

Procurement Strategy and Modernisation of Defence Forces

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Introduction

The aim of defence procurements (like all procurements) is to obtain for the armed forces, weapon systems and defence equipment, of the right quality, in right time, at right price. Right quality of equipment is necessary to respond effectively in war against our potential foes, to combat internal threats and to deter war. The quality of the defence equipment should be superior or at least comparable to those with our adversaries. Right time implies 'timeliness' of the weapon system at the frontline, as the procurement process whether through direct purchase or indigenous production takes time. It involves identification, acquisition, induction, training and the logistics support before deployment in the field. In case the procurement is not timely, we would again be faced with Kargil like situation where our tactical options were restricted due to lack of critical equipment.

There is little doubt that we need a streamlined procurement system, an efficient production base supported by frontline Research and Development (R&D) capability, if we have to be militarily strong to deter threats to the security of the Country. This paper examines the essentials of the procurement strategy, reviews the major reforms carried out, analyses the efforts towards self-reliance and technology induction, discusses the budgetary support, and finally suggests a few recommendations for a future strategy.

Review of Current Procurement Strategy.¹ The fact that India's defence needs are largely met by imports and only 30 per cent of our total defence requirements are provided by indigenous industry suggests that our defence procurement strategy needs a re-look. Whereas countries like China, South Korea, Brazil and Israel have become arms exporters, we remain one of the biggest arms

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importers, despite similar take-off time. Although we have developed a large defence infrastructure by establishment of 40 Ordnance factories, 9 Defence Public Sector Units (DPSUs), and 51 Defence Research and Development Organisation (DRDO) laboratories, there has been obvious imbalance in the expectations and actual performance. The main cause for this has been our over-reliance on direct purchases, setting-up licence production facilities and lack of investment in technology development, besides faulty procurement policies being pursued by officials who are not trained or equipped to manage the contracts.

We have also not been able to adapt the technologies by reverse engineering or adopt the joint production route being followed by some of the countries such as – China, Israel, South Africa, and Brazil. These countries maintain linkages with the leading arms producing countries for assured investments and technology transfer, so that arms exporters have long-term stake and incentive for successful transfer of technology and production facility. The Chinese were able to develop upgrades from the old Soviet designs for their F-7 aircrafts and T-60 tanks. The DRDO and DPSUs, although, have to their credit few world-class weapon systems i.e. Integrated Missiles Systems, EW systems and the recent Brahmos cruise missiles, there have been serious cost and time overruns in the case of Main Battle Tank (MBT) Arjun, Weapon Locating Radar (WLR), Nag, Advance Jet Trainer (AJT) and Pinaka Multi Barrel Rocket Launcher (MBRL) to name a few. We need to examine the reasons for this gap between the expectations and the performance in our procurement strategy.

The procurement strategy flows out from the National Security Strategy and is the function of the higher defence management organisation. It is a collaborative effort between the Raksha Mantri (RM), the National Security Adviser (NSA), the Armed Forces, the DRDO, Defence Production Agencies, Defence Secretary and the Defence Finance. Success lies in the professional management and 'synergy' between all the stake holders. In our procurement apparatus, there is lack of continuity as handling of high tech contracts is left to ad-hoc assembled teams, who are not experts in contract management. In the UK, there is a Procurement Executive with the Defence Minister, who has Integrated Project teams consisting of experts from various disciplines, for each procurement project, who are entrusted the tasks of development,

production, induction into the Service, maintenance and upgradation of the equipment, till it is phased-out.

In our system there is lack of accountability, diffused responsibility and lack of trust on the officials, besides over-centralisation with the Ministry. Role of arms agents, the intermediaries and the Media in the arms deals is inevitable. Exposure of corruption and scandals if revealed, should invite strict action against the guilty; rather than scuttling of the deal by blacklisting of the firms and delaying the entire procurement process indefinitely, as has happened in the import of 155mm medium Artillery guns and aviation helicopters. The other considerations of joint ventures, technology transfers, and long term partnerships' including exports of surplus production capacity should be built-in, while drawing the contracts. I recall the case of Infantry Combat Vehicle BMP factory at Medak, in 1999, where the installed capacity was not being utilised as the indigenous demands were inadequate, but the BMPs could not be exported as the export clause was not built-in, in the contract deal. We need to, therefore, examine our new procurement structure and the entire procurement process which was adopted in 2001 after the Kargil Committee Report and further updated in 2005, and revised more recently in 2011. Do we have an integrated policy planning staff consisting of professional experts in our system like the one in the UK or France? The answer is a big NO, as we seem to be happy with the status quo and obtain whatever is on offer, often saddled with items which are redundant and accept liberal scales of spares of little use.

Planning Parameters of Procurement Strategy The essential parameters and the ground realities must be factored in while formulating the procurement strategy. These are explained in the succeeding paragraphs.

Security environment is constantly changing and a wider range of tasks have to be performed warranting acquisition and deployment of new technology more quickly. Procurement process, approvals, trials and the contract finalisation are cumbersome and slow, causing long delays. It lacks accountability as well as an integrated approach and is not focussed on speedy procurement.

The sources of assured military supplies have dwindled and alternate sources have to be identified by strategic partnership or through indigenous capability. R&D effort and investments in critical

technology need greater focus. Instead of acquiring the futuristic technology we generally purchase weapon systems with the current technology, which become obsolete and have to be phased out too soon. Self-reliance effort needs to be enhanced significantly by private sector participation and modernisation of the DPSUs.

Technology denial regimes have become operative, necessitating transfer of technology (TOT) by direct purchase or joint ventures and development of indigenous technology. Over optimistic claims by the DRDO, often lead to inordinate delays, i.e. American Weapon Locating Radar (WLR) selected in 1990-91 was finally bought in 2005-6 after failed enterprise of the DRDO, affecting the operational capability, during the Kargil conflict in 1999 adversely. The need for entering into strategic partnerships for technology induction is obvious. The DRDO needs to work more closely with the Defence Forces and DPSUs to develop or obtain relevant technology.

Financial powers are highly centralised with the Ministry. There is insufficient delegation to the users i.e. Armed forces, DRDO, DPSUs, DRDO, and the Atomic Energy Commission (AEC), to develop, innovate or procure even the low technology products. While some liberalisation and delegation has taken place in case of revenue expenditure, capital purchases are stringently controlled by the Ministry of Defence (MoD). It is in the purchase of capital equipment (aircraft, ships, tanks, guns and weapon systems) that the real problem arises and needs detailed examination. Capital purchases up to 100 crores should be delegated to the users leaving only the bigger projects with the Ministry. This will enable the Services to procure urgent items and avoid situations where critical shortages, such as tank ammunition or night vision devices do not persist as was revealed recently and debated in the media and in the Parliament.

Management of High Tech Contracts. Most high tech contracts are high value items like aircraft, ships, tanks and have to meet stringent specifications and performance guarantee, besides providing long term life cycle spares back up. It is important that contracts are drawn out with care, stating performance parameters, installation details, TOT incentives for the seller, utilisation of excess capacity and the maintenance support. All this requires expertise, technical, financial and managerial competence,

evaluation and monitoring, by a team of professionals. In our procurement structure, we have an ad-hoc team entrusted with this responsibility without any permanency, continuity and accountability, and post contract monitoring.

Optimum Utilisation of Funds and Resources. All sub-systems need not be produced exclusively for the defence sector, where possible they should be for dual use, and purchased Commercial Off-The-Shelf (COTS) products. A family concept of weapons and equipment should be evolved rather than import from diverse sources. Milan, Konkurs, Malutka, anti-tank missiles of the same generation were imported from different countries and had to be phased out together without any possibility of upgrades. Similarly, wasteful deals were concluded in purchase of drones i.e. pilot less aircraft of same design at different prices by the three Services due to lack of coordination at the Ministry. It is cheaper to outsource spares and ancillaries to the private sector rather than manufacture the entire range of products in the Ordnance Factories. The DRDO should concentrate on the critical technologies rather than spread its wings too wide and fritter away its resources in low tech activities. While the money allocation for the Services has always been substantially less than their legitimate needs, there is a paradox of huge surrender of funds due to slow decision making.

Major Policy Reforms.² The new Industrial policy of 1991 enabled Indian private industry to grow and participate in defence production. The Kargil Committee Report on 26 Feb 2001 highlighted the requirement of reforms in higher defence management and thereafter, Government also implemented a few institutional changes. In May 2001, private sector was permitted to fully participate in the defence industry with 26 per cent Foreign Direct Investment (FDI). Integrated Defence Staff (IDS) was created for direct interaction between the MoD and the Defence Forces, however, the envisaged integration of the Service HQs with the MOD and the appointment of the CDS essential as the coordinator, and for resolving inter-service priorities has not so far been implemented. A new acquisition set-up was created in Oct 2001, to make the procurements more efficient, timely and transparent. A revised Defence Procurement Procedure (DPP-2002) was introduced from 30 Dec 2002, which was updated again in June 2003 and July 2005, to make it more efficient, transparent, expeditious and competitive. DPP has again been revised twice, but the effective implementation of the policies formulated has

been lacking because of the officials in the MoD and other functionaries.

New Procurement Structure

A new high level council named Defence Acquisition Cell (DAC) with Defence Minister as its chairman, the three Service Chiefs, Defence Secretary, Secretary (DP&S), Secretary (DR&D) and Secretary Defence Finance, as members was constituted. The planning process for defence procurements are under the overall guidance of this cell. HQ IDS, in consultation with the Service HQ formulates the 15 years Long Term Integrated Perspective Plan and 5 years Services Capital Acquisition Plan, for approval of the DAC. However, the absence of the CDS in this structure, limits integration to mere compilation of the Services plans, as HQ IDS do not have the authority to alter the priority laid by the Service HQ. Implementation of the DAC's decisions on procurement are undertaken by the Defence Procurement Board (DPB), Defence Production Board and Defence R&D Board respectively. The DAC is not able to meet regularly and depends on the IDS and the DPB for their inputs rather than giving them strategic directions and long term perspective.

The DAC met recently twice within a month when faced with criticism, but what about the follow-up action, thereafter, in the absence of a dedicated body? The acquisition wing lacks the resources or the authority to monitor the induction of equipments. The DPB handles all the 'buy' and 'buy & make' decisions, as also monitors all activities related to capital acquisitions of the three Services based on the five years acquisition plans approved by DAC. The procedure for identification and approvals of the weapon systems to be inducted being slow, results in creating a bottleneck in the processing exercise. There is a case to make separate procurement boards for each service for speedier processing of the procurements.

Acquisition Wing. A Special Secretary has been appointed for all matters concerning capital acquisitions. It has four Divisions namely; Land, Maritime, Air Force and a Systems division. Each division has an acquisition manager, a joint secretary level officer, and technical manager, a service officer of two star rank. Finance Adviser (acquisition) advises Special Secretary on all finance matters.

Highlights of the DPP-2005.³ As per the DPP-2005, upto 30 per cent direct offsets purchase, for procurement values of over 300 crores, from the Indian defence industry has been made mandatory for the overseas defence firms making the sale. Joint Services Qualitative Requirements (JSQR) are to be formulated for the equipment common to the three Services to avoid duplication. The QRs by the Services are to be made more realistic and broad based to facilitate indigenous development and avoid single vendor situations. Open tendering has been allowed for items bought through COTS. An integrity pact clause for capital acquisitions costing more than 100 crores has been introduced to ensure fair play and for refraining to engage a broker or an arms agent which apparently has made little success. Importantly, CCS is authorised to override lowest bid criteria on strategic considerations to meet operational needs. However, it is impractical to refer such cases to the CCS easily.

Kelkar Committee on Self- Reliance in Defence Preparedness⁴

In 2004, Kelkar Committee was set-up to recommend changes in the acquisition process and for enabling a greater participation by the private sector in defence production for self-reliance in defence preparedness. The first part of the report submitted in April 2005, focuses on the review of, defence procurement procedure and on integration of the users, MoD, and the industry for enhancing indigenous production, pursuing offsets policy to bring in technology and investment, exploring synergies between the private and public sectors, and promoting exports. Majority of recommendations have been accepted for implementation by the Ministry.

Second part of the report was submitted to the Ministry in Nov 2005, wherein the committee has recommended that there should be greater freedom to the PSUs and the Ordnance Factories (OFs) to form joint ventures and consortiums. This has not happened fully as an environment of faith and mutual trust has to be created by all the players and greater devolution of authority made to the production agencies, with focus on performance and accountability. DGOF and the DPSUs should also be permitted to export surplus capacity.

Technology Induction

An impetus needs to be given to the DRDO and the industry to

develop futuristic and core technologies by a collaborative approach with infusion of funds, incentives, and on risk sharing basis, followed up with joint production. The academic institutions and the private industry engaged in defence oriented technology should be provided incentives and financial support. An approach on the lines of Defence Advanced Research Projects Agency (DARPA) of the USA is recommended to be followed. Technology Development Groups (TDG) consisting of best brains from the DRDO, academic institutions, Defence Services and the Private industry should be formed to develop identified high tech system till its induction in the concerned service. Each TDG should be made to concentrate on one discipline and the concerned wing of the Defence Forces should fully identify with the TDG and encourage induction of the indigenous product by according preference over an imported system. The integrated approach adopted by the Indian Navy in the design, fabrication, trials, construction of naval warships and their subsequent upgradations, is a fine example of synergy and partnership between the Navy, the dockyards and the DRDO. Restructuring and joint partnership model has made HAL a leading aircraft facility in the country for MIG, JAGUAR, the Cheetah and the ALH, but the locations of ancillary factories at Korapet, Amethi and at Lucknow on political considerations makes little sense. We need to create hubs for ancillaries close to the main factory rather than distribute them all over to satisfy political demands.

Budgetary Support

The future direction and pace of defence modernisation would largely be dictated by the availability of funds.⁵ Presently the budget is at a very modest level of 2.1 per cent of the GDP and planned at 1.9 per cent of the projected GDP (\$39 billions) for 2012-13, as against over \$100 billion being spent by China. The revenue budget for housekeeping needs takes away nearly 60 per cent or more of it, the remainder amount for capital procurements has to be shared between fixed repayment liabilities of already contracted weapon systems and the modernisation demands of new acquisitions. The cost of the recently concluded 126 Multi Role Combat Aircraft for the IAF is likely to be over \$ 20 billion, and the 145 Howitzer Guns for the Army \$ 650 million. Even this allocation is not fully spent due to slow decision making process or lack of accountability in decision making thus eroding our combat

preparedness. During the current year a sum of Rs 3065 crore, being the unspent amount from the capital funds, was surrendered by the MoD. This has to be seen in view of increased defence budgets of China and Pakistan (4.5 per cent and 3.5 per cent respectively). Enhanced funds have to be provided regularly as the weapon systems are highly expensive and procurements cannot be made in quick time, once the hostilities commence. To deter both China and Pakistan, and to maintain readiness to meet contingencies all the time, over a wide spectrum and a large geographical area of operations on the land, sea and air space, the defence budget needs to be increased to 3 per cent of the GDP.

The Way Ahead

Improving the Procurement Process and Capability. Modern wars are fought on the technological superiority of the Armed Forces. Their capability to defend the borders and provide safety and security to the Country depends to a large extent on timely provisioning of arms and equipment to them. The serious deficiencies in surveillance equipment and other weapon systems were evident during Kargil War and later in 2008 Mumbai terrorist attack. The objective of a good procurement strategy should be to deliver quality equipment faster, better and cheaper. Some of the steps for creating a dynamic procurement system are summarised in the succeeding paragraphs.

Procedural changes and restructuring by themselves will not achieve the results, unless the decision making time is speeded and there is greater coordination between the Service HQ, the MoD, DRDO and the procurement agencies. The MoD remains the key player in the procurement process and tends to shirk accountability, as the responsibility is shared by too many agencies. Contrastingly, the Peace Establishment (PE) in the UK has officers from the three Services, the technocrats and civilian officers to work in close coordination to plan and execute the entire procurement process. We need to create an integrated procurement agency, consisting of Defence Forces, scientists, management experts and the administrators to plan – defence policy, budget and weapon projects, and have a CDS, reporting directly to the RM. The existing IDS neither have the requisite authority, expertise nor the structure to plan long term perspective. What matters

finally is the will to reform and change. The new procurement structure still operates in the old environment.

In any set-up, the enforcing authority is the political leadership, otherwise the inter-Service representatives and the civilian administrators would project only their respective viewpoints. The political leadership needs to display the will to enforce with firmness the provisions of DPP 2005 and the other recommendations of the various studies. Restructuring of DRDO, DGOF and DPSUs to integrate technology development and product manufacturing under one management is long overdue, besides modernising their functions. These institutions lack professional management and must become efficient, accountable and competitive.

Technology is the basic requirement for development of high tech weapon systems. This requires joint collaboration with strategic partners to induct state of the art technology and need for encouraging exports for sustaining investments, besides larger allocation of funds for the indigenous R&D.

Development of long term partnership with defence industry is essential for self-reliance. Partnership is a two way activity built on 'trust' and the users have to accommodate the aspirations of the industry for profits, just as the industry has to meet the stringent QRs of the Defence Forces in the manufacture of weapon systems. However, partnership must be viewed much beyond procurements and profits in a larger perspective, as a shared vision and a goal to create a self-reliant defence industrial base for the Country. Defence procurement involves maintaining a judicious balance, in selecting the best equipment, at the lowest quoted prices (L1), while promoting indigenous product and ensuring modernisation of the Armed Forces to counter threats to national security.

End Notes

1. Arming the Defence Forces, CHANDRASHEKHAR, Manas Publications, New Delhi, 2004, pp.123.
2. The Group of Ministers Report 2001.
3. Defence Procurement Procedure 2005.
4. Kelkar Committee Report on Self- reliance in Defence Preparedness
5. Times of India, 17 March 2012.