

Recent Reforms in the Indian Defence Procurement Process

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All major procurements of defence equipment have come under public scrutiny in recent years. Various issues have been raised to highlight the inadequacies of the procedures being followed. The Ministry of Defence has always been criticised for not putting a proper organisation and procedure in place to ensure that the Armed Forces get the best equipment expeditiously. It has also been accused of lack of transparency in the whole process.

However, a path-breaking and bold step taken by the Ministry of Defence in July 2003 has gone totally unnoticed by the media. In an unprecedented attempt to promote transparency, the newly evolved defence procurement procedure was made public and put on the net in its entirety. The importance and enormity of this step has still not been grasped. Perhaps, no other country in the world has revealed its complete procedure in such a great detail. The Indian procedure covers all aspects from the selection of vendors to the evaluation process and the commercial negotiations.

Procurement of new weaponry and equipment in all countries is a long, complex and arduous process. A large number of inter-dependent variables have to be factored in before a deal can be finalised. The average time taken for major acquisitions may extend up to five or six years. The problem gets compounded for India where the majority of critical equipment is procured from the foreign sources. Additionally, field trials have to be carried out in varying terrain and during different climatic conditions.

Prior to 1990, procurement of defence equipment was carried out as per the normal rules governing all Government purchases. No separate procedure for the procurement of defence equipment was evolved. One of the major reasons for that was the fact that most of the imports during that era were from the erstwhile Soviet

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bloc and were always on 'Government to Government' basis. Peculiarities and complexities of defence equipment were first appreciated when an environment of open competition and procurement of equipment from diversified sources got introduced after the breakup of the Soviet Union. Public interest in defence deals also got intensified with the result that all major deals came under close scrutiny and many elicited critical comments.

As the complete acquisition process involves a series of major functions by different organs of the Government, it has always been felt that detailed guidelines should be in place to facilitate decision making and eliminate ad hocism. A detailed and well structured procedure helps to ensure expeditious procurement while demonstrating the highest degree of probity, transparency and impartiality. It provides a template to the environment against which all procurement activities by different functionaries can be judged.

The Public Accounts Committee (PAC) also expressed similar concerns and in its 187th Report (1989). It recommended to the Government that proper guidelines be framed for defence procurements.

Defence Procurement Procedure 1992

Consequent to the recommendations of PAC, Defence Procurement Procedure 1992 (DPP-1992) came into being in February 1992 when the Ministry of Defence issued detailed guidelines to that effect. Certain modifications to it were carried out over a period of time with the experience gained. DPP-1992 laid down instructions for the steps to be followed for the complete gamut of the procurement process. It was a very praiseworthy and in a way, a path-breaking effort which achieved its stated aim to a great extent. However, as it always happens with first attempts, it suffered from some major deficiencies, which affected its implementation.

First of all, there was no dedicated organisation structured specifically to handle the delicate and complex task of defence procurements. All officials held multiple responsibilities thus, dividing their attention and resulting in a lack of focus. They worked in watertight compartments with blinkered views. No holistic view

was taken. In the absence of clear-cut responsibilities, there was a complete lack of accountability. Consequently, decision making became a casualty. Moreover, no single agency was designated as the nodal and central monitoring authority.

Secondly, the procedure itself was not complete in all respects. It primarily dealt with outright purchases. It did not cover the cases involving transfer of technology. That proved to be a major deficiency as most of the major procurements invariably have transfer of technology option. And most importantly, it did not cater for emergent requirements of the armed forces.

Recommendations of the Group of Ministers

Group of Ministers on National Security, in their report submitted to the Prime Minister on 26 February 2001, felt that the then existing system for procurement had led to 'sub-optimal utilisation of funds, long delays in acquisition and slow progress in the modernisation of the armed forces'. They opined that the prevailing methodology suffered from lack of integrated planning and implementation. They suggested the creation of a separate and dedicated institutional structure to undertake the complete gamut of procurement functions to inject a higher degree of professionalism and reduce delays.

Consequent to the acceptance of the Report of the Group of Ministers, a new set up was established in the Ministry of Defence in October 2001. Broad guidelines for the formulation of a new procurement procedure were also issued. Need to achieve self-reliance was emphasised as well.

New Acquisition Set-up

Defence Acquisition Council (DAC) has been constituted under the Defence Minister. This overarching body gives approval in principle to 15 Years Long Term Prospective Plan of the defence services at the beginning of a Five Year Plan period. It also approves all capital acquisitions and identifies them as 'Buy', 'Buy and Make' and 'Make' cases. In other words, it decides whether equipment is to be bought outright, or is to be bought along with technology transfer for subsequent manufacture within the country; or is to be

indigenously developed through own research and development route.

Defence Procurement Board, Defence Production Board and Defence Development Board have been constituted to implement the decisions flowing from the DAC.

Defence Procurement Board functions under the Defence Secretary and has three Vice Chiefs of the Services amongst others as members. It executes 'Buy' and 'Buy and Make' decisions of DAC. It approves the Annual Acquisition Plan and confirms or modifies the inter-se and intra-se priorities of the acquisition proposals of the Services. It also recommends procurements on 'single vendor' basis. It has the powers to invoke rules governing emergency purchases and forward its recommendations to the Defence Minister. Monitoring of all major procurement cases is one of its important responsibilities.

Defence Production Board has been constituted under the Secretary Defence Production and Supplies. Its primary task is to produce the required defence equipment indigenously after receiving technology either from abroad under 'Buy and Make' or under 'Make' from Defence Research and Development Organisation.

The third board is Defence Research and Development Board, which functions under Secretary Defence Research and Development. Its main task is to progress, monitor and report on all indigenous research and development programmes flowing from 'Make' decisions of DAC. It also recommends suitable evaluation and assessment processes.

A new integrated set up called the Acquisition Wing has been created under a Special Secretary with members from the civil services, defence services and finance. It functions under Defence Procurement Board and is the main instrument for implementing all procurement decisions. This wing was also assigned the responsibility to evolve a new procurement procedure for defence acquisitions.

New Procurement Procedure

Initially, a comprehensive procurement procedure covering

all aspects of 'Buy' decisions was put into effect on 30 December 2002. Subsequently, its scope was enlarged to include 'Buy and Make Through Imported Technology' cases as well. The new procedure is called Defence Procurement Procedure -2002 or DPP-2002 in short. It covers all steps involved in the complete acquisition process ie formulation of Services Qualitative Requirements (SQR), solicitation of proposals, technical examination of offers, field trials, staff evaluation and commercial negotiations.

DPP-2002 aims at 'ensuring expeditious procurement of the approved requirements of the Armed Forces in terms of capabilities sought and time frame prescribed by optimally utilising the allocated budgetary resources'. Further, it endeavours to demonstrate 'the highest degree of probity and public accountability, transparency in operations, free competition and impartiality'. DPP-2002 provides detailed guidelines to the officials for taking decisions, thus minimising their discretionary powers, so that the environment has confidence in the fair play of the establishment.

Formulation of SQR has always been viewed critically as it is really the start point of the complete process. Overambitious, ambiguous, sketchy or impractical SQR can prove to be counter-productive and make the whole process infructuous. It is, therefore, essential that SQR be given out in terms of functional characteristics and their formulation should not prejudice technical choices by being narrow and focused. They should be verifiable and not abstract. SQR are generally divided into essential and desirable categories. Only the Defence Minister on the recommendations of the Defence Procurement Board can give waivers for any deviation to essential SQR after the issuance of Request for Proposals (RFP).

DPP-2002 mandates that RFP be issued only to original equipment manufacturers, authorised vendors and Government sponsored export agencies. In case transfer of technology is being sought, ability to provide requisite technology for licensed production is essential. RFPs have to be comprehensive in nature and explicit in requirements, as ambiguities lead to misunderstandings and vitiate the environment. It also mandates that all vendors be apprised of the evaluation criteria being applied. Vendors must be

made aware of the matrix against which their equipment would be judged along with the inter-se weightage assigned to various parameters. No alteration to the matrix is permitted after the issuance of RFP.

Field trials are conducted under the aegis of the user Service as per the trial directive issued by the Service Headquarters. The trial directive has to specify the fundamental aspects against which validation of 'essential' features should be carried out. Evaluation of the support system and maintainability of the equipment are carried out simultaneously. Field trials are normally conducted on 'No Cost No Commitment' basis. Representatives of the vendors are permitted to be present at the trials, provided security concerns are taken care of.

With a view to promote competition, the Acquisition Wing has been tasked to build up a data bank of prospective vendors. Confederation of Indian Industry (CII) has also been requested to compile data of prospective Indian vendors who have the necessary infrastructure and potential in different fields. All these steps have helped to enlarge the vendor base. In the recent past, RFPs have been issued to up to 50 vendors in some cases.

The previous procedure of 1992 suffered from a major lacuna, in that there were no provisions for inbuilt checks or mid course reviews. Mistakes committed at any stage had either to be carried to the end or the whole process aborted at the final stage with resultant delays and cost overruns. DPP-2002 has rectified this flaw with periodic reviews of the process. For all major procurements, there are provisions to constitute independent bodies to scrutinise the entire process. A Technical Oversight Committee consisting of a senior service officer, a scientist from Defence Research and Development Organisation and an official from a defence public sector undertaking is constituted to go through the entire technical process from the selection of vendors to the final evaluation of the competing equipment. It is only after this committee's clearance that the commercial process can commence. The second check is activated after the commercial negotiations are over. An Eminent Persons Group is constituted to critically examine all commercial aspects including the determination of the

lowest bidder. The contract is signed only after receiving 'go-ahead' from this group. These provisions ensure that the procurement process remains free from any irregularities and timely corrective action is taken where required.

Earlier, commercial offers were sought from the vendor whose equipment performed the best during technical evaluation. At that stage, the successful vendor always quoted a highly inflated price knowing fully well that he was the sole successful vendor. It invariably became a 'take it or leave it' situation for the Government. This major flaw has also been sought to be rectified in the new procedure. Now, 'single-stage two-bid' system has to be followed. This implies that all vendors have to submit their technical and commercial proposals at the initial stage itself, albeit in two separate sealed envelopes. Only technical proposals are opened initially while the commercial proposals remain sealed. It is only after the technical evaluation that the commercial offers of the successful vendors are opened to determine the lowest bidder. No change in the commercial offer submitted earlier is permitted under any circumstances. Thus the commercial offer would always be competitive in nature, as at the time of submission of offers no vendor was certain that he would be the sole successful vendor.

DPP-2002 does not make any distinction between foreign and Indian companies or between private and public sectors. It only aims at generating maximum competition by providing equal opportunities to all and to obtain best value for money for the defence forces. As a result, the Indian companies have now woken up to the immense potential and business opportunities existing in the defence equipment sector. Ministry of Defence and CII have jointly taken many concrete steps to accelerate this process.

Fast Track Procedure

With a view to facilitate emergent acquisitions a need was felt to have a fast track procedure (FTP) which could be invoked in times of crisis, albeit with inherent checks to avoid its misuse. The Government in September 2001 promulgated a FTP. This procedure can be adopted only for the requirements, which relate to an imminent operational situation or a crisis without warning. Its need

must emanate from the Service Chief and the proposal is put up to the Defence Minister with the recommendations of the Defence Procurement Board.

As the time is of essence in such procurements, FTP is confined to items, which are likely to be available within the laid down time frame. Long lead cases are avoided. It really implies that the items should already be in service or have already been trial evaluated. In exceptional cases, provisions permit sending of trial teams to the manufacturers premises for quick evaluation.

Conclusion

Procurement of defence equipment in all countries is a highly intricate, delicate and time consuming process. The new system has not been able to affect any significant reduction in the time taken as yet. Defence Procurement Board is trying to lay down a time frame for the whole process stage wise so that the causes of delay could be identified and corrective action taken.

It is not that the recent reforms have made the system an ideal one. A lot of work is yet to be done. It is just the beginning. Procedures for shipbuilding, upgrades and system integration are yet to be formulated. Standard contract documents, which should protect Government interests, are still under preparation. Lack of an integral legal set up in the Ministry of Defence has hampered progress in this field. Ministry of Defence is also seeking an arrangement for external audit of all procurement cases before the contracts are signed. This will help in taking timely corrective action or even aborting the case, if considered beyond redemption.

And finally, the potential of the Indian private sector has not been fully exploited, with the result that the stated aim of promoting self-reliance remains elusive. Progress in this direction has been rather disappointing.

It is apparent that a serious and concerted effort has been made to streamline the entire acquisition process. However, good intentions must get translated into discernible actions, which promote free competition, fair play and transparency. It is only then that an environment of confidence and faith in the system can be built.