

Streamlining Defence Acquisition Process

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The process for Defence Acquisitions in India has evolved considerably in the last decade or so, and is being refined further. The Ministry of Defence recognizes the importance of timely modernization, and of balancing the operational needs with the requirements of transparency and probity. There are a number of areas where further initiatives are being considered and the Ministry of Defence, in consultation with all stake holders, would be moving forward in this regard. Our combined aim should be to finally give the soldiers, sailors, and airmen in the frontline, the right capability at the right time.

You all would agree that the Armed Forces of any country require timely and cost-effective acquisition of defence capabilities, in order to meet the goals and objectives of National Security, both external and internal. This was one

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of the key areas highlighted by our Honourable Prime Minister, Shri Man Mohan Singh, during the Combined Commanders Conference on 20 Oct 09, and I quote “I am aware that procedures for defence acquisitions and procurement are a matter of concern to the armed forces. We must ensure a balance between the needs of timely modernization and the necessity of conforming to the highest standards of transparency, probity, and public accountability”, unquote. Similarly our Raksha Mantri, in another seminar organized at this very institute in Oct 09, had also stressed the need for necessary reforms to prevent time and cost overruns, and to ensure timely induction of required capabilities. The deliberations during this

seminar are therefore of significance, and would help the Ministry of Defence and the Service HQs to align their combined efforts for creation of capabilities for the Armed Forces, which are commensurate with our National Interests.

As you all know, defence procurement involves what to buy, how to buy, who to buy from and how to monitor. Issues and concepts of Indigenisation, Value for money, Defence Industry, Research & Development, Joint ventures, as well as

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Policy and Procedural framework are inextricably linked to Defence Procurements. It is my intention to share some thoughts on our acquisition system as a whole, at two levels. Firstly, some areas where a review may be desirable. This of course will be undertaken by the Ministry of Defence, in consultation with the Service Headquarters and other stake holders. Your inputs and suggestions in these areas would be welcome. The second area that I wish to focus upon is about our expectations as customers, and the consequent need to align the same with the Defence Industrial and Technological base, both Public and Private.

During the last decade or so, the challenges and complexities of the defence acquisition process have been recognized by the Government, and a slew of measures have been implemented. These have altered the processes and the organizational structure, and govern the way we induct capability for our Armed Forces. The roots of these initiatives can be traced to the recommendations of the Group of Ministers (GOM) on reforming the national security system, constituted post the Kargil conflict. One of the first tasks undertaken was to codify the procurement procedures. The initial formulation in 2002, and subsequent revisions, aimed to de-mystify some imponderables and introduce increasing levels of transparency. A number of measures have subsequently been implemented, and there is increased clarity and enhanced awareness about the procedural framework. A very large number of proposals have been progressed effectively, through this framework. The Defence Procurement Procedure or the DPP, has now become central to our acquisition process. The frequency of revision of this key document has been brought down from every two years, to every year, in order to imbibe the lessons learnt and to achieve increased effectiveness. The revisions have attempted to address the requirements of transparency as well as timely induction. The utilization of the Modernization Budget allocated to the Defence Forces has shown an improvement in the last financial year ie FY 09-10. The allocations were almost fully utilised and efforts need to be made to sustain the momentum. While we have come a long way, the procurement procedures can still be termed as 'Work-in-progress', as some aspects need to be revisited based upon experience gained. Refinements would ensure that the procedures offer a pragmatic process that facilitates Capability Induction in a time bound manner, while addressing the requirements that are important for a democratic country, in particular that of public accountability.

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Efforts have been made at various levels to reduce the time taken in progressing acquisition proposals. Measures such as limiting the period for grant of extension for bid submission have been introduced. However, delays in the process continue to be a matter of concern. In addition to Operational considerations, such delays often lead to financial and opportunity costs. In some cases, they can also result, in technological obsolescence of the equipment being inducted. Pressing requirements in the field need to be kept in mind when processing acquisition cases. This would require timely initiation of the proposals by Service Headquarters, and speedier processing through the various stages. In some cases, delays also occur due to incomplete details furnished by the vendors in their bids, and subsequent correspondence and deliberations that ensue to seek clarifications. Provision of complete and accurate information in the technical and commercial bids is therefore equally important from the point of view of avoiding delays.

While the Fast Track Procedure or FTP has been introduced in our Defence Procurement Procedures, its efficacy is yet to be proved. The FTP is under review, and some changes would be needed to make sure that the items required under this route are actually available in the timeframe envisaged. This could be made possible by delegation of suitable powers to an Empowered Committee, to meet requisite 'fast-track' timelines. Further, a special procedure could be considered for Military Off the Shelf items, which are not technology intensive. I am sure that the ongoing review will address these issues, particularly with regard to induction of equipment that affects safety of lives during operations.

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The 'Make' procedure was introduced in the DPP, with the primary objective of enhancing self reliance. I am told that a draft paper to realign the process for timely delivery under 'Make' procedure, is under circulation. In addition to achieving self reliance, the procedure should follow an economically viable business model. The procedure and the model should facilitate participation of the private sector, in equal measure as the DPSUs, and should ensure that projects move from the 'Drawing Board' stage to 'Delivery' in a time frame that is comparable to Global Standards in similar endeavours. The need for improvement in procedures and practices, in order to enhance private sector engagement, import substitution and indigenisation have also been stressed by the 13th Finance Commission and the report of the Standing Committee on Defence released a few days ago, on the 8th of April.

Let me briefly touch upon the procedure related to shipbuilding, which is outlined in Chapter 3 of the DPP. Warship construction as some of you may know, is an iterative process – including phases of conceptualization, design and construction.

This requires regular interaction between the designers, the shipyards and the users. Our experience in implementing provisions of Chapter 3 has led us to believe that there is a need to refine this chapter, so as to bring in more accountability, speedier processing and to ensure that time and cost over runs are minimized, and incentives where applicable are linked to actual and demonstrated performance. Herein, I would also like to mention that the procedure should also address the specifics related to the construction of ships by DPSUs as well as by private shipyards, and for participation of Small and Medium Enterprises for smaller craft. Further, procedures related to ship construction based on indigenous as well as non-indigenous ship designs need to be suitably elaborated.

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Offsets were introduced in our DPP in 2006. The subject has invited considerable discussion, and a seminar on Offsets was also held at the IDSA in Oct 08. The implementation of the concept is well underway, and some reforms have been implemented as we have moved ahead on this road. These include Banking of Offsets in anticipation of future obligations. As you know, the extant procedure requires that the offset contract is completed on or before the date of completion of the main contract. Some of our cases have been delayed due to finalization of the offset agreements.

This aspect would need to be suitably reviewed, so that progress towards conclusion of the main contract does not get held up. The aspect of leveraging offsets to induct technology has been debated by many specialists, with diverse viewpoints and assessments related to the feasibility and delivery of the same. This is a key area, as utility of offsets beyond financial considerations can significantly facilitate defence industrial capabilities in the future, given the substantial sums that are likely to be earmarked for the purpose. Such an approach can contribute towards further development of a stronger defence technological and infrastructure base, as also modern techniques for integration, quality assurance and project management. Suitable channelising of Offsets, to meet the long-term requirements of our defence forces, would therefore be a major challenge for us.

Let me also briefly mention about the procedural framework for progressing cases under Government to Government, or G to G, as it is called. Here, the procedural requirements would need to be enmeshed with the statutory and procedural requirements of both countries, and no single overarching provision may be applicable. Details have been worked out in some cases by the Ministry of Defence, and some other issues are being addressed.

While I have outlined some of the procedural issues that need to be taken up for improvement, I am sure that there are a number of other pertinent procedural

and policy issues that would come up for discussions during the seminar. I am certain that the deliberations would lead to some practical suggestions for the next review of the DPP.

I will now move on to the second area of focus, which is about customer requirements and satisfaction. As you all know, delivery of items in time, with desired quality and technology, as also subsequent support and service, are dependent on a number of issues. These include Defence Industrial Base, Public-Private interface, Technology Development and Absorption, Appreciation of Customer needs, and finally, norms for after sales support. I will touch on each of these issues briefly.

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Towards strengthening self-reliance and enhancing Defence Industrial Base, the Kelkar Committee set up by the Government of India submitted its report in 2005. Part I of the report looked at the subject of Defence Acquisitions, Domestic and International experiences and Offsets. A number of recommendations were made by the Committee, many of which have been accepted, either in totality or with partial modifications. More recently, the Standing Committee on Defence submitted a report in Dec 2008 on 'Indigenisation of Defence Production – Public-Private Partnership'. The report highlighted that the goal of achieving self-reliance in defence production continues to remain elusive. It stressed the need for public-private partnership in defence production, and recommended that this aspect be duly covered in the Defence Procurement Procedure.

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Numerous initiatives taken by the MoD in the recent past, display its intent of an inclusive growth and greater participation by both the public and private industry. These should result in enhancing the vendor base with increased indigenization, and eventually lead to reduction in import-dependence. Increased private participation in defence industry would infuse competitiveness, with better value for money for the Services. Indigenisation need not be seen as an euphemism for sourcing equipment from the Public Sector alone. Defence Production, as a sum total of DPSU and Private Sector capabilities, would be increasingly relevant as an index of our indigenisation efforts.

The aspect of level-playing field for public and private sectors has often been debated. While recognising the initiatives taken by the Ministry of Defence in this regard, the Standing Committee on Defence has recommended that steps be taken

to provide level playing field in areas like nomination for transfer of technology from foreign suppliers, similarity in tax and duty structures, and acceptance norms for collaterals. While requisite follow-up actions are being progressed by the Ministry of Defence, I would like to stress that we are all very keen to enhance the vendor base in the country, and infuse competition. Several initiatives have been taken in this regard in the last year or so. Key among these are:-

(a) Firstly, Request For Information or RFI, has been made mandatory for SQR development, and all RFIs are being uploaded on the MoD website. This stipulation is also intended to bring qualitative improvements in the SR formulation.

(b) Secondly, a formal methodology has been implemented wherein civil industry is involved in discussions with Service Headquarters over capital acquisition proposals, prior to these being considered in the Categorisation Committee.

(c) And finally, a new category, 'Buy and Make' Indian, has been introduced in the DPP. It is hoped that this category will encourage proactive participation by the Indian Industry through Joint production arrangements with foreign manufacturers. Initial steps by a few companies as reported in the media are encouraging. And I would request the industry to revert back to MoD for modification of any clauses of this procedure – in case there are any impediment in its smooth functioning.

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Here, I would like to mention that the Private Sector too would need to rise to the occasion, and should not be found wanting in terms of deliveries, as well as product support. The Defence services have had some bad experiences wherein some private companies have either not delivered in time or not ensured the requisite quality. It is therefore essential for the private sector to establish itself as a key player in the defence industry in India, through very strict compliance to quality. I believe that private sector participation can get a boost directly through its demonstrated performance, in supply and support of equipment.

A word about Defence Public Sector Undertakings (DPSUs) and Ordnance Factories. As you are aware, a number of items are sourced by the Defence Services from DPSUs and Ordnance Factories. From the perspective of users, a number of issues need to be addressed so that these public sector units can meet the requirements of the Services better by exploiting their full potential. With the laid down norms for profits payable to these organizations, that are heavily weighted in their favour,

profitability may not necessarily be indicative of efficiency. Participation of the private sector is likely to improve the competitiveness of the DPSUs, and we are informed that steps are being taken by the DPSUs in that direction. Further, to enhance their competitiveness, the norms for profits payable to DPSU need to be made more challenging and result-oriented. We would like our DPSUs and Factories to be global leaders in their areas of expertise, so that they become the model for other entrants in the Defence Industry to follow.

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From the point of view of the customer – costs, both Induction as well as Life Cycle Costs, are key areas of consideration. Products offered through the indigenous or Joint Venture routes must establish clear and distinct advantage in costs, so that value for money can be derived. These should be comparable to similar systems in the international market. As costs of defence equipment go up, such considerations are likely to become increasingly central to our procurement decisions.

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I must also bring out that it has been observed that during the RFI process, some vendors, both international and Indian, indicate readiness to offer some equipment with specific QRs. Some of the vendors, are however, unable to offer the equipment for field trials at the Final Evaluation Trials stage, because the equipment is either not available or is still under development. This is yet another impediment in our equipment induction process. At present, no penalty is imposed on the vendors for such an action, though it can retard an acquisition case substantially. Suitable measures need to be put in place to guard against inaccurate information being provided in some cases by vendors, both indigenous and foreign. Perhaps we need to consider punitive measures such as – barring the vendor for future projects for a certain number of years.

Another issue that merits attention, pertains to the requirements of statutory and export clearances, that are required to be obtained by a foreign vendor from the host government in some cases. These are invariably not indicated up front while submitting the bids. In a few cases, the contract effectivity has been unduly delayed, since a host of approvals were sought by the vendors after the contract had been signed. I would therefore recommend that foreign vendors should either seek approvals prior to the bid, or indicate specific requirements of host government clearances and time frames envisaged. If these aspects are duly factored, precious time would not be lost after the contract is signed.

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To conclude, the process for Defence Acquisitions in India has evolved considerably in the last decade or so, and is being refined further. The Ministry of Defence recognizes the importance of timely modernization, and of balancing the operational needs with the requirements of transparency and probity. There are a number of areas where further initiatives are being considered and the Ministry of Defence, in consultation with all stake holders, would be moving forward in this regard. Our combined aim should be to finally give the soldiers, sailors, and airmen in the frontline, the right capability at the right time. This, is possible, through joint ownership of the process.



Finally as you all know, long term maintenance support and requisite infrastructure development is integral to almost all defence acquisitions. Both public and private sector need to work closely with the Services, so that the acquisition process is strengthened with a long-term view, with regard to sustaining the capabilities. Further, upgrades of platforms and equipment during the life-cycle also form an important part of the acquisition process, wherein both vendors and customers need to work

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