



# DPP 2016: An enabler, not a show-stopper

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## About the Author



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## DPP 2016: An enabler, not a show-stopper

**The Emerging Euphoria.** While the entire Defence industry, both domestic and foreign, is abuzz with the fast evolving dynamics of Make-in-India; a dream propelled by the central theme of achieving self-reliance in Defence manufacturing, the soul of all this and more, lies in the pages of the recently released Defence Procurement Procedure 2016, “DPP 2016” for short. This assertion is based on the simple truth that irrespective of any Defence Eco system and any euphoric calls to realise the Make-in-India vision, each and every procurement case has to faithfully follow the procedures and regulations set out in the DPP. A detailed analysis of the DPP 2016, released in part and in the online version on 28 Mar '16 by the Hon'ble Raksha Mantri, thus finds its relevance.

**A Word About This Paper.** After the initial takes and the knee-jerk comments on the DPP in the immediate aftermath of its release have all settled down, Subject Matter Experts are beginning to read the fine print, in a bid to analyse the strengths and weaknesses of the DPP 2016. This work is an attempt in this direction. The uniqueness in the author's effort, stated in all humility, is the fact that the analysis presented is directly borne out from decades of hands-on experience in actually handling Defence procurements as a user. Since the DPP is an ever-evolving process, the purpose of the work is to highlight to the decision-makers, the positives and negatives of this all-important document.

**On the Evolution Process.** Before starting on the analytical journey, it is very relevant to peep into a bit of history only to appreciate, how the current avatar of the DPP is essentially an evolutionary work-in-progress. Some salient milestones are:-

- The mother of the current series of DPP has been a document titled “Procedure for Defence Procurement”, enunciated by the MoD way back in Feb 1992.
- The above work got thoroughly revised by a body called the Defence Procurement Management Structures and Systems (DPMSS), which was set up by the MoD in Sept/Oct 2001 in pursuance of the implementation of the Report of the Group of Ministers on Reforming the National Security System.
- The initial fruit of labour of the DPMSS was the first ever version of the DPP that came to be known as DPP 2002. Since at that point in time, the

indigenous defence manufacturing potential of Private Industry in the “make” category was only minimal (even this, to err on the positive side), DPP 2002 actually related itself only to the “Buy” decision of the Defence Acquisition Council (DAC).

- The journey of DPP from 2002 till 2016, has been a process of evolution, essentially shaped by two drivers: one, the changing contours of the private defence industry over the years, and second, the experience of the users of the DPP on the learning curve, for example, in the early years, as indigenous capabilities to manufacture, as also to absorb technologies from abroad gradually started to look up, expansion of the DPP 2002 reflected that effect. In that, the revised DPP 2003, besides “Buy”, carried a new category called “Buy and Make”. Also, provisions for Transfer of Technology (ToT) were built in. Though these were baby steps, the same were reflective of the evolving times.
- In the subsequent six revisions of the DPP (in 2005, 06, 08, 09, 11 and 2013) various other categorisations of acquisition got built in, like “Make”, “Buy Indian”, etc. Alongside this, came the concept of “offsets”. Also a new Chapter on shipbuilding was added. In addition, minor modifications to the procedures as felt necessary by the users (Service HQ, HQ IDS and MoD, Industry) kept getting built in with every revision.
- The most comprehensive revision of the DPP series came about when DPP 2013 was in vogue and the current regime's coinage of Make-in-India took birth and started to get traction, riding on the central theme of achieving Self Reliance in defence manufacturing as a vital strategic and economic imperative. This idea got a shot in the arm with the identification of defence manufacturing potential among the top 25 key industries which were earmarked to fuel the idea of Make-in-India. Experts opined that if we were to realise the full potential in the defence sector, it could touch a figure, as high as 25% in contribution to the GDP (that indeed sounds a long call at this moment when the entire contribution of the Industries sector all put together, is at 24.77% of GDP only)<sup>1</sup>.
- Following up on these early announcements, the DPP 2013 was put through a comprehensive revision by a 10 member Committee of Experts with a mandate to evolve a policy framework to facilitate Make-in-India in

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<sup>1</sup> <https://wwwstatistics.com>economy>sector-wise-contribution-of-GDP-of-India>

defence manufacturing, to identify and remove bottlenecks in the current procurement process and to simplify/rationalise various aspects of defence procurement.

- The Committee interacted across the full continuum of stakeholders. We at Service HQ also provided our cumulated learning experiences in the form of viable comments. Some of them find a place in the new document.

**Document as of Now.** The DPP 2016, in its current form, is a soft version containing five chapters (I to V). The Chapters on Standard Contract Document and on Strategic Partners and Partnerships, as also the Appendices and Annexures for the complete DPP, are to be notified later. From the above journey of evolution, following is noted.

- DPP basically represents an evolutionary journey with every successive version representing a transient stage on the learning curve of the stakeholders.
- Experiences/mistakes/felt needs of the stakeholders, as also, the uneven and changing contours of the Indian Defence Industry have driven every next edition of the DPP.
- **Therefore DPP is no standard document; it is only 'a work-in-progress' wherein, each reigning version represents a reference transient stage at a point in time.**

## Preamble to the DPP

**Points of Examination.** The Preamble has been a welcome first time addition to the DPP. But does it fulfil its role as a Preamble? That needs to be seen.

A Preamble, by definition, is an introductory part of a document (Bill/Constitution/Statute/) that sets out in detail, the underlying facts and assumptions and explains its intent and objective. Its aim is to clarify the meaning and purpose of the operating part of the text in case of **ambiguity or dispute**<sup>2</sup>(*emphasis intended*).

<sup>2</sup> <https://www.businessdictionary.com>

The litmus test for the appropriateness and the adequacy of a Preamble is its capability to fulfill what is emphasised above, Experience has it, that many a good procurement case has fallen by the wayside after years of run time, simply because the executive was dogmatically rigid on the written word of the DPP and refused to see the inherent flexibility implied therein. Essentially, an understanding, that is driven by the common sense interpretation of the print and for which no great wrong would be deemed to have been done, was somehow missing. Sample the following:-

- There is a clause in the DPP which says that when a particular procurement is being done seeking a set of technologies from an Indian/foreign OEM, the case is to be vetted by the DRDO.
  - There was a procurement item that didn't even lie in the core competency vertical of the DRDO (and accepted as such by the DRDO within the collegiate), yet the file got routed all the way to the labs. The spiral took several months. The procedure that had to be followed, mandated this non-negotiable sequence no matter, if only for a formality!
  - Here is a vendor which is providing an Indian prime mover for a missile system under procurement (system already configured). Just because in response to a query in the TEC, the vendor had not stated likewise, the Indian solution is shown the bin, amounting to tangible delay in reconfiguring the equipment on a different prime mover.
- It is understood, that comparing the DPP's Preamble to the Preamble to our Constitution<sup>3</sup> in content and interpretation thereof, will be too farfetched and hence, out of context. This comparison is however valid so long as it is derived, that the Preamble must permit the executive that element of flexibility which allows him to break the 'shackles' of the written word in so far as the common sense interpretation for the good of the procurement case would allow.
  - Judging the content of the Preamble of the DPP against the parameters set out above, the following emerges:-

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<sup>3</sup> <https://www.constitution.org>cons>india>preamble-constitution society>

- Ab-initio, the Preamble does a good job to upfront distinguish the uniqueness of Defence Procurement to an open market commercial procurement thus putting in place, the unique aspects of technological complexity, applicability of Foreign Govt regulations, (constraints of) technology denials, non-availability of material (from abroad), high costs, Foreign Exchange implications and geopolitical ramifications etc, that are the typical signatures of a defence procurement case.
- Much like the Constitutional Preamble, which describes the nature (Sovereign, Socialist, Secular, Democratic) and objectives (Justice, Liberty, Equality, Fraternity) of the Indian State, the DPP preamble states the cornerstone of Self-Reliance in design , development and manufacturing in defence sector and hence the utmost importance of Make-in-India as the focal point of defence acquisition policy/procedure. Quite on the mark, on this score as well.
- Giving a flavour of the new felt needs for boosting the above objective, like strategic partners, enhancing the role of Micro Small and Medium Enterprises (MSMEs), revitalising the make procedure and more, it puts into place, the terms of reference of highest standards of transparency, probity and public accountability.

**What is Missing?** While all the above is very fine, the preamble misses out on the key sentences to the effect that in case of doubt/ambiguity/multiple option scenario, the flexibility beyond the written word must be exercised by the executive guided by the principles of the good of the procurement case, cutting down delays or shortening of procedures, provided such actions are not to the good/detriment of any one or more (not all) parties to the case.

**The Likely Impact.** The above thought, if stated in so many words, will provide the much needed tool to spur the executive in not repeating what is stated (read feared) above ie, being a prisoner of the written word/procedure.

**Negative Note?** Some experts have opined that the Preamble opens on a negative note (defence acquisition is not...). This view is not endorsed. In fact, the

opposite is true, since the Preamble upfront sets aside the uniqueness of defence procurement, per se.

## On Acquisition Categories

**Buy IDDM.** Much has been said on the newly introduced top priority acquisition category of IDDM. Some aspects of the same are as under:-

- The first point of debate among the SMEs is about the percentage of indigenous content (IC) required. The figure is 40% on cost basis of the total value of the contract for products that have been indigenously designed developed and manufactured and 60% for products which may not have been designed and developed indigenously.
- While there may be some merit in the argument that the percentage figures are quoted wrongly and these should have been the other way round since the product, that is not designed and developed in India cannot be expected to have an IC percentage higher than the one designed and developed in-house. The view of the author is as under:-
  - Percentage figures as quoted, are correct and have an implied logic to it.
  - The lower percentage of IC will work as an incentive for a product developer to push for Indian design rather than looking outwards for the same.
  - Talking of 60%, the same will relate to a particular class and category of products. Which one? Well, experience has it that there are many a product which are at the 'horizon of indigenous manufacture', ie, these are those products, that we have been almost indigenised except for a small portion that is still outside our reach.
  - For example, take the case of active and passive RF seeker for a range of missiles, both surface-to-air and surface-to-surface. While we can do almost the entire missile, including the propellant and fusing etc, in-house, the RF seeker still remains elusive. Such products are eminently suited to be in this category (IC 60%).



- While we can do the latest guns, the smart ammunition capable of receiving round-to-round intelligence is still out of hand. Some portions of the cutting edge radar technologies (4D/AESA/capability to fire-control conventional, as well as, guided ammunition from the same platform), some special materials (nano-driven), powering of laser weapons etc, are some such areas where we are almost there. Such are the cases that will fit in IDDM 60% IC category.
- Another argument against the IC percentages in IDDM category has been that, given the situation today where we are 60-65% dependent on imports for our requirement of military equipment on the whole, and about 70-80% when it comes to aviation related wherewithal, how are we are imagining 40% and 60% IC, as quoted above. The view of the author is as under:-
  - It is agreed upfront that the percentage figures are at the upper edge of the 'stretch limit' of IC, but that is not all.
  - Without trying to make any exaggerated/false claims, it is stated with conviction, that the face of the Indian defence industry is fast changing. A detailed visit to the latest Def Expo 2016 would corroborate the above viewpoint. In fact, it is not only the big players (TATA, L&T, Mahindras, Bharat Forge, Punj Lloyd and more), the magic is also being spun by many other comparatively smaller entities and enterprises (Zen Technologies, MKU, VEM Technologies, Alpha Design Technologies, and many more).
  - It is a little different world today with Dhanush, indigenous update of BMP II, Sarath, Ultra-light Howitzer by Bharat Forge, 155/42 calibre indigenous, 100% Indian Air Defence BMC2 and AD C&R System, Rotas BMS and many more.
  - Also the foreign OEMs (Thales, SAAB, MBDA, Rafael, IAI, Lockheed, Raytheon, Boeing, Rosoboron Group et al), are becoming increasingly pro-active, not only, in the euphoria of Make-in-India, but also, with stated claims of 'Made' in India.
  - With all the above, the following is stated:-

- 40% category is very much feasible even with a little stretch.
- As regards 60% IC, this category is reserved for the type of military hardware that has been sought to be explained above, i.e, almost indigenised but for a small portion.
- It would be noticed that there is a distinct emphasis on the words ID in the IDDM. In fact, ID is the soul of the new-found magic of Make-in-India lies in 'Indian Design'. **It is this field that needs to propel itself.** It is doing so little that a solid push is required. Though all is not well with Make-in-India, the road ahead is one of promise and not of despair. To make this promise get realised, the so called **shackles and obstructions have to be removed. Some examples:-**
  - **Excruciating delays in taking decision-making and file clearing has to become history.** While the Govt (DPSUs) have infinitely large holding power, the hard cash of private players hangs in balance with increasing cost of capital and unforgiving banking system. The laudable and praiseworthy aim of LEVEL PLAYING FIELD has to move forward from being an english language sentence to hard reality. Some random examples:-
    - Applicability of exchange rate variation (ERV) across the board (public and private players) and that too TIMELY!
    - Common and transparent norms across public and (bonafide and selected) private players for THE COMPLETE RANGE OF PROCUREMENT RELATED ACTIVITIES. For example:-
      - Making combat equipment available for development of prototypes.
      - Equal sharing of national assets like Test Ranges, Validation Labs, EMC/EMI facilities and more on payment basis, as applicable.
  - REDUCING BIASES FOR PUBLIC SECTOR is one cornerstone of achieving the still illusive, “Level Playing Field”. It is well

understood that the same cannot happen overnight, but that is the way to go.

- Returning to my point of Indian Design, it will be of interest to know what the Services are doing in this field. The encouraging news is, that while one of them is right ahead, others are making positive beginnings. In that, the Indian Navy is already a full-fledged ship-building Navy (implying many other vessel types as well) end-to-end (design, development manufacture). The Air Force is already making a beginning to have a design acumen by way of Subject Matter Experts (SMEs) cumulated for this purpose in the field. The Army has also recently completed a Study to establish something of an Army Design Bureau (ADB). This is to be done by concentrating the SMEs in different disciplines (small arms, guns, ammunition, communications...) in an institutional manner to be able to provide operational inputs to the design requirements of military hardware. The author has had the privilege of being the Chairman of the ADB Study whose recommendations are being implemented now.
- As time passes, some things are expected to unfold gradually. How? It is to be hoped that the above small beginnings (of the Services) will start getting integrated with the rousing 'design muscle' of the Indian Defence Industry over time, duly powered by the intellect of the academia across the entire spectrum, both institutionally, as well as, through one-on-one and one-on-many networks.
- That from such an amalgam, will rise the soul of IDDM is the belief of the author. The recent news of hiring young IIT students for certain design assignments by the DRDO, implementation instructions of ADB getting issued by the Army, and the Navy scaling newer heights in indigenous design (after Arihant the GOI in Feb 2015 has sanctioned the construction of six nuclear-powered attack submarines to be designed fully by the Directorate of Naval Design and built by the Shipbuilding Centre at Vizag), Tejas and beyond, the story is positive, though with many 'ifs' at the moment. Also, as was evident in the effervescent spirits of the small and big Indian players at the Defexpo, it is the belief of the author (with a tongue-in-cheek reality) that the decade ahead is one that belongs to the 'Indian design', the soul of IDDM.

**Actual Challenge Areas.** That said, the actual challenges for IDDM lie in two other areas:-

- The first of these is the stipulation that the IC percentage has to be applied right through to include:-
  - Basic Cost of equipment.
  - Cost of Manufacturer's Recommended List of Spares (MRLS).
  - Cost of Special Maintenance Tools (SMTs) and Special Test Equipment (STE).
- What is the implication of this? The vendor has to dive deep and ensure that besides his core Indian-design, which is the *raison-d'être* of his bidding for the IDDM, he must involve a larger base of smaller players who will pitch in to produce many small things in range and depth belonging to the MRLS, SMT and STE so that the elusive figure of 40% is carried right down to the last nut and bolt, as mandated in the IDDM category.
- The Second challenge area is the bigger one and spreads on both sides of the fence. It relates to proving and certifying the IC. The rules have it, that it is the responsibility of the vendor to prove the extent of IC and it is the responsibility of the buyer to verify that the claim made by the vendor is correct. How will the buyer do it? It is envisaged that for doing this, a Committee will be formed comprising of scientists from DRDO. A few suggestions:-
  - The Committee need not only comprise of the scientists from DRDO but it could have a wider base of SMEs who have detailed knowledge of the Indian Market and its current threshold of capability in the vertical in which the procurement is being done.
  - Though it may sound weird for a moment, it might be in place to have members from the peer group in the said Committee. Nobody can play a devil's advocate better than a peer stakeholder in an each other/one-another arrangement. It goes without saying that the interaction among these players has to be strictly through the

Chairman of the Committee and not a one-on-one or one-on-many mode.

- What about some Service experts? It will be a must to include professional service officers who, based on their core competency and technical knowledge of the Defence industry at large, will exactly know what system capability is IC and what is not.
  - It will also be essential to have on board, the SMEs from the Acquisition (Acqn) Department, as well as, the Department of Defence Production (DDP).
  - It will be in order for the said Committee to be a standing arrangement with a dynamic composition. There will be a requirement to have a pool of prospective members/SMEs on a standing list. Out of this superset, a specific selection of scientists, market experts, peer members, academia reps and service officers will have to be put together, each time a requirement arises to assess the IC in an IDDM procurement case. The same will have to be done a-priori (i.e prior to fielding the case for categorisation) as stated in the DPP.
  - Despite all that is said here, there will still be a large component of assessment which will have to be passed, based on certifications and assurances on the trust vote by the vendor.
- There is yet another thing about the IDDM percentages and IC content which stands on an apparent contradiction which actually is not there. The same is explained.
  - Taking the reference point of IDDM, stipulating the twin requirement of Indian design, development and manufacture with 40% IC on the cost basis of the total value of the contract the perceived contradiction runs like this:-
    - Buy Indian category also provides an option to the Indian vendor to provide products having a minimum of 40% IC on cost basis of the total contract value.

- Also, since there is no mention of 'Indian design development and manufacture' in 'Buy Indian', products not of indigenous design, development and manufacture which need to have 60% IC under IDDM, can go through in this category with only 40% IC.
- In yet another category of procurement called Buy Global, an Indian vendor participating in the bid process can field an Indian equipment for outright purchase without any stipulation of percentage of IC. It is another thing that based on what percentage he ultimately fields, whether or not he will attract offset obligations on the Foreign Exchange component. In DPP 2013, this percentage was 50%. In all probability, the same will be retained, as and when the offset obligations are pronounced for DPP 2016.
- While all the above facts are arithmetically very right, following is the fine print which needs to be appreciated:-
  - The whole game lies in initial categorisation which is recommended by the SHQ and awarded by the DAC working through the approval chain of the SCAP cycle (SCAPCC, SCAPCHC, DPB, DAC).
  - It is not for the vendor what to provide under what category of procurement and variations thereof, it is for the SHQ to initiate procurement chain to endorse the SHQ (or recommend a change of category) and the approving authority to grant a particular category.
  - In the above, the award drivers are likely to be as under:-
    - Since the primary emphasis is on Indian Design, the first port of call will always be IDDM, where the percentages of 40 and 60 will stand in their own verticals and merit, with no mutual contradiction.
    - If the collective wisdom driven by realities on ground has it that the Indian design is not possible/ do-able, the procurement will slip to the next category of "Buy Indian", where the 40% IC ( with no compulsion of Indian Design)

will stand unambiguously, again without any mutual contradiction.

- And finally, in cases where the situation is so emergent as to warrant an outright purchase (Buy Global), for a time urgent and critical need, no percentages matter in any case, only the procurement must happen yesterday. That is the reason, “Buy Global” is not ridden with any percentages whatsoever. It is another thing that the SMEs are trying to find an oblique connection on the offset route. Well, that is a standalone figure of 50% and above, when offsets will kick in. Below that, no offset obligations.
- It can therefore be seen that while prima facie and taken arithmetically, there appears to a contradiction of sorts in percentages in IDDM/Buy, Indian/Buy Global, there is actually no contradiction when each procurement category, which is seen as one vertical and processed within itself.
- There is this one more thing about the IDDM, related to 'Indian design'. It is to be clearly understood that the procurement under this category is outright purchase. It therefore does not lend itself to the commonly understood definition of 'design and development'. In that, it will not unfold in the typical sequence of SHQ laying down the requirement of a product and the vendors commencing the cycle of designing with the required product getting ready some time into the future. On the contrary, it will go like this - requirement floated, vendors respond with equipment ready; period. If this be the pattern how will IDDM ultimately lend itself to the classic design and development? The author would like to think this way:-
  - The design and development exercise has to be started by the prospective vendor with a time lead so that the product gets ready in around the same time frame when the need for it is put out by the SHQ. How is this to happen?
  - This is where the need and relevance of the Technology and Capability Prediction Roadmap (TCPR) by HQ IDS finds its place. The prospective vendors must analyse the same well into the

future (considering lead times to develop) and extract from it, the business opportunities that exist for times to come.

- For selecting prospective business opportunities the tendency to go the whole hog should be avoided. After all, what are the JVs and MoUs for? Especially in an ecosystem, where the foreign OEMs are going whole hog to immerse themselves in the aroma of Make-in-india and are singing such songs as "Made/Already Making in India".
- Where else the prospective vendors can get the wind of what is required by the Services day after tomorrow? Seminars/Conferences/Workshops/Round Tables; where else? It is indeed heartening to see CENJOWS/CLAWS/CAPS/USI/IDSA/VIF and a host of other professional Think Tanks/Study Centres/Institutes etc, regularly organising the above said activities in conjunction with major Industry houses (CII/FICCI/ASSOCHAM/PHD/ et al)duly supported and patronised by MoD, HQ IDS, SHQ, DPSUs, Industry, both foreign and Indian, besides a visible media, both AV and print.
- While the above is one reality, what follows is another:-
  - Most of the above events are conspicuously devoid of actual stakeholders, as well as, cutting edge decision makers. Who are these persons? Concerned Minister, officials from the dealing branch of MoD, decision makers from the Acquisition and DDP branches, DGs of the Arm/Service concerned, DRDO/DPSU reps at the appropriate levels of seniority and more.
  - Seeing this trend over time, I have experienced, that even the CEOs/decision makers from the vendor entities shy away and send junior executives. The entire purpose of crystal gazing by the Services and its likely takeaway effect for the industry, is lost, reducing these important professional exercises impotent.



- The above needs to be corrected and the only way to do the same is probably self-realisation by both the parties, viz buyers and sellers.

## On RFI

**Yet one more Stage.** In the new dispensation, the RFI has been made the first stage of procurement taking the number of stages in the procurement cycle from 11 to 12. What does it imply?

- It actually does not matter to list RFI activity as a stage or otherwise, so long as it is clear that every SQR formulation exercise has to be preceded by the RFI. To that end, the contention of some experts that the number of procurement steps have increased by one, is not really viable.
- Another point of debate about the RFI is the statement made at Para 2 that RFI is not a commitment of procurement. Some experts have argued that this statement dilutes the intent of the buyer and will serve as a deterrent to the vendor to commit funds in the scenario of 'no commitment'. Such an argument is indeed not valid. Sample these:-
  - RFI states what needs to be stated at this ab-initio stage of procurement, where even the Services Qualitative Requirement (SQR) is not yet born.
  - What if the RFI generates a data which somehow does not meet the aspiration (read operational requirement) of the buyer leading to a decision of outright purchase or something else? What will be the fate of a prior commitment, in this scenario?
  - Of course the prospective vendors are not so naive as to be deterred by this rightful statement at this stage. They have all read the same rule book and pretty well know, what follows what, and that the RFI is a bridge over which the buyer must walk to reach the all important milestone of SQR formulation. Where is the question of doubt in anybody's mind?

Another very thoughtful addition has been broadbanding the responsibility to generate the RFI. Veterans will recall the early years of the RFI regime when the users at Service HQ used to be nearly single-handed in generating the RFI document from ab-initio to a stage, where it is ready to be loaded on the MoD

website. By incorporating other players like the DRDO, DDP and HQ IDS and more, there will be a wider initial thought going into making the RFI. Having said that, I cannot but help stating a few fears in this very noble move:-

- While the broad banding is in place, the same should not become a hindrance of a 'time shackle' adding to the weeks and months to generate this document.
- The above fear is born out of the personal experience of the author. Increased number of players and stages actually means that the time thread simply keeps rolling in 'collegiate meetings', shortening the proceedings, disagreements and comments.
- Will it therefore be in place to say that:-
  - There must be a time limit laid down in generating the RFI from a finite beginning to a finite end.
  - The SHQ must have the final say and an override authorisation simply because the RFI is nothing but a manifestation of the 'felt need' of the user as the final stakeholder at the cutting edge.
  - In appreciation of the above, all other agencies other than the SHQ must remain in the advisory or at best in the 'vetting' mode of the initial drafts of the SHQ, lest a major SD change is called for in the perception of the SHQ.
  - Be that as it may, it will be indeed ideal to develop the RFI in a collegiate mode with all the players, with SHQ providing the lead.

## SQR

### **The Cornerstone of the Procurement Edifice.**

- And now, the very kernel of the entire procurement process - the SQR. As stated in the heading, SQR is indeed the cornerstone...Something that starts the ball rolling, and God forbid, if this foundation is weak and shaky, the procurement case is doomed to fall, taking with it, years of toil and

man-hours, besides precious time, that is gone forever and a repeat cycle that must unroll from the scratch (new RFI) and for which, the Services must wait without their requirement being addressed.

- In the author's 40 years in uniform, that includes 9 years in the Flag rank where one got a chance to be hands-on with the procurement culminating in the helm position of the Head of the Arm, where one took a few vital make/break decisions, the power of SQR in either making procurements happen or be a killer at the end of an long and arduous journey was demonstrated several times over. Some remembrances:-
  - In the era when RFI was not a must, a vendor confirmed of a particular characteristic in the operational capability column. It later turned out to be a false claim. With his falling out, the case became single vendor and went nowhere thereafter.
  - During a GSEPC meeting examining a particular QR, a collegiate member (connected only very remotely to the system being procured) insisted for the dimensions of the system to be included in the QR instead of the generic capability statement saying, that the system should be capable of rail transportation under Indian conditions. Putting exact dimensions, later became a crippling factor, and condemned a fine case to a resultant single vendor with all its attendant hick-ups.
  - Bitten by the bug of exactness and over-specification, a SQR went to the extent of specifying vehicle configuration to the last detail. When faced with realities of actual availability of vehicles types, the case got bogged down due to over-specified data.
  - On a possible trial abroad case, one of the collegiate members commenting on the GSQR insisted on adding the word 'terrain like India' instead of 'terrain similar to India'. Thankfully, the same was not allowed to prevail, hence, the procurement case is progressing.
  - A case started as a single service SQR. Somewhere down the line, it was decided to convert it to JSQR. Once on this track, the tri-service reps continued to add 'my specific requirements', till the time the 'common

minimum format' lost its identity and became so unwieldy, that it crumbled under its own weight.

**New Challenges** All these happened when there was a unitary dimension of SQR. **DPP 2016 provides multiple dimensions.** While these dimensions are opportunities, these can also become nightmares, if due care is not exercised. An examination follows:-

**New Dimensions.** The current format of SQR has the following two parameters:-

- **Essential Parameters - A. (EP-A)** Parameters that are a part of the contemporary equipment available in the market and form the **core of the SQR.** These are to be tested and validated at the FET stage itself.
- **Essential Parameters - B (EP-B).** Important attributes of these parameters are as under:-
  - Not available (NA) originally in the equipment fielded for the FET.
  - Can be developed and achieved by the vendors using available technologies.
  - May also be included in the Statement of Case (SoC) for provision of partial quantities of items being procured.
  - These are meant to meet different/higher specifications for specific operational requirements.
  - Need to be tested and validated within a specified time frame, as stipulated in the Contract.
  - Above tests must validate that (by having essential Parameters B) there is no adverse effect on any of the Essential Parameters A.
  - The vendors should be able to substantiate (provide evidence to support) the EP-B.
  - Vendors need to provide an undertaking (by way of an additional Bank Guarantee between 5-10% of contract value) at the bid submission stage that they will develop and meet EP-B.
  - AoN according authority to decide on the percentage of Additional Bank Guarantee.
  - Failure to meet EP-B in the stipulated time frame will make a vendor lose ALL bank Guarantees (Performance, Additional and Advance, if any).
  - EP-B are non-negotiable requirements to be met by the vendor prior to the commencement of equipment delivery.

- EP-B to be incorporated only when required
- To be approved by DAC
- Not be included if two or more vendors possess (the capability) at RFI stage or in an ab-initio single vendor case.

**Points of Caution.** Following points come to mind:-

- When exactly will a user require to use EP-B? In author's view, the same will be more of an exception than a routine, and for good reason. The litmus test to be passed is- "This is something that is essentially required to meet the operational requirement. Presently, it is NA across board but it is my (user's) conviction that the current technology can achieve it. This conviction is also to be substantiated by the vendor, upfront".
- Even before the vendor substantiates (or otherwise) the conviction of the user, the latter better be sure that the 'stretch' (implying currently NA) capability is something, that is 'essentially' required. This will mean by implication, that the contemporary products in the market do not meet the operational requirement (while a little stretch can meet it). Such a situation is likely to be rare because my take on the evolved (evolving) Defence market today tells me, that products that meet the essential requirement of fighting today's wars and the ones in the foreseeable future, are more 'there' than 'not there'
- Taking it forward from here, EP-B will then essentially relate to the technologies that are in the process of realisation. Part realised in the form of products that meet the essential 'core' requirement and a part as 'work-in-progress, essentially realisable in a finite and an assessable time frame.
- Some examples of such a situation from my domain of core-competency could be as under:-
  - Here is an AD Gun-Missile System (ADGMS) which features terminal guns and a VSHORAD missile (Fire and Forget Type) on one/separate platform.
  - While the above meets the 'core' requirement of the SQR, the user will like to have the following:-

- Equipment essentially configured on one chassis.
  - The VSHORAD missile should also get a cue from the Fire Control Radar (FCR) during target lay.
- The vendor(s) had been working on both the above parameters. While the single chassis is nearing realisation, the FCR cue requirement is a work-in-progress and will be realised in not later than six months.
- EP-B for the above two requirements is valid.
- Another one:-
    - A Low level Light Weight Radar (LLLR) is being procured. While a bulk of this equipment is to be employed in the plains/semi desert sector, a miniscule number is also to be deployed in the High Altitude Area (HAA) / extreme HAA.
    - None of the equipment currently available is capable of HAA/ Extreme HAA requirement.
    - Vendor/vendors are otherwise confident that the environmental hardening /modification required to operate in the HAA is well within their technological reach. This can be completed in the finite time and they would be able to achieve it.
    - EP-B for a part numbers requirement could be quoted.
  - It is reiterated that the above have been cited as examples. Most of the time, an EP-A based SQR will be able to meet the operational requirements. This is said with a penny-worth of knowledge of the world-wide market where evolved/evolving products are available for a wide continuum of operational canvas.
  - Remember, with EP-B there are other very important requirements:-
    - It is not only the user, but also, the vendor who has to substantiate, that the requirement is supported.

- He has to confirm that it is possible to achieve the capability being sought in some finite time frame.
- He has to provide Bank Guarantee related to substantiated EP-B to be realised.
- Points of Caution:-
  - The vendor needs be very sure on what he substantiates and what timeframe he commits towards its realisation.
  - He be well advised to note that the failure to meet the non-negotiable EP-B will not only, make him lose the Additional Bank Guarantee but also the Performance Guarantee.
- In the above context, without sounding negative, it is stated that Technology development is not a Geometrical Theorem that smoothly proceeds from the statement of problem to the QED, there are many hurdles in this slow evolution process which need to be appreciated a-priori, and catered for accordingly.
- Both the user and the vendor must also appreciate one another fact, and that is that EP-B realisation is hooked to the commencement of equipment delivery. A non-realizable EP-B (for whatever reason, even unforeseen) will translate into continued equipment void for the user due to non-commencement of delivery and inventory holding cost of realised equipment for the vendor that cannot be delivered. Of course, things will be kick-started forward in the fait-accomplis mode, post inflicting the damage of time and cost overruns.
- Another point of importance is the fixing of percentages between 5-10% for different parameters of EP-B. The DPP assigns this responsibility to the AON according authority. My take is, that it is a highly professional task and will demand high calibre Subject Matter Experts (related technically and operationally to the vertical of the equipment being procured), as well as, Financial experts. While the latter are available in the AoN according authority, inputs from the former need to be taken comprehensively and evaluated properly.

- Essentially, the above will be an exercise of evaluating each of the EP-B parameters and assigning it comparative weightage on a common reference scale, so as to state how important is a particular EP-B feature in relation to the overall SQR requirement.
- With the above comparative inputs at hand, the financial experts will then be able to decide on the percentages for parameter(s). The pool of experts in the now evolving Army Design Bureau (ADB) and similar other outfits already in existence with the other Services could be a good source to seek inputs.
- On the flip side, it is felt, that the current taboo on putting in EP-B in an ab-initio single-vendor case needs a re-think. There could be a perfect case that a technology actually required in the SQR may just be at the tipping stage and in the capability domain of the single vendor. With controls of Bank Guarantee and more in our hand, it is felt that we can swing in EP-B in this case as well, without being fleeced or delayed inordinately.

### **Enhanced Performance Parameters (EPP)**—A word now on the EPP.

- First the Whites:-
  - EPP enhance the capability of the equipment vis-a-vis Essential Parameters (EP)
  - SQRs may not contain EPP in all cases
  - Inability to meet the EPP not a disqualification for bidding/bid Evaluation
  - Details of EPP to be provided (upfront) at the time of submission of technical bids
  - To be tested for compliance at FET
  - EPP to attract a credit score by cost up to a max of 10% with any of the individual virtues not exceeding 3%
- Examples of EPP are easy to fathom:-
  - In a SRSAM procurement case the SQR range is 15 km. Here is an equipment that offers a higher range which actually enhances the capability of the SRSAM vis-a-vis the EP-A.



- While the SQR specifies a minimum SSKP of 85%, here is a product that offers a much higher SSKP.
- EPP is actually a very important provision which actually addresses a long-standing anomaly. It goes like this:-
  - The SQR states some parameter which is given out in minimum terms (min range xxxx/ minimum altitude coverage xxxx, etc).
  - In this, the equipment that just qualifies the minimum threshold used gets to be in (L1 Syndrome), while better equipment with higher capability had no chance because it could never match the LI quote of the minimalistic entry. Simple logic of cost -for- quality. Q1 INSTEAD OF L1 IS THE MANTRA.
  - This above outcome is likely to be addressed now, as the higher capability weapon system which actually enhances the EP-A is slated to get a cost compensation in L1 calculus, thus beating the minimalistic L1.
  - The net gainer will be the user.
- One important issue in the EPP is the task of assigning credit scores to the individual EPP parameters. Something which will require a very high degree of technical and domain expertise. As said earlier, the AoN according authority will have to make it bear heavy on the proposal.

**The Key Mantras.** Before moving on from the SQR debate, it will be worthwhile to recall for the discerning user the four Mantras of the SQR, namely, DETAILED, REALISTIC, ACHIEVABLE and VERIFIABLE. If these are not lost sight off, the rest will fall in place.

## On Offsets

**Essentially an Evolution Process.** Having sat as an active member on the Study Group that evolved the Offset Guidelines for the DPP 2013, the author is privy to the flow of thought process of experts that went in for evolving the existing

guidelines. It is recalled that the Study Group not only read up the Offset provisions of all the leading players (USA, UK, France, Israel, Korea and others), but also, invited representatives from several friendly foreign countries to tell us their story of offsets so that we could analyse the best practices worldwide. We debated, at great length, the introduction of new fields for offset discharge, the reigning difference in opinion between the Acquisition wing and the DDP regarding the primacy position in the offset milieu, the duality between these two in negotiating of offsets and discharge thereof, the complexities of ToT etc and after months of debate, the guidelines emerged. But how did it unroll? Not very well indeed:-

- Offsets have not happened the way it was perceived to flow. According to a Mar 16 update, some 28 Offsets contracts stand signed worth USD 6 billion and another 43 contracts worth USD 6-7 Billion are in the pipeline.<sup>4</sup>
- While the figures may tell any story, as DG Army AD, my experience has been, that the offsets have been quite a hindrance and have definitely retarded the already sluggish and inert cycle of the procurement monolith owing to protracted discussions with OEMs, their multiple problems in choice of IOPs and changes thereto, our net capability to absorb the types of technologies being offered. Actually the figures indicating Offsets in the pipeline have remained in the pipeline for years on end. And as is well known, that there are no free lunches whatsoever, the costs of offsets comes loaded on the main product cost. As per an expert estimate, this load is about 12-18% of the Contract cost.

**First Movement.** The first welcome change in the status quo came in August 2015 when the MoD came out with two amendments to the Offset guidelines (MoD ID No 1(6)D/(Acq)13-Vol ii dt 05 /08/15):-

- Under the first amendment, OEMs can request for change of IOP, work package and re-phasing within the period of performance for the offset contracts under DPP 06/08/11.
- The Second amendment brings down the threshold of IC from 50 to 30% in Buy Global procurements both for an Indian firm or a JV.

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<sup>4</sup>RitikaBehal, "Revising Defence Offset Policy" Defence ProAc Biz News Vol IV issue 2 Mar-Apr 2016.

- Both the above amendments are a welcome change. The first one brings the earlier DPPs at par with DPP 2013 and is likely to add transparency and speed. The driver for this change has been the evolution process of the Indian Defence Industry and their changing capability to absorb/execute offsets. In the beginning of the offset process, the foreign OEMs chose IOPs what were available in the field mostly based on anticipation of capabilities, as existed then.
- As years passed by, while many IOPs lived up to their commitment on offsets and moved steadily upwards on their individual growth ladder, several others did not grow as was visualised and showed their inability to execute and deliver what they promised to do in the timeframe required. Change of IOP or rephrasing the Offset schedule was thus the fait accompli thrust upon the OEM. Both these processes used to be herculean tasks; time consuming, procedure ridden and hence, nearly impossible. By removing the hurdles in this path, the second amendment has provided a way for the OEMs to come out from the above logjam and get a move on.
- The second amendment also relates to another ground reality related to the capability of the Indian Defence industry as to the indigenous content. Experience had shown that for Buy Global procurements, the capability of the supplier to put out a 50% indigenous content in the offset package was a major problem area. The effect of this always translated in endless delay in the main procurement projects owing to protracted negotiations with the IOPs. This percentage stands reduced from 50 to 30%. The same will hopefully make some stalled projects get out of their impossible positions and proceed forward.

**Likely Effect.** Essentially speaking, the net effect of the above two amendments has been to correct the two bottlenecks that have been felt over time. This is especially true for procurement projects that were under the currency of the earlier DPPs. Since the above amendment brings the previous DPPs at par with DPP 2013, hopefully, the stalled projects under previous DPPS will also get a momentum.

**New Changes.** Moving boldly ahead of the above two small amendments, DPP 2016 has made fundamental changes in the applicability norms of the offsets as under:-

- Offset applicability only for Contracts where the indicative cost of acquisition is 2000 Crore or more, as on the date of accord of the AoN.
- To be discharged through fields like technology transfer, skill development, carrying out Research and development in India.
- DAC may consider partial or full waiver of the offset clause

**Likely Drivers.** Probably, the basic premise of marking up the applicability threshold has been the following:-

- The earlier limit of Rs 300 Crores was set up in 2006. Since then, the general cost of acquisition has gone up many folds, requiring an upward revision of the applicability threshold.
- The Offsets should apply to the real high value acquisitions (with indicative costs of Rs 2000 Crores or more), these need not decelerate or bog down a (presumably) large number of other contracts (implying the ones with indicative cost between 300-2000 Crores). Such cases should come out of their bind due to unfinished offset obligations.
- Besides the above, a large number of Contracts should not get loaded with offset markup (likely 12-18%) which vendors indulge in, by escalating the product cost to recover offset amounts. These cost mark ups could well be used to buy technology or be ploughed in the main procurement.

**Likely Impact.** An analysis of the basic premise, as stated above reveals the following:-

- The first basic presumption about raising the offset threshold so as to free from the offset shackles, a large number of procurement cases in lower cost brackets (300-2000 Crores), seems to have a factual contradiction. Sample the following:-
  - As per the available data as on Mar/Apr 16, out of the total 71 contracts in the offset pipeline (amounting to 48,3443.93Cr\$) as much as 45 (461848.70 Crores) belong to the bracket of above 2000 Crores while the 300-2000 Crore bracket has the balance 26 cases ( 21595,27 Crores).

- In terms of percentages, the above translates to 63% cases above 2000 Crores and the balance 37% in 300-2000 Crores bracket.
  - Given the above figures, the purpose of freeing a 'large number' of procurement cases does not come good simply because a much larger number belongs to the >2000 Crores slot.
  - Let me state a counter argument right here simply born out of my personal experience. While the figures speak as they do, and the quantum of 26 Contracts may look dwarfed as compared to 45, the point is, that in these 26, resides a large number of Army related procurements, which intrinsically are not as high-value as the aircrafts and ships (save the fewer high ticket cases of Army Air Defence, Artillery and Mechanised forces) which are badly stuck owing to the offset shackles.
  - Typically for these (Army) procurements, the individual cost of each unit/piece may be less but the same is required in large numbers by the bulk of field army at the cutting edge (basically infantry/mechanised infantry). It is heartening to realise that such cases will get a forward momentum.
- Another point relates to the capability of absorbing the offsets as evaluated from the cost perspective. 30% offsets of Rs 2000 Crores will amount to a minimum of Rs 600 Crores. Some Experts have opined that absorbing offsets of this magnitude will effectively put the MSMEs out of the ring, however my take is a little different.
  - While it is agreed that 600 Crores is an issue but so is the fact that the face of MSMEs itself is fast evolving, duly propelled by the opening of the overall eco system, as well as, the push effect of opportunities emerging from the big players, both domestic and foreign who are currently bathing in the sunshine of the Make-in-India wave.
  - If ICs have to be maintained right through the MRLs, STE and SMTs, multiple players from the MSME domain will be required to pitch in. What about joining of hands of a few MSMEs under a common banner for a product specific vertical? What about multiple subsidiaries of one big

banner? In essence, while 600 Crores will be a tough call, it is not impossible, since there are options to make that happen.

- On the flip side, it is felt, that there is a need to build adequate remedies/tools to let MSMEs also take part in the 600 Crore Offset package if quantum of funds is an issue. There is a precedent for it. Projects with estimated cost of prototype development not exceeding 10 Crores for Make I and 3 Crores for Make II have been earmarked for MSMEs. If some facilitation is called for, the same needs to be built in adequately.
- Also, there is a need to ensure great amount of clarity in many issues relating to Offsets. Some of these include, multipliers, banking of credits, more specific details about each offset field, formats for vendor identification through internet, format for case specific advertisement on internet and above all, the detailed and clear procedure for implementing the offset provisions.
- It is hoped that the same will find its rightful place in the Appendices that are to follow

## **On Make Procedure**

### **A Quick Take.**

- The make procedure is indeed a very positive development. Some plus points are recounted:-
  - At the forefront is the timeline tie up of issuing the RFP with each type of Make. A huge and a totally different kind of pressure will be there on the executive to issue the RFP within 24 months, since it is just not about the lapsing of the AoN but a release of the balance 10% of the prototype development cost in Make I and 100% refund of the same in Make II which will be at stake. With such finances involved; there will be a lot of explanations to be done for RFP defaults which in the opinion of the author, will become an exception than a rule.
  - Where is the doubt that if the RFP gets going in time, many of the current ills (read nagging delays) in multiple procurement cases will

come to a naught. It is indeed painful to see the endless delays in issuing of the RFPs while the AoN 'dies' in wait resulting in the fait-accompli - back to square 1 position. It is hoped that the overall reduction of AoN life from the earlier one year to 6 months for Buy and Buy and Make categories will also have its desired effect.

- Nothing of course comes without its pack of challenges and I see quite a few in this vertical as well
  - The SHQs will require a huge amount of expertise and deep knowledge of the current and potential capability of the Indian Defence industry to be able to do some justice with the feasibility studies which it is mandated to carry out in trying to identify the projects which the Indian Industry has the capability to design and develop within the time frame required by the respective Services.
  - Clearly, the above specialist task will call for a well anointed Multi-disciplinary team with Service officers, as well as, market experts on board. The requirements laid out at Para 17 of Chapter III of DPP are rather demanding and will not lend itself to any 'quick work' by the generalists.
  - The next challenge resides in the constitution of the Integrated Project Management Team or IPMT for short. This is so because the IPMT also has a huge agenda as detailed at Para 26 of Chapter III of DPP. The major task challenges will be the preparation of the Project Definition Document, assessment of the Development Agencies (DAs), ranking of their Expression of interests (EOI), shortlisting and finally the evaluation of the Detailed Project Reports (DPRs) from the shortlisted DAs.
  - The entire Design and Development of the Prototype is a long and sequential cycle as explained at Para 51 of Chapter III of DPP. Each stage from Project Definition to Preliminary design to Fabrication, development, Test and analysis and integration has to unfold as envisaged.
  - The above is easier said than done. This is borne out of the author's personal experience in handling Mission mode Projects under

indigenous development under the DRDO. In that, for the Projects related to Low Level light Weight Radar (LLLR), Air Defence Fire Control Radar (ADFCR) and Air Defence Tactical Control Radar (ADTCR), we faced the following:-

- As early as the Preliminary design phase in ADTCR, it started to become clear that PSQR will have to be tweaked in order to adjust to ground realities of what actually is feasible on ground(vehicle configuration)
- We got stuck again at the Critical Design Review Phase as the compactness of design that was required for deployment of LLLR in the High Altitude area was not getting realised in the prototype model. It was realised a year down the line that tweaking was a must both in the PSQR as well as, the design drawings.

**The Flavour of Indigenous Content(IC).** If there is one statement which DPP 2016 makes most boldly and emphatically it is IC, period. In fact, IC is the soul of Make-in-India and the central theme of the emerging ecosystem of the Indian Defence Manufacturing industry. Rightfully, it has been carried most boldly across all the relevant Acquisition categories. Some salient points:-

- It is not only in Buy Indian that the percentage of IC has gone up from 30 to 40% (the impact of which has been discussed earlier), even in Buy and Make (Indian) and Buy and Make, the IC has gone up from 30% to 50%. What does it mean?
  - The Indian vendors will now have to show an ever greater strength in their knees to stand on their two feet by sourcing as much as, half of their merchandise in-house. In fact this goes in perfect symphony with what is the emerging face of the Indian Industry; big and small. May be, not Phoenix-like, but surely not weak-kneed either. This brings me to the thought that the same is more possible than not possible.
  - On similar lines, the foreign vendors (Buy and Make) will now have to look more and more towards India's 50 IC is no small



percentage. Will it be wrong to say then, that by implication, great opportunities await the Indian players in times to come to be capable and ready to encase the IC wave when the foreign vendors come asking.

- In meeting a bold target like the 50%, many permutations and combinations are likely to evolve over time, as the foreign OEM try to get to the magic figure by tweaking the percentages of CKD, SKD and IM components of the deliverables and try to maintain the same percentage across the entire spectrum of MRLS, SMTs and STEs.
- Not in any smaller measure than the above challenge, lies the tough call in ascertaining on the cutting edge that IC percentages have actually been achieved. The responsibility or the onus of doing the same may lie on the vendor; the final call remains that of the MoD. In this context, the nuances of the challenge that lies in this and a possible way ahead stands discussed by me earlier in this work.
- Most obviously, the greatest challenge and the roadblock in this field will be faced by the industries in the aviation sector that is currently operating in the IC range of 20-30%. My take on this crippling disability is, that while for some years it will continue to block acquisitions in this category, the same is likely to pass over the years as the Indigenous capability builds over time (easier said than done).
- Talking of the above, it is indeed heartening to see many of the new JVs emerging on the Indian scene which will eventually result in ToT in aviation related products. Just to quote a few:-
  - Reliance Defence in JV with State owned Ukranian firms for transport aircrafts besides other products.
  - HAL with SAAB for collaboration on Tejas.
  - Adani Group with Alpha Design and Elbit for UAVs.....

## **A Crushing Blow to Endless Waits.**

- A crushing blow has indeed been dealt to the existing agony of 'endless waits for the RFPs' years after the initial AoN, and a repeat story once the original RFP had been retracted. This is so because the earlier validity of one year for the AoN stands reduced to six months, as also, a welcome provision comes into effect, whereby RFP once retracted; has to be re-issued within the validity period of the original RFP. If this provision is not to get violated, some corrective arrangements will have to be put into place at the RFP cell at the WE Dte or at DGPP. What could be these?
- A time-stamping type of arrangement on each AoN detailing the sub-timelines of actions up to the issuance of the RFP, well within end game of six months.
- No endless waiting for comments from any stakeholders. Maximum two weeks, NIL to be assumed thereafter.
- Finding a way out of the vendor queries and not allowing them the luxury of extended time frame on the plea of waiting for replies from their hierarchy or HQs abroad. Replies have to timely, period.

## **Getting Over the Single Vendor Fever.**

- Experience has it that several good procurement cases have fallen apart after years of runtime simply because the few OEMs that were there, kept falling by the wayside, well before the trial process could begin or the initial bid itself got dwarfed to one vendor because the proposal from the another was found to be technically not-admissible.
- As a remedy to the above, Single OEM Multiple Bids and Multiple Bids by Single Indian Vendor are indeed very innovative provisions built into the new DPP. Some thoughts on the same:-
  - In high technology domains (say futuristic Air Defence Guns) there are only a very few actual OEMs who offer worthwhile high technology products. Worse if one or more of them gets to be blacklisted, the residual number further reduces. Earlier the OEM entry was a single-lane street, tie up with one Indian major and that is about it. Different

Indian big players may have different levels of in-house expertise and capability verticals related to the procurement. Imagine the type of flexibility the foreign OEM has now. Not only can he prepare several solutions for his product. Also the other Indian players also do not draw a blank if the Foreign OEM gets going with one domestic player.

- Let me hasten to add here that the above provision of Single OEM Multiple Bids is going to be a hugely complex exercise. In the current times, when building cases through one big player takes months and years, imagine doing the same for the same product with multiple Indian players, each at different level and maturity of development in the capability ladder. Let's us therefore just wait and watch for some procurements to mature on this route before commenting on its merits or otherwise.
- In fact one Indian vendor making multiple bids appears to be a more feasible proposition as in each of the bids submitted, the base product is different. This is quite different to the case of a single product getting configured into different bids through multiple Indian players. The author would like to rest his case on these provisions till some water flows over.

## On Disputes.

- When huge fund flows are involved, the unsuccessful rivals putting spokes in the way, is very natural and understandable. Disputes on the appropriateness/inadequacy of the trial process, allegations of favours having been shown, or undue advantages alleged to have been given to a particular player etc, are common complaints. An uncommon one came my way when a vendor supplying ammunition in six phases started to dispute on the contracted terms of 'on-site inspection' from third phase consignment onwards and started refusing to accept back rejected lots. All the above are the cause of endless delays and normally result in killing of cases, matured over decades.
- In fact, till date, we really do not have a proper Dispute Resolution Mechanism. Trying to resolve disputes on the hierarchical procurement chain itself (WE Dte - DCOAS - VCOAS- SCAP cycle- DG Acqn- Secy DP- Defence Secy- DPB/DAC) is like running a parallel procurement case itself

where the endgame is not a case fructified, but only a decision as to the dispute and the case is to start all over again as resolved (sic)

- In the above context, the provision to establish a standalone Empowered Committee for Dispute Resolution is to be welcomed. Great care will however be required to ensure that the composition of this Committee is very skilfully done so as to be seen as a neutral and an unbiased third party. Also, an agreement on the acceptability of the same will have to be obtained from the buyers and sellers alike, in the ab-initio of the procurement journey

### **Those Were the Days!**

- I remember we were into a procurement case where a portion of the total cost related to ammunition and explosives was to be provisioned ex the OFB since in those days the ammunition was only the OFB domain. Even after successive negotiations, the case didn't make headway as the private vendors would not bite into a scenario where a part of the bid cost for consideration of the L1 was OFB driven.
- The new provision, wherein, the Buyer Nominated Equipment (BNE) procured from the OFB is not to be taken into account for selection of L1 will come as an effective antidote to the fears that prevailed earlier.

### **Strategic Partnership (SP) Model- A Flawed Concept as of Now.**

- The so called SP Model based on the 'a priori' approach of selecting the SP first based on a certain laid down parameters (which in themselves have any number of lacunae) and then issuing the RFP to the selected SP, only is indeed a flawed concept.
- Cmde Sujeet Samaddar, an expert and a respected name in the field of defence procurement has called the SP model (as evolved till now) as the re-attired version of the flawed RUR (Raksha Udyog Ratna) which is not in tune with the democratic free market political economy.<sup>5</sup>

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<sup>5</sup>Cmde Sujeet Samaddar, NM (Retd) "**RUR in SP's Clothing or Worse**" Defence ProAc Biz News Volume IV issue 3 May-Jun 2016

- Firstly because concept is flawed on so many counts, and secondly because it is yet to be notified by the MoD, analysing it and faulting it at this stage will be futile. The author therefore refrains himself from going any further on the same. Over time, when the contours of the SP get fully notified, analysis of the same will become an important exercise

**A New Defence Procurement Organisation (DPO).** It is understood that a Study Group is working to evolve a new DPO that will address the ills of the present multi-vertical heterogeneous structure. While a detailed analysis will follow once something is put out by the MoD, some suggestions are offered at this stage.

- At the onset, the existing heterogeneous structure with multiple verticals in SHQ, HQ IDS, DDP, MoD, MoF and more, must yield to one unified structure under one central leadership, one hierarchy, one decision centre and one organisation called the DPO.
- There is a crying need to ruthlessly cut out all duplications and multiple overlaps now existing at various stages in a bid to 'over-ensure' and check and recheck exercises
- With due respect to the civil hierarchy, Service domain experts must be placed at all such positions where core competencies and Service specific expertise is needed in analysis and decision making. In this context the small beginning by the RM to appoint a Service Advisoris indeed a positive aspect.
- Splitting of responsibilities for a single task vertical among multiple players ( WE Dte/PP Dte/DCOAS Sectt/VCOAS Sectt/ HQ IDS/DG Acqn/ DDP...) must be streamlined.
- The current vertical split between the negotiation of offsets and discharge of the same between DG Acqn and DDP needs to be unified into one agency.
- Institutional arrangements need to be built to bring in platforms for free flowing interactions between Service HQ, DRDO, DPSUs, DGQA, Defence Industry, Market Experts and Academia.

- Specialist training of 'Procurement Staff' and ensuring their utility over extended tenures repeated at various points in their Service Careers is a point that cannot be over-emphasised. The experience of the author has been, that while everybody seems to agree with the requirement unanimously, it somehow never proceeds towards implementation. The DPO document must address it. There is a convenient parking place for this thought that is- wait till INDU (Indian National Defence University) comes. I think, we need to act on it NOW , INDU or no INDU.
- It is opined, that simply for the sake of cutting stages, the two Categorisation Committees, i.e SCAPCC (Services Capital Acquisition Plan Categorisation Committee) and SCAPCHC (Higher Committee) need to be merged into one. Why?
- In each of these the attendance is different, the content and level of discussion is different, the levels of approval are different and for very good reason, the industry exposure is allowed in one not in the other. Force-fitting them into one will not only make that resultant Committee so unwieldy that it will get crushed under its own weight, we will waste more time in CHC as CC filters what is considered by CHC.
- There is a need to right size the DPO with a minimalistic approach. The current ad hoc structure has too much flab by way of “over ensures” and “too many people doing the same job” resulting in re-inventing the wheel, time and again.
- The whimsical and mindless rigidity to the printed word of the DPP must yield to logical and reasonable interpretation in the overall good of the organisation. Preamble needs to be re-worded.

## **The Bottomline**

And now the Bottomline.....

**The Operators of DPP.** It is the conviction of the author that DPP or no DPP the onus of success or failure lies in the hands of those who operate the DPP. Like they say, the law is only as good as the enforcer of the law. DPP 2016 or DPP 2056, it will be only as good as the persons who operate it, who interpret its

content and apply the same to procurements at hand. The initiators, the commentators, the deciders, the buyers and Sellers, the middleware, all combined constitute a community that can be clubbed as “THE OPERATORS OF DPP”. The DPP is only as good as these operators make it to be. So what is required by these operators? Some views:-

- At the onset and as a Top Priority it is reiterated that DPP is only a set of regulations (read guidelines). Keeping intact the tenets what DPP stands for (accountability, probity and more..) It demands intelligent interpretation, not a dogmatic and mindless word-to-word adherence.
- In the institutional arrangement now put in place for the RFI, the views of the SHQ (implying the user) as reflective of the actual operational requirement must remain central. The additional players (DRDO, DDP, HQIDS) must only be seen as facilitators.
- While the GSQR is in the approval cycle, the persons and agencies who comment on it (especially the technical and operational points) must be kept selective and minimal. The user must not be forced to include / delete a portion/point on the insistence of an outside agency which could later become the Achilles heels. In this regard, a great responsibility devolves on the Chairman of SEPC.
- Comments on the initial SoC and for any other later stage, have to be strictly time bound and not an open-ended wait.
- TECs do not have to be stretched over years just because a vendor (s) is either deliberately not responding to a query to buy time, or delaying it endlessly for reasons best known to him.
- The endless thread of Collegiate Vettings ( CVs) of cases at various stages ( RFP, TEC, GS Evaluation) woven around the thread of CV-Minutes of CV- Comments on Minutes- Next CV (and on and on...) must be snapped ruthlessly.
- The nuisance of some agencies of only giving part comments on files thereby putting them on a permanent spiral must end.

- Field trials that extend beyond their stipulated run time must be questioned and accountability fixed.
- All delays by stakeholders have to be explained irrespective of level.  
So what is the **BOTTOMLINE** for the operators of the DPP?

It is the realisation that **DPP IS AN ENABLER AND NOT A SHOW STOPPER!**



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