL should have freedom of chartering vessels directly against its import and export contract instead of routing through Ministry of Surface Transport.
- (vii) SAIL should have freedom to go to joint venture as provided in the Articles of Association.

ANNEX II cont'd

Criteria	Units	Wts. in %	Criteria Value (*)				
			1	2	3	4	5
STATIC EFFICIENCY PARAMETERS							
1. % Tested in Saleable Steel	%	7.5	88	87.5	87	86.5	86
2. Exports of Steel	'000T	2.5	375	350	325	300	275
Profit and profit related factors:							
3. Production (saleable steel)	Mt.	14	8.64	8.60	8.3	8.0	7.7
4. Net Profit/Capital Employed	%	30	1.4	1.2	(-0.2)	(-1.7)	(-3.2)
5. Gross Margin	Rs. (Cr.)	20	1760	1740	1600	1450	1300
DYNAMIC EFFICIENCY PARAMETERS							
6. No. of training of Employees	%	2.5	31	30	29	28	27
7. Quality Circles	Nos.	2.5	1245	1200	1155	1110	1065
8. Milestone Performance Index (MPI)	%	14	100	95	90	85	80
9. Research & Development Projects completed	%	4	100	95	90	85	80
10. Timely submission of Draft MOU for 1994-95 after due discussion with admin.dept.	Date	2	Before 8 Dec. 1993	15 Dec. 1993	22 Dec. 1993	29 Dec. 1993	5 Jan. 1994
11. Timely submission of Performance Evaluation Report (Composite Score) for 1992-93 MOU on the basis of provisional data	Date	1	Before 30 April 1993	2 May 1993	4 May 1993	6 May 1993	8 May 1993

(*) 1- Excellent, 2-Very Good, 3-Good, 4-Fair, 5-Poor

ANNEX II cont'd

	1993-94	1992-93	1991-92	1990-91	1989-90
Saleable Steel Production (MT)	8.600	8.216	8.029	7.365	7.063
Percentage tested in Sal. Steel	87.5	87.0	88.1	83.8	85.8
Gross Margin/ Capital Employed (%)	1.2*	16.5	19.71	16.8	15.8
Gross Margin (Crores)	1740	1562	1503	1210.73	1062.97
No. of Quality Circle	1200	1175	1190	1025	739
Percentage of Employees Trained	30.0	29.5	47.2	27.0	26.0

*Net Profit/Capital Employed

