

Firming Up the “Buy”, “Buy & Make”, and “Make” Decision and Relevance of Pre-feasibility Study

Alok Perti*

The Government has professed its inclination to promote indigenous production of defence products over and over again but unfortunately something seems to be holding the ministry back in taking on the issue wholeheartedly. In order to go full steam on the bandwagon of indigenization.....Scrap the present elaborate categorisation process completely and replace it by a simpler process....

Introduction

The Union Minister of Defence, Mr. A.K. Antony, in his 'foreward' to the Defence Procurement Procedure (Capital Procurement)-2008 has noted that acquisition of defence equipment is a complex and intricate process which needs to meet the twin objectives of modernisation of the Armed Forces within reasonable time frames while conforming to the highest standards of transparency, probity and public accountability. Despite the observation that the procurement process is complex, the history of defence procurement in India indicates that complexity has multiplied with the amendment to the schedules attached to the Industrial Regulation Act carried out in the year 2001. In this amendment the defence industry hitherto reserved for the Public sector was thrown open to the private sector to participate in defence production, but under licence. The Ministry of Defence, after the Kargil Episode had set up a mechanism to review various aspects of the National Security System and one of its major concerns was the procurement of defence equipment. In 2001 the ministry came out with the notification setting up the Defence Procurement Organization. The Defence Acquisition Council (DAC), headed by the Raksha Mantri was constituted under this new organization. This highest body was entrusted with the responsibility of approving the long term perspective plans of the armed forces and accord the Acceptance of Necessity in each case of capital acquisition. This process of according the Acceptance of Necessity (AON) involved the categorisation of items into “Buy”, “Buy & Make” and “Make”. All these changes necessitated modifications to the existing procurement procedures, making them elaborate and more transparent. Therefore, in 2002 the ministry brought out for the first time detailed procedures and subsequently also posted them on their website.

* Alok Perti is an Additional Secretary in Ministry of Coal, GOI.

This paper is dealing with the issue of firming up the categorisation of items in defence procurement. Apart from this there is a linked issue of conducting pre-feasibility studies wherever it is felt that there is a need.

Definitions

The terms “Buy”, “Buy & Make” and “Make” were generally understood in defence procurement as stated below:

The items which were not produced in the country and are not locally available for various reasons such as non-availability of technology, requirement being of very small numbers and that production through the route of transfer of technology is financially not viable were categorised as “Buy”.

The items which were not available in the country, but were required in sufficient numbers, making the manufacture of the item in the country through the route of transfer of technology financially and technically viable were categorised as “Buy & Make”.

The items which were available in the country or could be manufactured in the country with the available or known technology were categorised as “Make”. There are some items which have to be developed internally as they employ technologies which come under a denial regime are also clubbed in this category.

These definitions were being used for several years. In the year 2006 the government in pursuance of the objective of increasing private sector participation in defence production and the recommendations made by the Kelkar Committee formulated a separate procedure for “Make” projects. Looking at the various modalities in which the industry would attempt to enter production of defence products within the country it became necessary to redefine the terms “Buy”, “Buy & Make” and “Make”. In 2006 and later in 2008 the DPP contains in paras 4 and 5 the revised definitions of these terms. These paras have been reproduced below:

Para 4 of DPP

Capital Acquisitions are categorized as under: -

Acquisitions Covered under the “Buy” Decision. Buy would mean an outright purchase of equipment. Based on the source of procurement, this category would be classified as “Buy (Indian)” and “Buy (Global)”. “Buy (Indian)” would mean Indian vendors only and “Global” would mean foreign as well as Indian vendors. “Buy Indian” must have at least a minimum of 30% of indigenous content if the systems are being integrated by an Indian vendor.

Acquisitions covered under the “Buy & Make” decision would mean purchase from a foreign vendor followed by licensed production / indigenous manufacture in the country.

Acquisitions covered under the “Make” decision would include high technology complex systems to be designed, developed and produced indigenously.

Para 5 of DPP

Upgrades: All cases involving upgrade to an in service weapon system / equipment will also be covered by this procedure. Such cases could be categorised under any of the categories as given in Para 4 above. The categorisation may be carried out depending on scope of the proposal, availability of technology indigenously and the need for seeking critical technologies from foreign vendors.

Apart from these definitions, which were formulated for the first time in 2006 when the DPP was revised, there are several references in the procurement procedures which tend to give other aspects of these terms. The most relevant is the provisions made in the “Make” procedure where these terms have again been defined or explained. The related paragraph (3) is -

Para 3 of DPP

The report of the Kelkar Committee on review of Defence Procurement Procedure had recommended an integrated approach involving Users, Ministry of Defence and the Industry in the “Make” procedure. DRDO should concentrate on projects requiring sophisticated technology of strategic, complex and security sensitive nature. Outsourcing of Research and Development work of high technology to private sector should be on the lines of parallel development for which the cost should be shared. A minimum order quantity to sustain the financial viability of development within the time schedule should be spelt out to encourage private sector participation. These recommendations of the Committee have been accepted by the Government for implementation. The procurement through indigenous development would be divided into following categories:-

- Strategic, Complex and Security Sensitive Systems. These projects would be undertaken by DRDO. The development of these systems would be as per the DRDO procedure and would utilise DRDO funds for execution. These projects would be managed through Defence R&D Board.
- Low Technology Mature Systems. These projects would be categorised

as “Buy Indian” and must have minimum 50 per cent indigenous content.

- High Technology Complex Systems. Projects under this category would be identified as “Make”. These projects would be undertaken by RURs/ Indian Industry / DPSUs /OFB/ Consortia on a level playing field. This procedure would also be adopted for all upgrades categorised as “Make”.

In addition to this, there is also the issue of Turnkey Projects. In this connection we may refer to Para 45 of DPP 2008, which is reproduced below.

Turnkey Projects

There are cases where the project involves establishment of maintenance / overhauling facilities or infrastructure for an equipment or Turnkey projects involving establishment of communication facilities along with associated infrastructure at number of locations in the country. The scope of such projects is large and varied involving number of activities; hence, there is a requirement of identifying a single agency capable of completing the project on a Turnkey basis. In this context, apart from the vendors listed in Para 24, reputed integrators would also be considered. Being a Turnkey Project, the trials are not initially envisaged till establishment of the Test Bed and hence it is essential to select the vendors with requisite capabilities prior to issuing RFP. For such cases a Detailed Project Report (DPR) would be worked out by the concerned SHQ. It should lay down the detailed scope of work involved, bill of material, approximate cost estimates and the time frame for project completion. This report should be placed before the GSEPC for ratification. The DPR would be forwarded to the SCAPCC/ SCAPCHC along with the Statement of Case while seeking the AON and categorisation. In certain complex cases the DPR may be outsourced by SHQ, the justification of which may be given in the statement of case for seeking the AON. Consequent to the AON a committee would be formed comprising of representatives of user directorate, maintenance directorate, DRDO, DDP, Def (Fin), Technical Manager and any other agency as deemed necessary for carrying out the selection of the prospective vendors who would be issued the RFP. The sequence of procurement procedure in such cases would be:-

- Making of a Detailed Project Report.
- Acceptance of Necessity.
- Selection of Vendors.
- Issue of RFP.
- Technical Evaluations to shortlist the prospective vendors.
- Price Negotiations.
- CFA Approval and Contract conclusion.

- Establishment of Test Bed.
- Project Implementation.

Again there is another reference in the format in Appendix I of DPP2008 (Brief of the case etc.) where the service hq is expected to indicate their recommendations on categorisation. The relevant paragraph (6) is reproduced below;

Recommended Mode/ Source of Acquisition.
Buy, Buy & Make, Buy/Make and Make with justification.

The definitions given in DPP2006/2008 have introduced two new terms “Buy Indian” and “Buy Global”. From the definition it appears that in case there is a product which is being integrated by an Indian manufacturer and has 30% indigenous content then the ministry will resort to procurement from India vendor only. However, in the procedure for “Make” the same percentage of indigenous content has been raised to 50% for treating it as items to be procured as one categorised as “Buy Indian” with the only difference that it should be an item based on Low technology matured systems. Further, in the case of High Technology Complex Systems the procurement can be made using the 'Make' procedure without any stipulation regarding indigenous content though indirectly it can be inferred that only items which when developed by local industry have at least 30% indigenous content will really qualify. In case of turnkey projects the categorisation can only be “Buy” or “Buy & Make”. There is no scope for any Indian industry to take a lead role in any turnkey project because by its very nature it is most likely to be a “Buy & Make” item.

Procedure for categorisation (As per provisions of Chapter-I of DPP2008-“Buy” and “Buy and Make” category)

According to the DPP Headquarters Integrated Defence Staff (HQIDS), in consultation with the Service Headquarters (SHQs), is expected to formulate a 15 years Long Term Integrated Perspective Plan (LTIPP) for the Defence Forces. The Five Year Defence Plans for the services would also be formulated, by HQ IDS, which would include requirements of five years Services Capital Acquisition Plan (SCAP). The SCAP should indicate the list of equipment to be acquired, keeping in view operational exigencies and the overall requirement of funds. Similarly the services would prepare the Annual Acquisition Plans (AAPs) which would be a sub-set of the SCAP. Once the AAPs are approved by the competent authorities (Defence Procurement Board/ Defence Acquisition Council) they form the basis for procurement of individual items. The service headquarters are required to formulate the GSQRs/JSQRs as the case may be in each case according to a well laid out procedure. The next step in the procurement process in the establishment of the necessity is to undertake the individual procurement which is commonly referred to as the Acceptance of

Necessity (AON). This action is undertaken in accordance with the para 18 & 19 of the DPP 2008, relevant portions of which are reproduced below:

In order to seek Acceptance of Necessity, the Service Headquarters would prepare a Statement of Case as per format at Appendix .A. (Annexure 1 of this paper) to the DPP -2008. Four copies of the Statement of Case would be prepared, justifying the procurement proposal. One copy each would be forwarded to DDP, DRDO, MoD (Fin) and Administrative Branch of MoD. The statement of case would include the total quantities required, the break up based on five years plans and the quantity that is required to be procured in next two years. The quantity vetting would be recommended by the Administrative Branch in consultation with MoD (Fin). The quantities duly vetted along with other comments on the proposal would be sent back to the SHQ by DoD and MoD (Fin). DRDO and DDP will also forward their comments to Service HQ, who would then compile all the comments and give their final views. The statement of case along with all the comments would then be forwarded to HQ IDS which would examine aspects of interoperability and commonality of equipment for the three Services. The statement of case would then be placed for consideration of the categorisation committee (Services Capital Acquisition Plan Categorisation Committee-SCAPCC) which after taking into account all inputs, will approve cases of the three Services under the delegated powers to the three Services upto Rs. 50 crs and recommend cases beyond Rs. 50 crs and upto Rs. 100 crs to DPB and beyond Rs. 100 crs to DAC for final approval. In respect of cases of Coast Guard the categorisation committee will approve cases up to Rs. 10 crs and submit cases beyond Rs. 10 crs for final approval by DAC/DPB. In order to ensure that this process is completed in a time bound manner, each case would be processed by DRDO/DDP/MoD/ MoD (Fin) within four weeks of receipt, so that the proposals can be considered by the Categorisation Committee within a 4 to 6 week cycle.

In cases where ToT is being sought, the appropriate Production Agency (PA) would be approved by the DAC based on the recommendations of the SCAPCHC (Services Capital Acquisition Plan Categorisation Higher Committee). The PA could be selected from any of the public/private firms including a joint venture company based on the inputs from DDP and, if required, from DRDO.

The information on the basis of which the categorisation committee will make its recommendations are provided for in the brief of the proposal prepared by the service HQ in the form given in Annexure-1. The relevant information which facilitates the categorisation committee in arriving at a decision or a recommendation in the brief of the case is the following:

- Recommended Mode/Source of Acquisition.
- Buy, Buy & Make, Buy/Make and Make with justification – to be stated by the service headquarters

- Justification for Procurement from a Single Vendor (If applicable).
- Comments of HQ DRDO.
To develop and productionise items and certify lack of capability to meet the needs if above not feasible.

Comments of DDP specify capability to manufacture and supply, provide product support, time frame and approximate costs jointly with the R&D and the resources available to the industry. Also certify if such capability does not exist.

Whether Technology is state-of-the-art and ToT considered?

In cases where transfer of technology is being sought, which is the production agency identified by DDP for the same? What are the capabilities of absorption of ToT / manufacture as per requirements?

Feasibility Studies and their relevance in the process of Categorisation

Under the DPP2008 it has been provided that proposals for acquisition of capital assets flow out from the defence procurement planning process. This planning process will cover the long- term, medium-term and short term perspectives as under: -

15 years Long Term Integrated Perspective Plan (LTIPP).

5 years Services Capital Acquisition Plan (SCAP).

Annual Acquisition Plan (AAP).

Further, it is also stated that Headquarters Integrated Defence Staff (HQIDS), in consultation with the Service Headquarters (SHQs), would formulate the 15 years Long Term Integrated Perspective Plan (LTIPP) for the Defence Forces. The Five Year Defence Plans for the services would also be formulated, by HQ IDS, which would include requirements of five years Services Capital Acquisition Plan (SCAP). The planning process would be under the overall guidance of the Defence Acquisition Council. Normally we could expect the SCAP and the Annual Acquisition Plans (AAPs) to be subsets of the LTIPP but the procedure indicates that only the AAP will be a subset of SCAP, thereby giving scope to a high degree of adhoc decision making.

HQ IDS under the current procedure is expected to develop the Defence Capability Plan covering 15 years time horizon for attaining the desired

capability. For this purpose, the capabilities could be grouped into different fields like Intelligence, Reconnaissance, Surveillance, Electronic Warfare (EW), Network Centric Operations, Precision Guided Systems etc. Development of critical and security sensitive technologies leading to next generation weapon systems and platforms for Defence will remain the area of prime focus of establishments under DRDO or any other agencies of Government of India involved in such research and developments. These are the areas where indigenous technologies may not be available or may be cost exorbitant to develop by the Indian industry because of their higher research content, elaborate infrastructure requirements, long gestation periods or uncertain extent of employment by the armed forces. In areas DRDO would work jointly with Academia, Universities and other National Science and Technology establishments and through technology collaborations. All DRDO projects have faced tremendous problems in productionisation as transfer of technology from laboratory to industry has been full of difficulties and has run into serious problems when cost consideration have been probed into. The "Make" procedure formulated by the ministry is not to cover such projects but only those which involve production based on known and matured technologies and the idea is to farm out such projects to the RURs/DPSUs/OFB or a consortia of these entities.

HQ IDS would be responsible for undertaking feasibility studies of all projects under the LTIPP. The aim of this study would be to identify the projects which DRDO, DPSUs, Indian Industry/Consortia has the capability to design and develop within the timeframe required by the respective Services.

The acquisition process for this procedure would commence with the issue of Defence Planning Guidelines. HQ IDS besides formulating the Defence Capability Plan Document and the LTIPP would order feasibility study for each project of LTIPP. The procedure contains a paragraph on the "Feasibility Study" which is to be taken up for each project in LTIPP after SQRs (Preliminary Staff Qualitative Requirements) have been formulated. The same is reproduced below-

Feasibility Study

HQ IDS would be responsible for undertaking feasibility studies of all projects under the LTIPP. The aim of this study would be to identify the projects which DRDO, DPSUs, Indian Industry/Consortia has the capability to design and develop within the timeframe required by the respective Services. This study could either be undertaken by respective service or any Other agency as nominated by HQ IDS and would have the representatives from DRDO, DGQA, Industry, Department of Defence Production (DDP), HQ IDS

and MoD). HQ IDS May engage consultants to assist the Study Group as required. Functioning of the Study Group would be monitored periodically as decided in the convening instructions by the Joint Planning Committee.

The study group report must bring out cost benefit analysis, spin offs and would give recommendations on the capability to undertake projects under “Make” category within the country. As per the flow chart given in the “Make” procedure this study group is to put these projects into the three categories indicated below:-

Under the “Make” procedure we have three categories:

- Strategic, Complex and Security Sensitive Systems. These projects would be undertaken by DRDO.
- Low Technology Mature Systems. These projects would be categorised as “Buy Indian” and must have minimum 50 per cent indigenous content.
- High Technology Complex Systems. Projects under this category would be identified as “Make”. These projects would be undertaken by RURs/ Indian Industry /DPSUs /OFB/ Consortia on a level playing field. This procedure would also be adopted for all upgrades categorised as “Make”.

Firming up Categorisation : Issues and Discussion

The various portions of the DPP2008 which impinge upon the issue of categorisation have been reproduced in the paras above. This may not be exhaustive but contain the most relevant. The issues and discussion on the subject is being taken up category-wise.

“Buy Indian”

This has been defined by prescribing a minimum indigenous content of 30% and 50%. The basis for arriving at this minimum level is not clear. It is neither any convention nor any scientific analysis on the basis of which this figure has been arrived at. Further, it is also not clear as what constitutes low technology. The study group undertaking feasibility study in the 'Make" procedure is to indicate which item is to be treated as one of low technology. Without any pre-determined guiding principles this is likely to lead to arbitrary decisions. Again, there is no weight-age given to criticality of the indigenous content nor to design

capability. As per the procedure, this assessment of content will be done initially by the service headquarters, then later by the Dept of Defence Production and also by DRDO when the matter comes to the SCAPCC in “Buy” and “Buy & Make” cases.

There is no dedicated set-up in DDP or DRDO to inspect the industries and make such assessments. Moreover, the time given is four weeks which itself is fairly restrictive. The result is that DDP invariably requests one of the DPSU's to undertake this work. The DPSU will first look at its own business interest and then other industries. How well this assessment can be made is anyone's guess. Therefore, only items which have been procured in the past from local industry can be put in this category and it will be almost impossible to categorise any new item as “Buy Indian”.

“Buy Global”

As per the provisions in the DPP2008, “Buy Global” means Indian as well as foreign suppliers. By elimination, if there is no Indian manufacturer who is manufacturing the item and has a minimum of 30% of indigenous content the item should automatically qualify to be categorised as “Buy Global”. The addition of the phrase 'Global would mean foreign as well as Indian vendors' in the definition of “Buy Global” would imply that only those Indian vendors who have less than 30% of indigenous content will be able to take part in these tenders. There may be Joint Ventures (JV) with 26% foreign equity who are manufacturing items in India and may qualify to be considered in the tender for items categorised as “Buy Global” if the indigenous content in the item is less than 30%. Such a company would be at a tremendous disadvantage because the import of defence products are exempt from custom duty whereas the components and raw material imported by a JV company for production of the item will be subject to custom duty. It is therefore, unlikely that a JV set-up by an Indian private sector company in partnership with a foreign firm will be able to compete in such a tender. The JVs established by Defence PSU may be in a better position as they enjoy certain benefits in terms of exemption of custom duty for import of components and raw material in some cases. It is certainly not a level playing field and is tilted in favour of import from foreign sources. There appears on firm basis for

There may be Joint Ventures (JV) with 26% foreign equity who are manufacturing items in India and may qualify to be considered in the tender for items categorised as “Buy Global” if the indigenous content in the item is less than 30%.

creating this category. Since this has been formulated consequent to the acceptance of several of the recommendations of the Kelkar committee it was expected that such changes would result in enhancing the prospects of greater participation of the India industry in defence acquisitions. Unfortunately the effect of this change is quite the contrary.

As in the case of “Buy Indian” assessments about the extent of indigenous content are to be made by the service headquarters first while putting up the case to SCAPCC. The department of Defence Production and DRDO is to make inquiries and come up with an opinion within four weeks. The same limitations are noted here as well. In addition to this the 'Offset' provisions in this case are also attracted. The India company in this case will find it difficult to offer offsets and since it is not advise-able to have two separate conditions for different bidders in the same tender, no case of “Buy Global” where there is an Indian company also participating is likely to arise.

“Buy and Make”

Here there are two stages required to be examined before a decision can be taken. The time limit of four weeks for making assessments also applies here. The first issue to be addressed is that, is the proposed procurement quantitatively attractive to allow large scale production after obtaining technology and that production in India will reduce costs of the item as compared to buying fully formed ones. This requires thorough knowledge of the product and its production details. Within the time limit and the present organizational set-up it is not at all feasible for DDP to make such assessments, particularly if the queries are also to be made from private industries. Invariably the Dept of Defence Production will rely on views obtained from one of the DPSU's or the DGQA, which is not likely to be comprehensive. These decisions are usually taken on the basis of a “Gut Feeling” or with a view to getting more orders for the DPSU which the concerned joint secretary may be dealing with. The process itself does not lend itself to involve private industry and therefore the inclusion of the statement “PA could be selected from any of the Public/private firms including a joint venture company based on inputs from DDP” is rather cosmetic. Even if we presume that with such imperfection a decision is taken to move ahead on obtaining TOT for local production then the next step is to identify the PA (Production Agency). If a detailed exercise had been done at arriving at the first decision and more than one industry was identified on the basis of capability then the second step would only require cost considerations to enable DDP or DRDO to arrive at identification of one PA. There is no such practise prevailing in the DDP or DRDO to assess costs and also to compare them at this stage. Real costs can perhaps only

be obtained through the tendering process, but it will not be feasible to do so in such cases. Therefore selection of a PA under the present dispensation can only lead to picking up a DPSU or an Ordnance Factory.

As far as there is only one OEM (original equipment manufacturer) and there is one properly identified Production Agency to whom the technology transfer will take place the process of tendering (RFP or Quotation) will be reasonably straight, but in case there are several OEMs then the process is very complex. In this situation a product categorised as “Buy and Make” will be very difficult for the PA to handle as it would demand that the PA has discussions with all the OEM's and decide on the process of transfer of technology and its extent even before RFP is issued.

“Make”

Normally the service headquarters which prepares the brief of the case should first examine this aspect as to whether the item is produced, can be produced with available technology and infrastructure or can be developed and produced in the country. This requires an interaction with the industry and research and development organization like DRDO, CSIR etc. However, from the format given in Annexure –I it seems that from the very starting it is presumed that the item is not available nor can it be developed in the country. This is a legacy which needs to be shed. The making of a separate procedure for “Make” items does indicate that there is perhaps some change in the perspective. In the present process of categorisation only those items for which DRDO has already initiated development process and some very ordinary (one could term them as items produced on the basis of known and established technologies) already in production in the country can be categorised as “Make”. Under the circumstances it is inconceivable that a new item will ever be categorised as “Make”.

Under the “Make” procedure there are three categories:

- Strategic, Complex and Security Sensitive Systems. These projects would be undertaken by DRDO.
- Low Technology Mature Systems. These projects would be categorised as “Buy Indian” and must have minimum 50 per cent indigenous content.
- High Technology Complex Systems. Projects under this category would be identified as “Make”. These projects would be undertaken by RURs/ Indian Industry /DPSUs /OFB/ Consortia on a level playing field. This procedure would also be adopted for all upgrades categorised

as “Make”.

The projects taken up for development of items coming under (a) are either ones already being developed or are upgrades of already developed items. Under the process of categorisation there is no scope to initiate development of any new product unless it involves a technology which is denied under various regimes and there is no other option. As far as (b) is concerned this has been covered under the category “Buy Indian”. It is not understood why a product having more than 50% indigenous content is categorised as “Make” and also “Buy India” and if the indigenous content is between 50% and 30% only “Buy Indian”. In any case only those items which are either available of the shelf or are dual use items which are being produced for application other than defence can be put under this category. As far as (c) is concerned there is practically no scope to put any item under this category without having formulated the LTIPP and also conducted feasibility studies of the projects in the LTIPP. The ministry is struggling to categorise “Tactical Communication Systems” under this category not because it deserves to put under this category but the ministry is unable to put it under any other category.

Relevance of Feasibility Studies

The preliminary reading of the “Make” procedure indicates that HQIDS will prepare LTIPP and institute feasibility studies for each project. The report of the study group is expected to give some indication on the existence of capabilities in the country and suggest the procedure to be adopted for acquisition of the item, if the proposal is to be categorised as 'Make'. This implies that the HQIDS will first examine the possibility of categorising the item as make and then only move forward. This is perhaps the spirit behind the policy of seeking greater participation of local industry in Defence Production for particularly big wicket items. Unfortunately till the LTIPP becomes a reality and is a working document this policy change is unlikely to bear fruit. Currently the preparations of Annual Acquisition Plans which are supposedly subsets of the five year capability plans do not follow this route. The process of making the LTIPP and consequently instituting feasibility studies and also awaiting reports of the study groups is time consuming and it would not be possible to adhere to time schedules given in the 'Buy” and “Buy and Make” procedure for approving the APPs if this process of is to be followed. Therefore, the Service headquarters makes the brief of the case as per the prescribed format in which there is no mention/reference to the report of the study group. The result is that scant regard is paid to the issue of local capability, mainly because the organisational structure of the acquisition wing, Department of Defence Production and HQIDS is not attuned to this type activity. Moreover, the time given for such examination by organisations like DDP or DRDO is only four weeks which is quite inadequate.

Recommendations and Conclusion

The intention behind setting up of the committee under chairmanship of Dr. Vijay Kelkar was to examine and recommend changes in the acquisition procedure to ensure higher participation of local private industry in Defence Production. The recommendations were made with this basic objective in mind and the government has accepted most of the major recommendations. The government has also made a concerted effort to modify the procurement procedure to include some of the recommendations accepted by the government, but the manner in which these recommendations have been translated into provisions of the procedure has not resulted in any outcome which was envisaged by the Kelkar Committee while making these recommendations. The linking of the injection of private sector industry in Defence Production to a much more rigorous and lengthy process coupled with the introduction of two “Buy” categories has resulted in practically ensuring that no change takes place and the position of the private sector industry remains by and large static as far as defence production is concerned. The Government has professed its inclination to promote indigenous production of defence products over and over again but unfortunately something seems to be holding the ministry back in taking on the issue wholeheartedly. In order to go full steam on the bandwagon of indigenisation the following is recommended:

- Scrap the present elaborate categorisation process completely and replace it by a simpler process based on the following general principles:
- Explore every possibility of manufacturing the item required in India, even it means only assembling SKDs with very minimal value addition by a local industry. The idea being that even such assembling is going to bring some better knowledge and understanding for the industry and their trained manpower in India. Progressively increasing the value addition being done by the local Industry should be rewarded through a scheme of incentives. No price preference should be given.
- The method of setting up manufacturing in India could be through establishment of JV, collaborative arrangements or even by purchase of technology by the industry. Government should not make exclusively direct payment for technology, but instead encourage the industry to take the initiative and workout arrangements so that this cost of technology is merged in the cost of the manufactured item and the industry which is able to reduce production cost through increased efficiency and use of local material is advantaged.
- The government should come up with an incentive scheme which

encourages easy transfer of technology from foreign sources and manufacture in the country. The scheme should contain provisions for higher incentives for greater value additions by local industry and also transfer of critical technologies.

- Only when there is no possibility of manufacturing in the country at more economical prices (cost being assessed after neutralising the effect of taxes and duties) should the MOD resort to direct purchase from foreign sources.
- There may be a few cases where the item listed in the LTIPP is manufactured only by one industry in the world. In such cases the MOD should adopt an approach similar to the FMS (Foreign Military Sales in USA) or a direct government to government negotiation. Further in such cases if MOD desires to have licensed production in the country following purchase of fully formed items they should follow the procedure presently being used for “Buy and Make” items.
- The five year capital acquisition plan (SCAP) should be a subset of the LTIPP and should list up items required to be acquired during that period and also items for which acquisition process needs to be initiated during the same period. In each case the MOD needs to approach the industry through a tendering process, except where there is a development effort required, production and integration of platforms or it is a case of having a Turnkey Project. In other words where it is felt that acquisition should be done on the basis of a detailed project and all decisions may not be possible before the project is launched, the process needs to be slightly different. Such cases should be treated like “Make’ projects where the major Indian Industries (RUR) should be allowed to come with projects which can be compared and those found technically acceptable should be allowed to compete. The issue of feasibility will get addressed in the examination of the project proposals. The process would need to be initiated by bringing out a concept paper on the basis of which MOD may seek project proposals from the short listed industries.
- This approach would require a higher degree of transparency and the best method would be to share information contained in the LTIPP/SCAP/AAPs with the industry. 

Annexure-1

BRIEF OF PROPOSAL BEING CONSIDERED BY DEFENCE ACQUISITION COUNCIL/ DEFENCE PROCUREMENT BOARD FOR CATEGORISATION AND ACCORD OF AON

NAME OF PROPOSAL -

SERVICE -

CATEGORISATION STATUS -

(a) SCAPCC -

(b) SCAPCHC -

(c) DAC -

REFERENCE NO ALLOCATED - To be entered by HQ IDS

(a) SCAPCC -

(b) SCAPCHC -

(c) DAC -

BRIEF OF PROPOSAL

1. Introduction.

2. Proposal. (Generic in nature and desired capability indicators)

(a) Mission Needs.

(b) How Mission Currently Undertaken.

(c) Deficiency in Capability Observed which Needs Rectification.

(d) Whether Changes in Doctrine/Tactics Cannot Overcome the Void without a Material Solution?

(e) Material Solution Proposed with Time Frame and Linkage to LTIPP.

(i) What is the capability being sought to be inducted.

(ii) What additional capability is being generated? How does this mesh with the long term capability requirements?

(iii) Is there any other associated induction required subsequently to make the equipment operational?

(iv) Which equipment is being phased out / replaced? What will be the life cycle of the new equipment?

3. Detailed Justification. The following aspects to be included, where applicable:-

(a) Details of Equipment/Proposal.

(b) Operational Role and Necessity.

(c) Quantity Required (This should be vetted by Def (Fin) prior to SCAPCHC meeting).

(i) How have the quantities required been worked out? What are the details of quantities required for operational units, training and WWR? What are the details on the scaling of the item?

(ii) In case of phased induction of equipment, what are the exact quantities sought during various plan periods / stages?

- (d) Whether Technology is state-of-the-art and ToT considered?
 - (i) In cases where transfer of technology is being sought, which is the production agency identified by DDP for the same? What are the capabilities of absorption of ToT / manufacture as per requirements?
 - (e) Whether Item is scaled /not scaled. If scaled, quote Authority.
 - (f) Maintenance Aspects.
 - (i) How is the Engineering / Maintenance support catered for the full life cycle of the equipment?
 - (ii) Is a ToT proposed for providing Maintenance Infrastructure to an Indian firm? If so, are Indian entities identified based on inputs from DDP?
 - (g) Details of GSQR/JSQR. (In case GSQR/JSQR is not formalized, major essential capabilities required and whether a development programme has been initiated with DRDO/Industry and its current status). A copy of the GSQR
 - (i) For all repeat order cases of equipment already inducted into service, are there any changes in SQRs, modifications of minor nature or upgrades of assemblies / sub assemblies involved? Would this need a commercial RFP with validation of modifications / upgrades, or issuing of a fresh techno commercial RFP of a multi vendor basis?
 - (h) Whether Proposal is for Replacement/Upgrade/New Induction making up WWR Deficiency?
 - (j) Trials. In cases where trials are not envisaged, are envisaged outside India, or through simulation, what is the exact scope for the same?
 - (k) Time Schedule for induction (To give full details of induction /delivery schedules).
 - (l) Commonality and Interoperability Aspects with other Services.
 - (m) Manpower. What is the effect of the induction on manpower requirements? How would the surplus / deficiencies be adjusted?
 - (n) Turnkey Projects. For all major Turnkey Projects, has a Detailed Project Report been prepared / attached by Service HQ laying down detailed scope of work involved, bill of material, cost estimates and time frames for project completion ?
 - (o) Single Vendor. In case of a Single Vendor Clearance, which is the vendor and what is the detailed justification for the single vendor option?
4. Financial Aspects. (to include cost of proposal and recurring expenditure, if any and the basis of cost estimation and the Base year for which the cost is indicated).
5. Annual Acquisition Plan/Budgetary Provisions.
- (a) Whether the proposal is included in the AAP (including Ser No).
 - (b) Availability of necessary budgetary provision for the current year cash outgo.
 - (c) In case the project involves cash outgo over one year, confirmation regarding inclusion of budgetary requirements for future years in the five year plan period to be given.

6. Recommended Mode/Source of Acquisition.
 - (a) (Buy, Buy & Make, Buy/Make and Make with justification).
 - (b) Justification for Procurement from a Single Vendor (If applicable).
7. Comments of HQ DRDO.
 - (a) (To develop and productionise items and certify lack of capability to meet the needs if above not feasible).
 - (b) Offset Clause (Proposals above 300 Crs). (Recommendation as to the offset amount / percentage or any other comment).
8. Comments of DDP.
 - (a) (To specify capability to manufacture and supply, provide product support, time frame and approximate costs jointly with the R&D and the resources available to the industry. Also certify if such capability does not exist).
 - (b) Offset Clause (Proposals Rs 300 Crs or more) (Recommendation as to the offset amount / percentage or any other comment).
9. Comments of DoD. (To recommend the quantities to be procured along with other comments).
10. Comments of MoD (Fin).
11. Final Comments of Service HQ Based on inputs of DRDO and DDP. Details to be mentioned by HQ IDS
12. Comments of HQ IDS. (The issues of commonality and interoperability will be duly commented upon)
13. Recommendation of SCAPCC including Reference No Allotted.
14. Recommendation of SCAPHC including Reference No Allotted.
15. Decision of DAC and Reference No allotted.
16. Recommendation for Offset Clause Implementation (if applicable).