Defence Procurement Procedure - 2016

Background

1. As part of the implementation of the report of the Group of Ministers on reforming the National Security System, new Defence Procurement Management Structures and Systems were set up in the Ministry of Defence (MoD) vide MoD order No SA/01/104/2001 dated 10 September 2001 and No 17179/2001-Def Secy/IC/2001 dated 11 October 2001. In order to implement the provisions laid out in the new Defence Procurement Management Structures and Systems, the procedure for Defence Procurement laid down vide MoD ID No 1(1)/91/PO (Def) dated 28 February 1992 was revised. The Defence Procurement Procedure - 2002 (DPP-2002) came into effect from 30 December 2002 and was applicable for procurements flowing out of ‘Buy’ decision of Defence Acquisition Council (DAC). The scope of the same was enlarged in June 2003 to include procurements flowing out of ‘Buy and Make’ through Imported Transfer of Technology (ToT) decision. The Defence Procurement Procedure has since been revised in 2005, 2006, 2008, 2009, 2011, and 2013, enhancing the scope to include ‘Make,’ ‘Buy and Make (Indian)’ categories, concept of ‘Offsets’ and ship building procedure.

2. In order to achieve enhanced self-reliance in defence manufacturing, and to leverage the economic opportunity present in developing the Indian defence industry, MoD constituted a Committee of Experts, to recommend suitable amendments to DPP-2013. The mandate of the committee was as follows:

   a. To evolve a policy framework to facilitate ‘Make in India’ in Defence manufacturing and align the policy evolved with the Defence Procurement Procedure (DPP-2013).

   b. To suggest the requisite amendments in DPP-2013 to remove the bottlenecks in the procurement process and also simplify/rationalise various aspects of the Defence procurement.

3. The committee interacted extensively with all the stake holders from the Service Head Quarters (SHQ), Department of Defence Production (DDP), MoD (Acquisition Wing), MoD (Finance), Defence Research Development Organization (DRDO), Indian and foreign defence industry representatives,
legal and tax experts, think tanks, academia etc. The committee made recommendations for incorporation into the extant defence procurement procedure, based on its interactions.

4. Based on Government’s experience in the defence procurement process, and the recommendations of the committee of experts, the Defence Procurement Procedure - 2016, which would herein be referred to as DPP, has been evolved.

5. The DPP, dealing with acquisition as per the categories listed herein, is set out in this document covering the preamble and its chapters as listed below:

   a. Preamble to the Defence Procurement Procedure
   
   b. Chapter I – Operational Context, Acquisition Categories and Acquisition Plans
   
   c. Chapter II – Procurement Procedure for categories under ‘Buy’, and ‘Buy and Make’ schemes
   
   d. Chapter III – Procedure for ‘Make’ Category of Acquisition
   
   e. Chapter IV – Procedure for Defence Ship Building
   
   f. Chapter V – Fast Track Procedure
   
   g. Chapter VI – Standard Contract Document
   
   h. Chapter VII – Strategic Partners and Partnerships (*to be notified separately*)
Preamble to the Defence Procurement Procedure

1. Defence acquisition is not a standard open market commercial form of procurement, and has certain unique features such as supplier constraints, technological complexity, foreign Government regulations, denial of technology, non-availability of material held by foreign suppliers, high cost, foreign exchange implications and geo-political ramifications. While maintaining highest standards of transparency, probity and public accountability, a balance between competing requirements such as expeditious procurement, high quality standards and appropriate costs needs to be established. As a result, decision making pertaining to defence procurement remains unique and complex.

2. Self-reliance is a major corner-stone on which the military capability of any nation must rest. There is also immense potential to leverage the manpower and engineering capability within the country for attaining self-reliance in design, development, and manufacturing in defence sector. It is therefore of utmost importance that the concept of ‘Make in India’ remains the focal point of the defence acquisition policy/procedure. There is a need to institute enabling provisions for utilization and consolidation of design and manufacturing infrastructure available in the country. A need has also been felt for identifying strategic partners for promoting defence production in the private sector.

3. DPP focusses on institutionalizing, streamlining, and simplifying defence procurement procedure to give a boost to ‘Make in India’ initiative of the Government of India, by promoting indigenous design, development and manufacturing of defence equipment, platforms, systems and sub-systems. ‘Make’ procedure has also been refined to ensure increased participation of the Indian industry. Enhancing the role of MSMEs in defence sector is one of the defining features of DPP. Cutting down permissible timeframes for various procurement activities, and institutionalizing robust mechanisms to monitor for probity at various stages of the procurement process, are the cornerstones of DPP.

4. Defence procurement involves long gestation periods, and delay in procurement will impact the preparedness of our forces, besides resulting in opportunity cost. The needs of the armed forces being a non-negotiable and an uncompromising aspect, flexibility in the procurement process is required, which has also been provisioned for. Thus the DPP favours swift
decision making, provides for suitable timelines and delegates powers to the appropriate authorities to ensure an efficient and effective implementation of the procurement process, by all stakeholders concerned.

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