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HIGHLIGHTS OF THE NEW DEFENCE PROCUREMENT PROCEDURE (DPP) 2016

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HIGHLIGHTS OF THE NEW DEFENCE PROCUREMENT PROCEDURE

(DPP) 2016

"The Defence Procurement Procedure (DPP) is not merely a procurement procedure- it is also an opportunity to improve efficiency of the procurement process, usher change in the mind-sets of the stake holders and promote growth of the domestic defence industry¹"

Manohar Parrikar
(Minister of Defence, India)

The aim of new Defence Procurement Procedure (DPP) is to ensure timely procurement of military equipment, systems and platforms as required by the Armed Forces in terms of performance capabilities and quality standards, through optimum utilisation of allocated budgetary resources; while enabling the same, DPP will provide for the highest degree of probity, public accountability, transparency, fair competition and level-playing field. In addition, self-reliance in defence equipment production and acquisition will be steadfastly pursued as a key aim of the DPP².

Background of Defence Procurement Procedure

As part of the implementation of the Report of the Group of Ministers on reforming the National Security System, new Defence Procurement Management Structures and Systems were set up in the Ministry of Defence (MoD) in 2001.

- The first Defence Procurement Procedure - 2002 (DPP-2002) came into effect from 30 December 2002 and was applicable for procurements flowing out of 'Buy' decision of Defence Acquisition Council (DAC).
- The scope of the same was enlarged in June 2003 to include procurements flowing out of 'Buy and Make' through Imported Transfer of Technology (ToT) decision.
- The Defence Procurement Procedure has since been revised in 2005, 2006, 2008, 2009, 2011, and 2013, enhancing the scope to include 'Make,' 'Buy and Make (Indian)' categories, concept of 'Offsets' and ship building procedure³.

HIGHLIGHTS OF THE NEW DPP (2016)

The New Defence Procurement Procedure focuses on institutionalising, streamlining and simplifying defence procurement procedure to give a boost to 'Make in India' initiative of the Government of India, by promoting indigenous design, development and manufacturing of defence equipment, platforms, systems and sub-systems. 'Make' procedure has also been refined to ensure increased participation of the Indian industry.

Enhancing the role of Micro, Small and Medium Enterprises (MSMEs) in defence sector is one of the defining features of DPP. Cutting down permissible timeframes for various procurement activities and institutionalising robust mechanisms to monitor for probity at various stages of the procurement process are the cornerstones of DPP⁴.

Some of the Main Features of New DPP-2016

1. Preamble of DPP has special focus on *Make in India*, Micro, Small and Medium Enterprises (MSMEs), Strategic Partnership Model and swift decision making .
2. The New Defence Procurement Procedure 2016 is dynamic and an evolving document and is committed to making improvements based on emerging data and anecdotal evidence, to realize the vision of "Make in India" in the defence sector.
3. In order to promote indigenous design and development of defence equipment, DPP 2016 has introduced the "Buy-IDD" (*Indigenous Designed and Manufactured*) Developed category of acquisition and accorded it the top most priority.
4. DPP 2016 also provides greater impetus to the Micro, Small and Medium Enterprises (MSMEs), with certain category of 'Make' projects reserved exclusively for them.

5. There are also other provisions and procedural measures that have been introduced to make the procurement process more efficient and effective⁵.
6. New model that does away with older process of selecting lowest bidder, now 10% weight-age for superior technology has been introduced in the new DPP-2016.
7. Offsets now applicable only on cases of above Rs 2000cr⁶.
8. Single Vendor cases can be processed from the bid submission stage itself. Single foreign vendors can compete for a tender with several Indian partners separately. Single Indian company can give in several bids with different foreign partners.
9. Ongoing cases of procurement to be processed under older rules⁷.
10. The new Defence Procurement Policy can eliminate the delays in procurement which impact the preparedness of Indian armed forces in past, besides resulting in opportunity cost.

Impact on the Indian Economy

i) Job Potential in the Defence Industry

Defence Equipment Manufacturing has 9 Public Sector Undertakings (PSUs), 39 producing Ordnance Factories, a few large private companies and over 6000 SMEs, and employs approximately 8 lakh people (2 lakhs directly and 6 lakhs indirectly). According to a CII - Boston Consulting Group Report titled “Creating a Vibrant Domestic Defence Manufacturing Sector”, if India is to achieve its strategic objective of 70 percent domestic supply in defence, then the indigenous industry has to scale up its production to reach the target of USD 80-100 billion by 2020 to bring down import levels to 30 percent. It also

has to increase its work force 2 to 2.5 times; even with a doubling of current levels of efficiency to about Rs. 30 lakhs per employee per year from the present Rs. 15 lakhs per year. This implies that there is a potential to create 8 to 12 lakhs new jobs in the sector (2-3 lakhs direct jobs and 6-9 lakhs indirect jobs).

ii) *Export Potential*

India's exports to countries like Nepal and Mauritius include Advanced Light Helicopter (ALH), Lancer attack helicopters and Dornier transport planes. The main defence exporters include state run, Bharat Electronics Limited (BEL), BEML(formerly Bharat Earth Movers Limited), Hindustan Aeronautics Limited (HAL) and OFB. Defence exports are likely to touch US \$ 130 million as per Government estimates.

This is less than that of Israel, South Korea or even Singapore. With increasing emphasis on indigenous R&D, the scope for export of Indian produced defence items will also increase. Export controls now in force in respect of defence items need to be liberalised. As India was hitherto not in the export market, it would need to carve out space in a highly competitive environment⁸.

Priority for the Procurement of Defence Equipment under the New Defence Procurement Policy 2016

Capital Acquisition schemes are broadly classified as, 'Buy', 'Buy and Make' and 'Make'. Under the 'Buy' scheme procurements are categorised as 'Buy (Indian - IDDM)', 'Buy (Indian)' and 'Buy (Global)'. The three categories under the 'Buy' scheme refer to an outright purchase of equipment. Under the 'Buy and Make' scheme, the procurements are categorised as 'Buy and Make (Indian)' and 'Buy and Make'. The two categories under 'Buy and Make' scheme refer to an initial procurement of equipment in Fully Formed (FF) state in quantities as considered necessary, from the appropriate source, followed by indigenous production in a phased manner through comprehensive Transfer of Technology (ToT), pertaining to critical technologies as per the specified range, depth and scope.

In decreasing order of priority the procurement of defence equipment, under Capital Acquisition Schemes are categorised as follows⁹

Buy (Indian - IDDM)	(Annexure-I)
Buy (Indian)	(Annexure-II)
Buy and Make (Indian)	(Annexure-III)
Buy and Make	(Annexure-IV)
Buy (Global)	(Annexure-V)
Make	(Annexure-VI)

Definition of Acquisition Categories

Buy (Indian-IDDM) 'Buy (Indian-IDDM)' category refers to the procurement of products from an Indian vendor meeting one of the two conditions: products that have been indigenously designed, developed and manufactured with a minimum of 40% Indigenous Content (IC) on cost basis of the total contract value; Or products having 60% IC on cost basis of the total contract value, which may not have been designed and developed indigenously. Apart from overall IC as detailed above, the same percentage of IC will also be required in (a) Basic Cost of Equipment; (b) Cost of Manufacturers' Recommended List of Spares (MRLS); and (c) Cost of Special Maintenance Tools (SMT) and Special Test Equipment (STE), taken together at all stages, including FET stage. The onus of proving that the equipment design is indigenous, rests with the vendor and such vendor claims will be verified by a committee comprising scientists from DRDO and representatives from SHQs, based on documents issued by authorised agencies and presented by the vendors. The process of verifying the availability of indigenous design

and development should be completed prior to fielding of Statement of Case (SoC) for categorisation; guidelines pertaining to the same will be issued by the DG (Acquisition), with inputs from DRDO.

Buy (Indian) 'Buy (Indian)' category refers to procurement of products from an Indian vendor having a minimum of 40% IC on cost basis of the total contract value. Apart from the overall IC as detailed above, the same percentage of IC will also be required in (a) Basic Cost of Equipment; (b) Cost of Manufacturers Recommended List of Spares (MRLS); and (c) Cost of Special Maintenance Tools (SMT) and Special Test Equipment (STE), taken together at all stages, including FET stage.

Buy and Make (India) 'Buy & Make (Indian)' category refers to an initial procurement of equipment in Fully Formed (FF) state in quantities as considered necessary, from an Indian vendor engaged in a tie-up with a foreign OEM, followed by indigenous production in a phased manner involving Transfer of Technology (ToT) of critical technologies as per specified range, depth and scope from the foreign OEM. Under this category of procurement, a minimum of 50% IC is required on cost basis of the Make portion of the contract. This implies that in the Make portion of the contract, minimum 50% IC will be required in the total of (a) Basic Cost of Equipment; (b) Cost of Manufacturers' Recommended List of Spares (MRLS); and (c) Cost of special Maintenance Tools (SMT) and Special Test Equipment (STE). The proportion of MRLS to be made/assembled in India, if any should be specified at the time of AoN. Acquisition under this category can also be carried out without any initial procurement of equipment in FF state.

Buy and Make 'Buy & Make' category refers to an initial procurement of equipment in Fully Formed (FF) state from a foreign vendor, in quantities as considered necessary, followed by indigenous production through an Indian Production Agency (PA), in a phased manner involving Transfer of Technology (ToT) of critical technologies as per specified range, depth and scope, to the PA. With a view to maximize indigenous production in each procurement case, the AoN according authority would approve either an appropriate ratio of Fully Formed (FF), Completely Knocked Down kits (CKD), Semi

Knocked Down kits (SKD) and Indigenous Manufacture (IM) kits; or a minimum percentage of IC on cost basis for the 'Make' portion of acquisitions under 'Buy and Make' category. Acquisition under this category can also be carried out without any initial procurement of equipment in FF state.

Buy (Global) 'Buy (Global)' category refers to outright purchase of equipment from foreign or Indian vendors. In case of procurement through foreign vendors, Government to Government route may be adopted, for equipment meeting strategic/long term requirements.

Make Acquisitions covered under the 'Make' category refer to equipment/system/ sub-system/assembly/sub-assembly, major components, or upgrades thereof, to be designed, developed and manufactured by an Indian vendor, as per procedure and norms detailed in Chapter III of the DPP¹⁰.

ABBREVIATIONS AND ACRONYMS

DPSU	Defence Public Sector Undertakings
IDDM	Indigenously Designed & Developed Manufactured
RFP	Request for Proposal
SHQ	Service Head Quarters
SQR	Services Qualitative Requirements
SCAPCC	Services Capital Acquisition Categorisation Committee
OEM	Original Equipment Manufacturer

REFERENCES

1. *DEFENCE PROCUREMENT PROCEDURE 2016 CAPITAL PROCUREMENT, MINISTRY OF DEFENCE* (www.mod.nic.in)
2. *Ibid*
3. *Ibid p.10 and 16*
4. *Ibid p. 12*
5. *Ibid*
6. *The Economic Times Bureau, 21 Mar, 2016*
7. *Economic Times Bureau ,28 Mar, 2016*
8. *Report of the Committee of Experts for Amendments to DPP-2013 Including Formulation of Policy Framework July 2015 p.32-33*
9. *Defence Procurement Procedure 2016 p. 53-59*
10. *Ibid p 2-3*

Buying Priority Chart

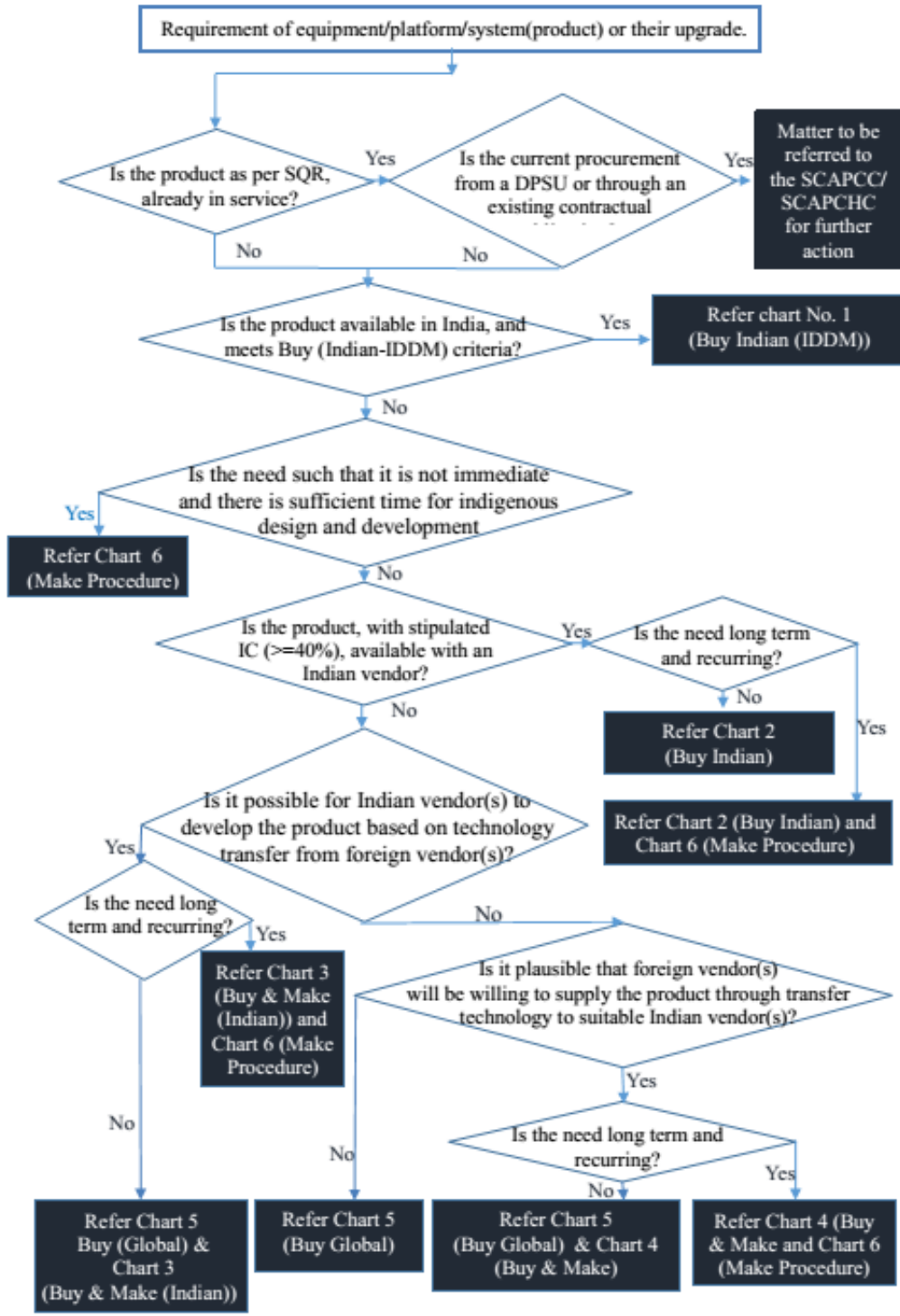


Chart 1 - Buy Indian (IDDM)

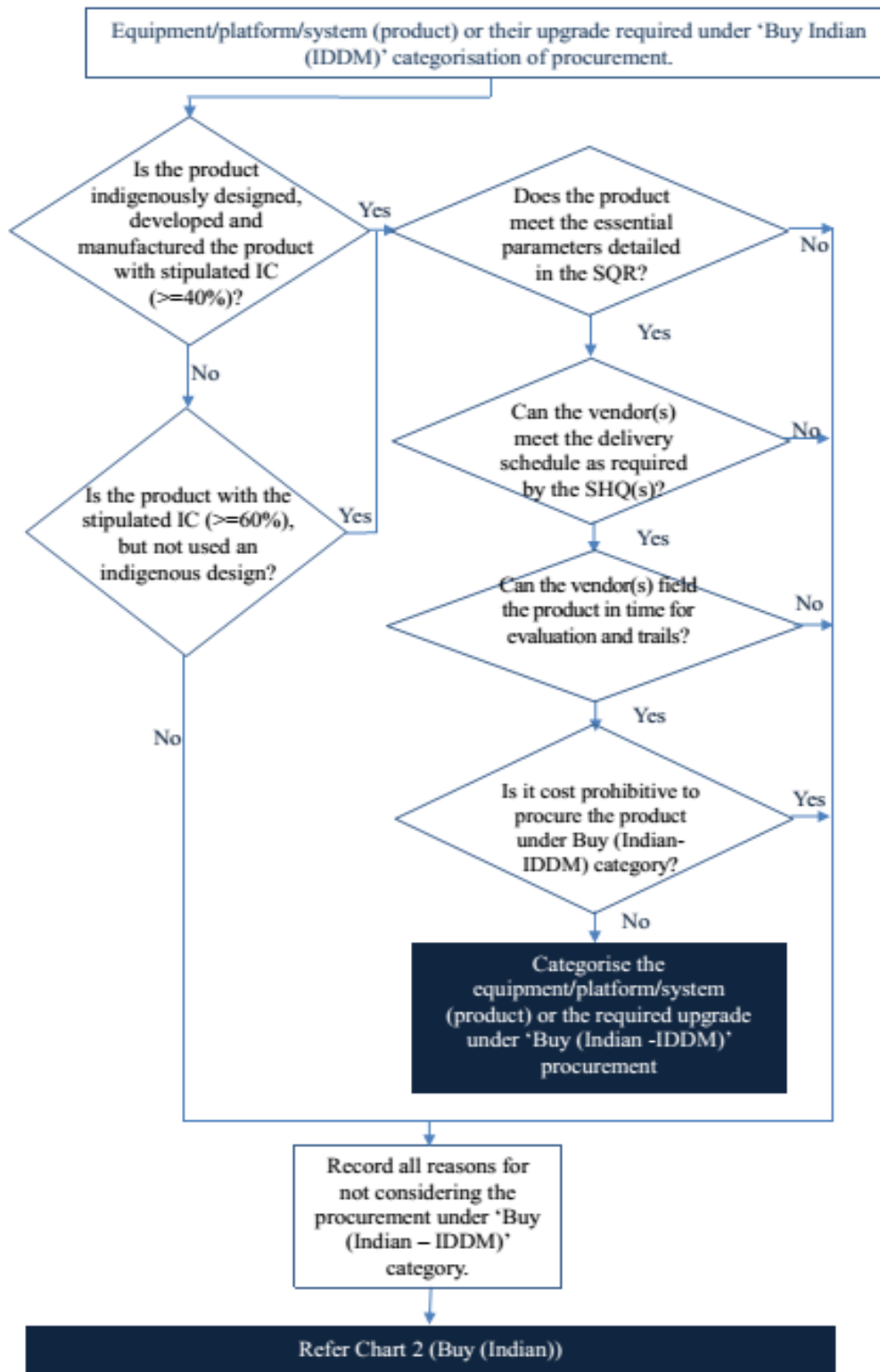


Chart 3 – Buy & Make (Indian)

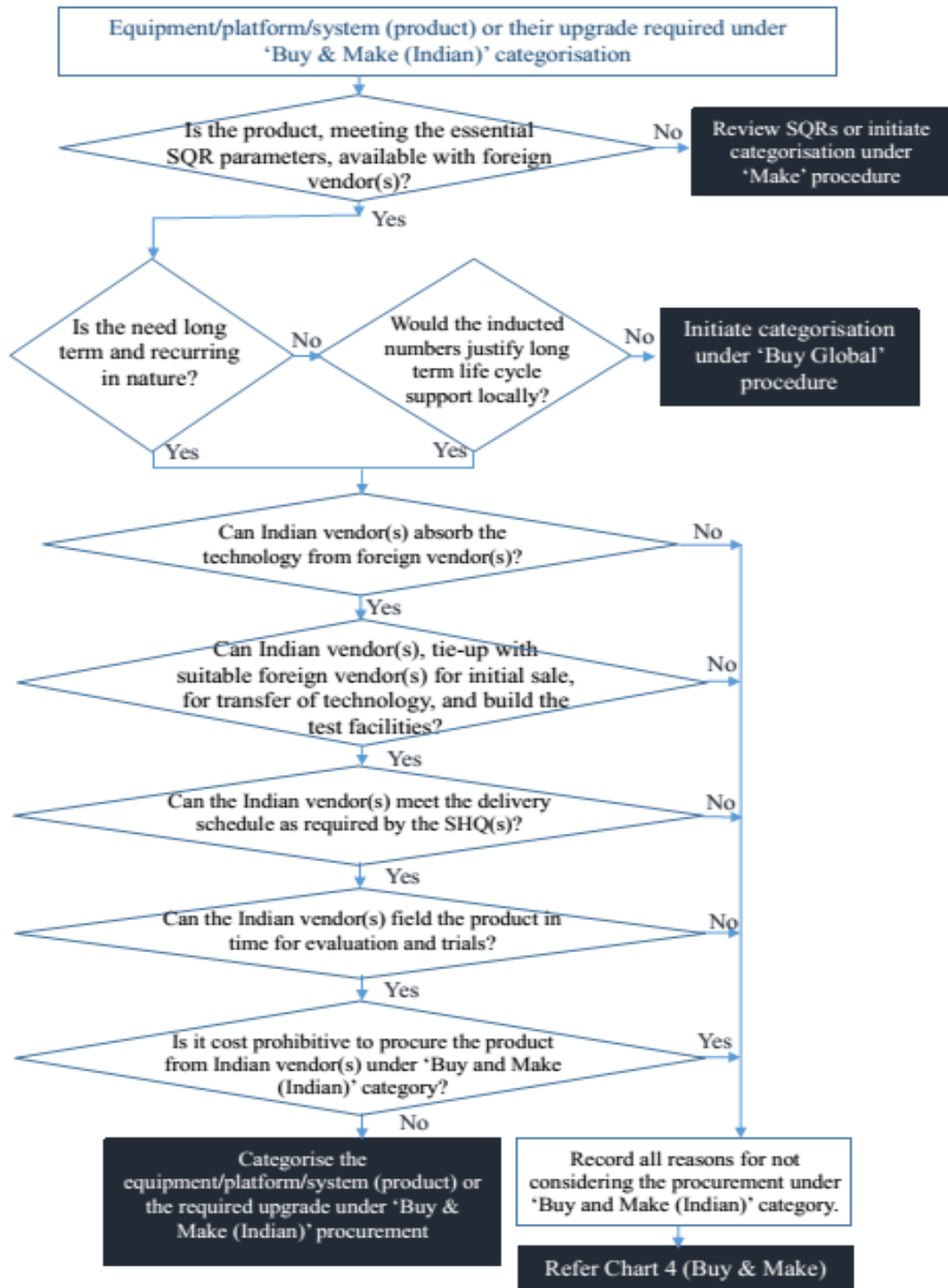


Chart 4 – Buy & Make

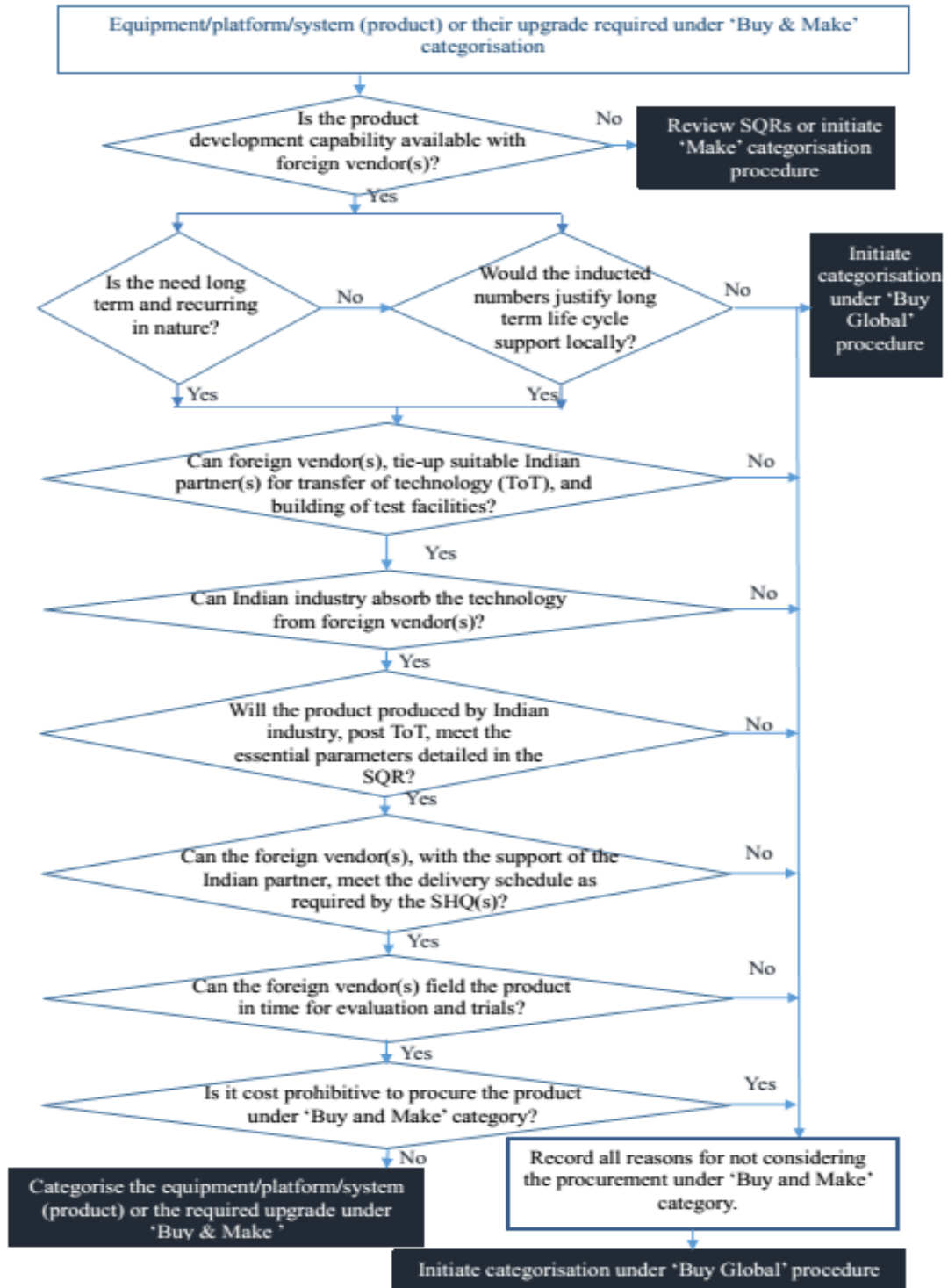


Chart 5 – Buy (Global)

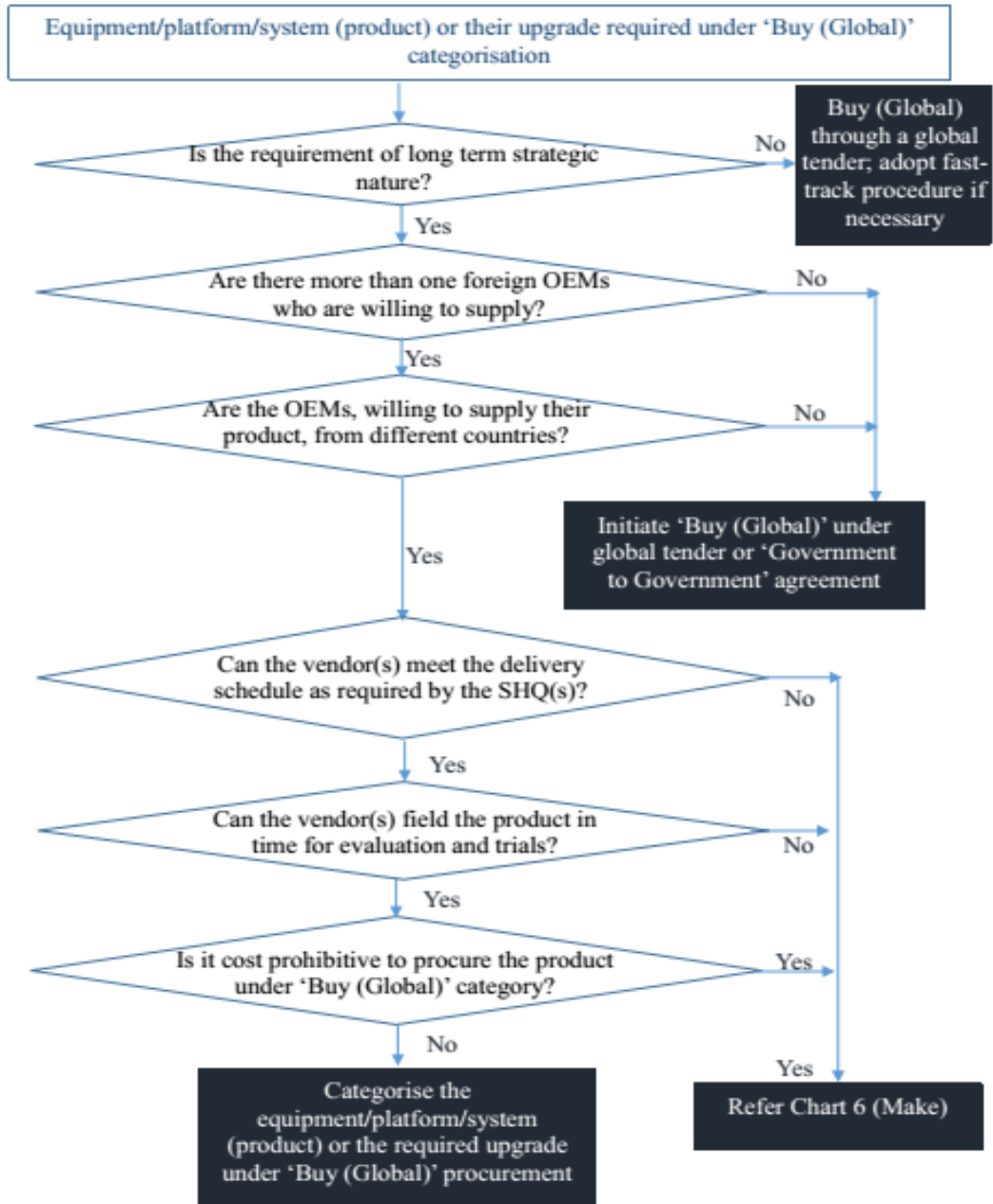


Chart 6 – Make Procedure

