



CENJOWS

DRAFT DPP 2020: IMPETUS TO DEFENCE PROCUREMENT

By

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1. The draft DPP 2020 has been put in the public domain by MoD for comments of the stake holders so that it can suitably implement the views of all concerned. Putting the DPP in the public domain for comments is a welcome step and points towards increased interaction and involvement of the MoD with the other stakeholders to work together in improving the existing system. The draft DPP 20 is the next revision after DPP 16, which mandated the next revision after three years; however a number of amendments (47 in Nos) were carried out during the course of the period to make the procedures more user friendly. These were amalgamated by business process engineering and the updated DPP 16 was taken out in Nov 19. The draft DPP 20 has recommended the next revision after a period of five years which is a welcome step in the right direction as a system needs to be tested during execution before it can be reviewed and the DPP requires this kind of time period to stabilise. Frequent changes in this complex procedure are confusing for all the stake holders and are not desirable. If some aspects truly hamper smooth functioning, then suitable amendments may be processed, which have been catered for in the draft DPP (Ref Paras 27 & 28 of Chapter I)

2. The DPP 20 builds upon the previous versions and is aimed 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 focus of the DPP with an ultimate aim to develop India as a global defence manufacturing hub. The **only change in the stated aim** of DPP 20 from the previous version is the inclusion of the **aim to develop India as a global defence manufacturing hub** which is not only eminently desirable for self reliance but also aligned with the Make in India philosophy.

3. The amendments and additions in the Draft DPP 20 are highlighted in the subsequent paragraphs, but before going into the details of these it would be pertinent to understand the Terms of Reference which were kept in mind while reviewing the DPP. The Major thrust areas can be broadly classified along certain policy aspects dictated by the TORs. These are as follows:-

(a) **Terms of Reference:-**

- (i) Remove procedural bottlenecks & hasten acquisition.
- (ii) Optimise life cycle support.
- (iii) Greater participation of Indian Industry for robust base.
- (iv) Examine & incorporate new concepts.
- (v) Promote Indian Start-ups and R & D.
- (vi) Support 'Make in India' initiative.

(b) **Major Policy Issues Addressed:-**

- (i) Ease of Business or simplify the procedure.
- (ii) Thrust to Make in India and increased self reliance in defence manufacturing.
- (iii) Asserting life cycle support and flexibility in maintaining of eqpt.
- (iv) Impetus to MSMEs, exploit ideas and innovation and local materials, intro of new concepts and ideas.
- (v) Introduction of favourable commercial terms.
- (vi) Emphasis on post contract management, review of offset clauses and additional clauses in standard contract document

which will strengthen post contract management.

4. Each of the above mentioned Policy aspect will be analysed to see whether these will aid in faster and streamlined procurement as also achieve the terms of reference laid down.

5. **Ease of Business or Simplify the Procedure**. This is the most important aspect which affects procurements. All the policy changes should ultimately lead to simplification of the processes so that the required capabilities are built up in time. The main aspects pertaining to ease of business which have been incorporated are as follows with certain suggestions for further improvements:-

(a) Timelines for RFI formulation, comments by agencies and timelines for SQR formulation have been introduced which is an excellent step. Previously the timeline calculations were linked with the issue of AON and the timelines for activities prior to this stage were not actively monitored, thus causing delays. The present amendments will help in greater monitoring and faster procurements as given in para 181 of Ch II. In order to improve the system further, it is recommended that the timelines be factored from the time the AAP is approved and linked to the financial year so that all steps included RFI, fielding the SOC for AON, etc are also monitored and linked chronologically to the first step in the cycle and with the commencement of FY.

(b) A SQR formulation committee has been laid down for the formulation of SQRs. It will be presided by a Brig rank officer and will have all stake holders as members. This will further streamline the SQRs. The SQRs have been sub divided into Operational, Technical and Maintainability & Ergonomic parameters. Timelines for finalisation of SQR has been laid down as six months. These will hasten the cycle.

(c) SQRs can now be amended till the issue of RFP. This is a welcome step as it will allow greater scrutiny of the SQR till the RFP stage and the likelihood of faulty SQRs will reduce. Option for changes in SQR after the issue of RFP, with due approval of the AON according authority has been included. This will allow for corrections in some cases where problems emerge at a later stage.

(d) The efficacy of having essential parameter A, B and enhanced parameter within SQRs can be reviewed. It can be studied as to how many cases have been progressed with these parameters since they came into being and if the numbers are insignificant, these can be

done away with and only SQRs with its subdivisions as give above be included. This will simplify the procedure further.

(e) AON process has been simplified with a single stage approval for all cases except those approved by DAC (>500 cr). Timelines for AON have also been linked to SQR (six months / one year from finalization of SQR). It is recommended that this should be linked to approval of AAP as given above.

(f) RFP format has been modified and is more detailed. The RFP format now includes Non disclosure aspect, confidentiality clause, IC content, pre qualification criteria and obsolescence management which are important and required for transparency and streamlining the system.

(g) The trials have been covered in great detail including Trial methodology. This is one of the most important aspects in procurement cases and DPP 20 has addressed a number of imp issues which include documentation/certification over physical trials, More opportunities for in-situ repairs / modifications during trials, inclusion of QAP standards in the trial methodology, trials be conducted under the trial wings, guidelines for formulation of trial methodology and trial directives. All these will streamline the procedure and assist in faster procurement. It is recommended that timeline for finalisation and issue of trial directive, consequent to the acceptance of TEC should also be laid down.

(h) Procurement of common use items which are non military grade /COTS from GeM have been included in the draft DPP.

(j) The erstwhile SCAPCHC has been renamed as Services Procurement Board (SPB) and will now be primarily dealing with the delegated power cases. All other cases will be dealt by DPB / DAC. It is not clear whether all the cases will be fielded through SPB or not? It is recommended that all cases should be discussed at SPB also as the detailed discussions at the SPB level gives greater clarity to the cases at AON stage which affects various aspects pertaining to categorization, ToT, maintenance philosophy, MToT, IC content etc. DPB / DAC are at a higher level where these issues may not emerge, also all cases coming up at DPB/DAC should have undergone adequate scrutiny of various facets of the case prior to being fielded there.

(k) Certain references of paras give in the text are incorrect e.g in

paras 43-46, 150, 169 Chapter II. The appces also need to be put in sequence with the correct references. Most of the appces have now been appended after Chapter II and the sequence needs to be corrected e.g after all the Appces of Schedule I finish, Appx D to Ch II starts followed by Appx A. It is recommended that the appces relevant to RFP format only be placed after Chapter II while the others should be put after Chapter I in the correct order.

6. **Thrust to Make in India and Increased Self Reliance in Defence Manufacturing.** This aspect has been the subject of much focus since the last few years; however the expected growth in the indigenous defence industry has been slow. The new DPP 20 aims to put this aspect in fast track with a number of steps taken for encouraging this. These are as follows:-

(a) Increased IC in all cases will give a boost to Indigenous manufacture as given in most categories of acquisition. The details are as follows:-

<u>Ser No</u>	<u>Category</u>	<u>DPP16</u>	<u>Proposed</u>
(i)	Buy (Indian IDDM)	Min 40%	Min 50%
(ii)	Buy Indian	Min 40%	Indigenous design - Min 40%, otherwise - Min 60%
(iii)	Buy and Make (Indian)	Min 50% of Make	Min 50% of Make
(iv)	Buy & Make	-	Min 50% of Make
(v)	Buy (Global – Mfr in India)	-	Min 50%
(vi)	Buy Global	-	Min 30% for Indian Vendors

(b) IC reporting is now only by the Prime Vendor and Tier I & II sub vendors. The computation of IC has been explained in great details in Paras 5-9 of Appx B to Ch I along with a new performa (Annx I) which will reduce ambiguity. Encouragement to indigenous material and software by vendors has been put in focus.

(c) 'Make' Chapter has been constructed in detail and emphasis on Ideas and Innovations has been given for meeting the requirements of the forces. Different types of Make projects have been well explained

and these can really rejuvenate the indigenous manufacture and increase self reliance in Defence equipment, however Strategic Partnership Model needs to be elaborated. The various Make cases included in DPP 20 are as follows:-

- (i) Make I (Government Funded upto 70%).
- (ii) Make II (Industry Funded) – to include suo-moto proposals.
- (iii) Make III (Indigenously Manufactured) for import substitution.
- (iv) Innovations to include IDEX & 'Open Competition' Approach.
- (v) Technology Development Fund (TDF) Schemes.
- (vi) D & D Projects for DRDO development.

(d) A new category Buy (Global-manufacture in India) has been introduced which will encourage global players to tie with Indian vendors for establishing facilities & JVs in India. This will boost the eco system for indigenous defence industry to be a part of the global supply chain.

7. Asserting Life Cycle Support and Flexibility in Maintaining Eqpt.

DPP 20 has covered this aspect in great detail and a number of new concepts and options have been laid out which will ease the maintenance aspect and ensure better life cycle support. The major issues covered are as follows:-

(a) Long term product support made mandatory in Capital procurement cases post warranty.

(b) A number of new concepts apart from the Engineering Support Plan (ESP), which used to be the main form of maintenance, have been introduced. These include the option of Annual Maintenance Contract (AMC), Comprehensive Maintenance Contract (CMC), Life Cycle Support Contract (LCSC) and Performance Based Logistics (PBL).

(c) The ESP has been covered in great detail however it is covered in Chapter II as well as in the RFP format (Appx K to RFP). It is recommended that it should be covered only in the appx in detail while the main chapter should outline only the important aspects. This will allow for easier comprehension and assimilation and reduce the pages as well.

8. Impetus to MSMEs, Exploit Ideas and Innovation, Use Local Materials & Intro of New ideas:-

(a) Encouragement and grants to MSMEs for Make Projects, use of in house expertise in the services for meeting their needs, used of IDEX for encouraging the academia and young professionals in coming up with solutions which can then be productionalised, additional credits in offsets, etc are some of the new steps take for boosting local industry, esp MSMEs. These will go a long way in hastening self reliance.

(b) Leasing as a category has been introduced and it should help in reducing the load on the Capital Budget in certain cases. It has been stated that this category should be fielded directly in DAC without being examined by the categorization committees. This is recommended to be amended as discussions at categorization committee offer greater clarity on the case and may well cause a change in categorization.

(c) Promoting use of Indigenous materials and software by the vendors has been encouraged and included at the RFI stage itself for focusing the vendors in this direction. However the RFI stage may be too early for vendors to be able to give such inputs. Therefore, another option could be to include details in the response to the RFP, however this may lead to non compliance of vendors and reduction in the vendor base which is not desirable. In order to obviate any reduction in vendor compliance due to this issue, it could be included in the offset offer of the vendors and this aspect can be made part of the avenues of discharge in the offsets and additional credits be given in offsets for these.

(d) Option for procuring equipment from other vendors in case the L1 vendor fails to sign the contract has been included.

(e) The modalities of executing Inter Govt Agreements as also co-development and co-production have been given in great detail and will assist in procurements.

(f) New chapter on Information and Communication Technology (ICT) has been introduced. Policy & procedures for procurement & management of integrated projects laid down.

9. **Introduction of Favourable Commercial Terms:-**

(a) Price variation clause has been included in cases with long gestation period (delivery > 60 months) & high cost (> 1000 Crores).

(b) L1 determined after including all taxes and duties, INCOTERMS mandatory as Delivery Duty Paid (DDP) for all procurement cases, Bank Guarantees (BGs) based on Contract Value less taxes and duties, Multiple BGs permitted from all Public Sector Banks and Private Banks authorised for Government transactions, Performance cum Warranty BGs at 5% of contract value, etc are some of the welcome changes introduced in the draft DPP which will assist procurement cases.

10. **Emphasis on Post Contract Management, Offset Clauses and Std Contract Document for better post contract management:-**

(a) Post Contract Management (PCM) has been streamlined and is covered in detail in a separate Chapter (Chapter VIII). Capital procurement entails different contracting agency & contract operating agency which at times causes issues in monitoring, therefore the focus is in smooth transition from pre to post contract. To bring greater transparency and accountability, post contract activities are envisaged online. These are steps which will ensure better monitoring.

(b) **Offsets:-**

(i) Preference to complete defence products over components. Multiplier for products /systems (x 1.0), for Components reduced to (x 0.5), for MSMEs (x 1.5). It is recommended that reduction for components be reviewed as this will discourage investments.

(ii) Investments incentivised through higher multipliers: In Defence Manufacturing (x 1.5), in Defence Industrial Corridors (x 2.0), for ToT to Indian Enterprises (x 2.0), for ToT to OFB/DPSUs (x 3.0), higher Multiplier for Critical Technology (x 4.0). It is recommended that the credits for ToT for both the private industry & DPSUs should be same for a level playing field.

(iii) Option for discharge through entities other than vendor/ Tier-I sub-vendor for investments/ToT on case to case basis laid

down. This is a welcome step but will need more clarity in execution.

(iv) Flexibility to provide details of products and Indian Offset Partners (IOPs) at later stage even after signing of contract.

(v) Real-time disposal of offset discharge claims & timelines for disposal of offset claims/disputes laid down.

(vi) Requirement of mandatory offsets of 70% in certain avenues of discharge has been removed which gives greater flexibility to the vendors and is a welcome step.

(vii) Facility of offset banking credits has been removed. This is recommended to be reintroduced as it incentivizes investments in periods other than when the procurement process is ongoing.

(viii) Products for inland/coastal security, civil aerospace products and services have been taken off the list of eligible products. It is recommended that the list of eligible products may include these as also software and materials being used in manufacture of eqpt for the forces.

(c) The standard contract document has been streamlined and aligned with RFP with additional clauses added which pertain to Monitoring of Project (Article 6), Title & Risk (Article 12), Serviceability (Article 39) & Survival after cancellation (Article 40). These are good changes for streamlining the process.

11. Draft DPP 20 is a well thought out document which has incorporated a number of ideas which will ensure faster procurements and also give a boost to self reliance. However as is the case in most aspects, the policy and procedures are generally well laid out, it is the interpretation and execution of these Policies and Procedures which leaves much to be desired. Eventually procurements will ultimately depend on the people involved in the acquisition chain and if the interpretation of these policies and procedures is based on hypothesis of playing 'safe' then all the changes will not be able to hasten the procurements. The basic change needed in this chain is a change of mindset, quick decision making for ensuring ease of business, reduce the negative impact of complaints especially anonymous ones and interpret the policies for furtherance of cases in the right spirit. The DPP in its earlier avatars was basically a policy document and the interpretation was left to the staff and the decision makers. Over the years, it has become too exhaustive and is aiming to lay

down all the minor details of handling and processing cases. One can understand why this has happened; basically for ease of the dealing staff and decision makers from the travails of the interpretation, where motives can be assigned. Therefore attempt is to have everything in black and white, but this reduces the flexibility and in the end, procedure and the steps in the processes become all powerful keeping speed of acquisition aside. The need of the day is to have a broad framework of rules, but more importantly a positive spirit / ethos of working with fixed timelines under which cases have to be progressed. Self reliance in defence procurements is another aspect which must be ensured as no nation aspiring for the high table of world politics can afford to have such a large burden of defence imports. Draft DPP 20 has put in place a number of measures to aid in ease of business and boosting indigenous production but has also increased in size and is becoming more complex.

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