Uploading of DPP-2016 (chapters I to V) on MoD website

1. DPP-2016 chapters I to V is hereby being uploaded on the MoD website.

2. The chapter on Standard Contract Document shall be uploaded along with Appendices, Annexures and Scheduled for the complete DPP-2016 (including those pertaining to Chapters I to V) shortly.

3. The pages in this document have been numbered chapter wise, and shall be serially arranged along with uploading of the completed DPP-2016, including the contents mentioned above.

4. The chapter on Strategic Partners and Partnership will be notified separately.
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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Chapter I - Operational Context, Acquisition Categories and Acquisition Plans

1. **Aim:** The aim of the DPP is 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 utilization 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 key aim of the DDP.

2. **Scope:** Except for medical equipment, the DPP will cover all Capital Acquisitions undertaken by the Ministry of Defence, Defence Services and Indian Coast Guard both from indigenous sources and ex-import. Defence Research and Development Organisation (DRDO), Ordnance Factory Board (OFB) and Defence Public Sector Undertakings (DPSUs) will, however, continue to follow their own procurement procedure.

**Capital Acquisitions**

3. Capital Acquisition schemes are broadly classified as, ‘Buy’, ‘Buy and Make’, and ‘Make’. Under the ‘Buy’ scheme procurements are categorized as ‘Buy (Indian – IDDM)’, ‘Buy (Indian)’, and ‘Buy (Global)’. The three categories under the ‘Buy’ scheme refer to an outright purchase of equipment. Under the ‘Buy and Make’ scheme, the procurements are categorized as ‘Buy and Make (Indian)’ and ‘Buy and Make’. The two categories under ‘Buy & Make’ scheme refer to an initial procurement of equipment in Fully Formed (FF) state in quantities as considered necessary, from the appropriate source, followed by indigenous production in a phased manner through comprehensive Transfer of Technology (ToT), pertaining to critical technologies as per the specified range, depth and scope.

4. In decreasing order of priority the procurement of defence equipment, under this procedure are categorized as follows:

   a. Buy (Indian – IDDM)
b. Buy (Indian)
c. Buy and Make (Indian)
d. Buy and Make
e. Buy (Global)

5. In addition to the above listed categorization, there is the ‘Make’ categorization, which aims at developing long-term indigenous defence capabilities. Depending upon factors such as Indian industry’s capability, access to technology, time frame required and available for development, the ‘Make’ category of procurement would be pursued in isolation, in sequence or in tandem with any of the five categories under ‘Buy’ or ‘Buy and Make’ classifications, with a separate heading under SCAP and AAP.

**Definition of Acquisition Categories**

6. **Buy (Indian-IDDM):** ‘Buy (Indian-IDDM)’ category refers to the procurement of products from an Indian vendor meeting one of the two conditions: products that have been indigenously designed, developed and manufactured with a minimum of 40% Indigenous Content (IC) on cost basis of the total contract value; OR, products having 60% IC on cost basis of the total contract value, which may not have been designed and developed indigenously. Apart from overall IC as detailed above, the same percentage of IC will also be required in (a) Basic Cost of Equipment; (b) Cost of Manufacturers’ Recommended List of Spares (MRLS); and (c) Cost of Special Maintenance Tools (SMT) and Special Test Equipment (STE), taken together at all stages, including FET stage.

6.1 The onus of proving that the equipment design is indigenous, rests with the vendor, and such vendor claims will be verified by a committee comprising scientists from DRDO and representatives from SHQs, based on documents issued by authorized agencies and presented by the vendors. The process of verifying the availability of indigenous design and development, should be completed prior to fielding of SoC for categorization; guidelines pertaining to the same will be issued by the DG (Acquisition), with inputs from DRDO.

7. **Buy (Indian):** ‘Buy (Indian)’ category refers to procurement of products having a minimum of 40% IC on cost basis of the total contract value, from an Indian vendor. Apart from the overall IC as detailed above, the same
percentage of IC will also be required in (a) Basic Cost of Equipment; (b) Cost of Manufacturers’ Recommended List of Spares (MRLS); and (c) Cost of Special Maintenance Tools (SMT) and Special Test Equipment (STE), taken together at all stages, including FET stage.

8. **Buy and Make (Indian):** ‘Buy & Make (Indian)’ category refers to an initial procurement of equipment in Fully Formed (FF) state in quantities as considered necessary, from an Indian vendor engaged in a tie-up with a foreign OEM, followed by indigenous production in a phased manner involving ToT of critical technologies as per specified range, depth and scope from the foreign OEM. Under this category of procurement, a minimum of 50% IC is required on cost basis of the ‘Make’ portion of the contract. This implies that in the Make portion of the contract, minimum 50% IC will be required in the total of (a) Basic Cost of Equipment; (b) Cost of Manufacturers’ Recommended List of Spares (MRLS); and (c) Cost of Special Maintenance Tools (SMT) and Special Test Equipment (STE). The proportion, of MRLS to be made/assembled in India, if any should be specified at the time of AoN. Acquisition under this category can also be carried out without any initial procurement of equipment in FF state.

9. **Buy and Make:** ‘Buy & Make’ category refers to an initial procurement of equipment in Fully Formed (FF) state from a foreign vendor, in quantities as considered necessary, followed by indigenous production through an Indian Production Agency (PA), in a phased manner involving ToT of critical technologies as per specified range, depth and scope, to the PA. With a view to maximize indigenous production in each procurement case, the AoN according authority would approve either an appropriate ratio of FF, CKD, SKD and IM kits; or a minimum percentage of IC for the ‘Make’ portion acquisitions under ‘Buy and Make’ category. Acquisition under this category can also be carried out without any initial procurement of equipment in FF state.

10. **Buy (Global):** ‘Buy (Global)’ categorization refers to outright purchase of equipment from foreign or Indian vendors. In case of foreign vendors, Government to Government route may be adopted, for equipment meeting strategic/long term requirements.

11. **Make:** Acquisitions covered under the ‘Make’ category refer to equipment/system/sub-system/sub-assembly, major components, or upgrades thereof, to be designed, developed and manufactured by an Indian
vendor, as per procedure and norms detailed in Chapter III of DPP.

12. **Definition of Indian vendor:** Unless specifically provided for in a clause/section/chapter or elsewhere of the DPP, an Indian vendor by whatever nomenclature when referred to means - for defence products requiring industrial licence, an Indian entity, which could include incorporation/ownership models as per Companies Act, partnership firms, proprietorship, and other types of ownership model as per relevant Indian laws, complying with, besides other regulations in force, the guidelines/licensing requirements stipulated by the Department of Industrial Policy and Promotion as applicable; and for defence products not requiring industrial licence, an Indian entity, which could include incorporation/ownership models as per Companies Act, partnership firms, proprietorship, and other types of ownership model as per relevant Indian laws and complying with all regulations in force applicable to that industry.

13. For IC on cost basis referred to in paragraphs 6 - 8 (Chapter I), vendor should ensure compliance as detailed in Appendix (xxx) to Chapter I.

14. The categorization committees may recommend higher or lower threshold of indigenous content than those stipulated for various categories in paragraphs 7 and 8 (Chapter I). Detailed justification for the same should be submitted while seeking Acceptance of Necessity (AoN).

15. **Upgrades:** All cases involving upgrade to an in service weapon system/equipment will also be covered by this procedure. Such cases could be categorised under any of the categories as given in the paragraphs 6 - 11 (Chapter I). The categorisation may be carried out depending on scope of the proposal, availability of indigenous technology and the need for seeking critical technologies from foreign vendors.

**Procurement Planning Process**

16. Proposals for acquisition of capital assets flow from the defence procurement planning process, which will cover the long-term, medium-term and short-term perspectives as under:

   a. 15 years Long Term Integrated Perspective Plan (LTIPP).
   b. 5 years Services Capital Acquisition Plan (SCAP).
c. Annual Acquisition Plan (AAP).

17. Based on the Defence Planning Guidelines, Headquarters Integrated Defence Staff (HQ-IDS), in consultation with the Service Headquarters (SHQs), would formulate the 15 years Long Term Integrated Perspective Plan (LTIPP) for the Armed Forces. The Five Year Defence Plans for the Services would also be formulated, by HQ-IDS, which would include requirements for the next five years under the Services Capital Acquisition Plan (SCAP). The SCAP should indicate the list of equipment to be acquired, keeping in view operational exigencies and the likely availability of funds. The planning process would be under the overall guidance of the Defence Acquisition Council (DAC); its decisions, as approved by the Defence Minister (herein referred to as Raksha Mantri), will flow down for implementation to the Defence Procurement Board (DPB). While LTIPP and SCAP would be approved by the DAC, the AAP, which is a subset of SCAP, would be approved by the DPB.

18. It is important to share the future needs of Armed Forces with the industry; hence based on the LTIPP, HQ-IDS will bring out the Technology Perspective and Capability Roadmap (TPCR), covering details of the acquisition plans for a period of 15 years, for use by the industry. This document will be made available on MoD website.

19. HQ-IDS/SHQs as the case may be, through regular and structured interactions, will share the details of such schemes, which are considered suitable for ‘Make’ procedure with the industry; the industry may even be involved at the feasibility study stage itself. Details of schemes which are to be included in the SCAP, such as draft Preliminary Service Qualitative Requirements (PSQR), indicative time frame, envisaged quantities, may also be shared with the industry, to the extent actionable by it.

**Annual Acquisition Plan (AAP)**

20. AAP of each Service would consist of two sections: a) a two year roll on plan for capital acquisitions and would consist of the schemes from approved SCAP. b) a two-year roll-on plan for schemes under the ‘Make’ category. The draft AAPs would be prepared in two parts: Part A would comprise of carry over schemes from the AAP of previous year, and schemes for which AoN has been accorded during the year. Part B would
include the cases likely to be initiated for seeking AoN in the forthcoming year.

21. The draft AAPs would be circulated to respective AM/TM/FM in the Acquisition Wing, and thereafter forwarded to HQ-IDS by 31st of December each year, by SHQs, after clarifying the observations of the Acquisition Wing. HQ-IDS will allot a unique identification number to each case and would obtain approval of final AAP from DPB by 15th April of the relevant Financial Year. Part A would be the working document for Acquisition Wing for issue of RFP and subsequent monitoring of the progress of each case. Inclusion of fresh schemes to Part A from Part B of AAP, after accord of AoN, would be a regular process. Proposal not listed in the SCAP may only be processed after due approval of the DAC.

22. In consonance with schemes likely to be included in AAPs, HQ-IDS would work out the annual requirement of funds for capital acquisitions of each service taking into account committed liabilities and anticipated cash out flow, likely to be incurred on account of the fresh schemes, during the ensuing financial year.

23. The DPB may also carry out amendments to the AAP, if considered necessary, on account of national security requirements, operational urgencies, budgetary provisions or any other exigency based on recommendations made by SHQ/HQ-IDS/Department of Defence/Defence (Finance). All proposals that need to be included in the AAP for reasons stated above should be put up to DPB for approval prior to inclusion in the AAP. The Acquisition Wing will process all acquisition proposals incorporated in the AAP under the overall guidance of the DPB.
Chapter II – Procurement Procedure for Categories Under ‘Buy’, and ‘Buy and Make’ Schemes

Acquisition Process

1. The acquisition process for the five categories of procurement under the ‘Buy’ and ‘Buy & Make’, schemes will involve the following processes:

   a) Request for Information (RFI).
   b) Services Qualitative Requirements (SQRs).
   c) Acceptance of Necessity (AoN).
   d) Solicitation of offers.
   e) Evaluation of Technical offers by Technical Evaluation Committee (TEC).
   f) Field Evaluation.
   g) Staff Evaluation.
   h) Oversight by Technical Oversight Committee (TOC).
   i) Commercial negotiations by Contract Negotiation Committee (CNC).
   j) Approval of the Competent Financial Authority (CFA).
   k) Award of contract/Supply Order (SO).

Request for Information (RFI)

2. The RFI would be published on MoD and SHQ websites for seeking relevant information, on specific procurement schemes. The issue of RFI is not a commitment for procurement.

3. The main objectives of the RFI are as follows:

   a) To formulate/refine/rationalize the SQRs; this exercise may involve rational combination of different product specifications, and should result in a practical, achievable and aspirational product requirement.
   b) To generate input for structuring the RFP.
   c) To aid in deciding the acquisition category, based on the Defining Attributes (as detailed in Appendix (xxx) to this Chapter).
   d) To determine the indicative budgetary and cost implications.

4. The RFI should clearly indicate the following:
a) Capabilities sought in the equipment/system/platform (draft SQRs/operational requirements).
b) Quantity required and anticipated delivery timeframes.
c) Tentative time schedule for the acquisition processes (issue of RFP).

5. The RFI should seek the following inputs from the vendors:

a) Details for generating/refining/rationalizing the SQRs.
b) Details that go into determining the cost of the scheme, including factors such as Annual Maintenance Contract (AMC), product support package, training etc.
c) Scope, depth and range of ToT, and key technologies identified by DRDO.
d) Capability of Indian vendors to indigenously design and develop the required equipment.
e) Applicable key technologies and materials required for manufacturing of the equipment/system/platform, and the extent of their availability, or accessibility in case they are not available in India.
f) Availability of the equipment/system/platform in the Indian market, level of indigenization, delivery capability, maintenance support, life time support, etc.
g) Approximate cost estimation and suggestions for alternatives to meet the same objective as mentioned in RFI.

6. RFI may also be issued in certain cases as advance intimation for the vendors to obtain requisite government clearances. Adequate time should be given to vendors after placing the RFI on the MoD and SHQ web sites, for a structured response and interaction.

7. RFI should be formulated by SHQ, in consultation with DRDO, DDP and HQ-IDS to ensure that comprehensive response is generated from vendors, to facilitate addressing all aspects of operational requirements and defining attributes. A copy of the RFI will be shared with DRDO, DDP and HQ-IDS, for their comments, which should be provided within the stipulated timeframe post which it will be considered as ‘nil-comments.’ The comments obtained would be duly incorporated. RFI should ask the vendor for details as per Appendix (xxx) to Chapter II.

8. Extensive interactions with the vendors will be planned by the HQ-IDS/SHQ, after uploading the broad details of the scheme on MoD and SHQ
websites. After interaction, vendors may be given sufficient time to respond to the RFI. Based on general information that is obtained from the vendors, the ‘Competency Map’ of the participating Indian industry should be updated by DDP.

**Services Qualitative Requirements (SQRs)**

9. **Attributes of SQR:** The RFI process aims to validate the possibility of realizing and achieving the broad scope of Qualitative Requirements (QRs), which may be described by a set of Operational Requirements (ORs). The ORs will be determined and developed by the SHQs, and will not be a part of the RFP, but will guide in laying down the criteria for the finalisation of SQR parameters for testing and validation.

10. **Characteristics of SQR:** All capital acquisitions will be based on Services Qualitative Requirements (SQR), which need to lay down the fundamental user requirements in a comprehensive manner. The SQRs need to be detailed, realistic, achievable, and verifiable, and must avoid ambiguity of any type. SQRs must be broad based and must not be tailored from/for a particular product or service, and must result in procurement of the items that best meet the requirements of the forces. As far as possible, SQR should specify the requirement of military grade, ruggedised and Commercially Off the Shelf (COTS) items. It may not be viable for all vendors to produce a complex and costly equipment precisely customized for unique requirements, within limited time and in limited numbers, for assessment and evaluation at Field Evaluation Trial stage. Hence the parameters of SQR, which are generated through RFI process, will be detailed as part of the RFP, and are classified as under:

10.1 **Essential Parameters - A:** These are parameters that are generally a part of the contemporary equipment available in the market, and form the core of the SQR; Essential Parameters - A will be tested and validated at FET stage itself.

10.2 **Essential Parameters - B:** Though not available originally in the equipment fielded for the FET, these parameters can be developed and achieved by the vendors using available technologies. Essential Parameters – B may also be incorporated in the SoC, for provision of partial quantities of the items being procured, to meet different/higher
specifications for specific operational requirements. These parameters need to be tested and validated within a specified time frame as stipulated in the contract. These tests for Essential Parameters – B should also validate that there is no adverse effect on any of the Essential Parameters – A. However, vendors should be able to substantiate and need to provide an undertaking, at the bid submission stage, that they will develop and meet the Essential Parameters - B with their existing capabilities, on entering into a contract. In procurement cases involving Essential Parameters – B, an additional bank guarantee valued between 5% and 10% of the contract value of equipment required with Essential Parameters - B, as determined by the AoN according authority, needs to be submitted, in addition to the performance bank guarantee; the quantum of the additional bank guarantee must be stated in the RFP. Failure to meet the Essential Parameters - B after signing of the contract and within the stipulated time frame, will lead to forfeiture of all bank guarantees (performance bank guarantee, additional bank guarantee and advance bank guarantees if any) and attract other penal provisions as may be prescribed by the Government. On meeting the Essential Parameters – B as per contract terms, the additional bank guarantee will be released and returned to the contracted vendor. Essential Parameters – B will not be evaluated at the FET stage, even if any equipment, as claimed by the vendor(s), can meet them. Essential Parameters - A and Essential Parameters - B are non-negotiable requirements to be met by the vendor, prior to commencement of equipment delivery. The provision to incorporate Essential Parameters – B will be used only when required, with DAC’s approval, and will not be used when two or more vendors claim to possess the same at the RFI stage. Essential Parameters – B will not be included in ab-initio single vendor cases.

10.3 Enhanced Performance Parameters (EPP): EPP are those parameters that enhance the capability of the equipment, vis-à-vis the essential parameters; a SQR may not contain EPP in all cases. Inability to meet the EPP does not preclude vendors from being eligible for the bidding/bid evaluation. However, if a vendor claims to have equipment meeting the EPP, then they must provide details of the same in their technical bids, which have to be tested for compliance during the field evaluation trials itself. Equipment successfully meeting the EPP parameters will be awarded a credit score of up to 10%, for
evaluation of L1, with each individual attribute not exceeding a credit score of up to 3%, as approved by the AoN issuing authority. Bid evaluation criteria/determination of L1 for categories of cases involving EPP, is as elucidated in paragraph 10.3.1 (Chapter II).

10.3.1 In case a procurement involves EPP, then the EPP and their credit scores need to be explicitly detailed in the RFP. In such cases, if the equipment supplied by a vendor does not have the EPP, then the commercial quote of the vendor, for the purpose of L1 determination, remains as it is. In cases where a vendor equipment meets the EPP, the commercial quote will be multiplied by a credit factor less than 1 and greater than or equal to 0.9, based on the additional technical score assigned for the EPP, as detailed in the RFP. For example, if a vendor quotes Rs. 10 crores for an equipment, and meets a certain EPP for which an additional credit score of 2% is being provided, then the commercial quote of this vendor will be considered for L1 determination purpose only, as Rs. 9.8 crores (10 crores multiplied by 0.98), and not Rs. 10 crores; however, for all purposes other than L1 determination, the value of the commercial quote will be considered as Rs. 10 crores only.

11. **Preparation:** The SQRs would be drafted by the user directorate at SHQ. In order to make broad based SQRs, information will be sought from defence attaches, internet, defence journals/magazines/exhibitions, previously contracted cases in such category, and any other relevant and credible information source; these are in addition to obtaining the required inputs through the issue of RFI. The inputs so obtained should result in the form of a compliance table of SQRs, vis-a-vis technical parameters of equipment available in world market, in as much detail as possible. Draft SQR would be circulated by SHQ to all stakeholders concerned for obtaining their views/comments including other possible user directorates, maintenance directorate, HQ-IDS, DRDO, DDP, Director General of Quality Assurance (DGQA)/Director General of Aeronautical Quality Assurance (DGAQA)/Director General Naval Armament Inspectorate (DGNAI), Directorate of Standardisation, Technical Managers and any other necessary department. These agencies will also be represented on the Staff Equipment Policy Committee (SEPC) for approving the SQRs. Records in respect of
Qualitative Requirements (QRs) will be maintained by the User Service(s). In cases where there is commonality of equipment, the HQ-IDS will constitute a Joint Staff Equipment Policy Committee (JSEPC) with representation from the services concerned, for the preparation of the Joint Service Quality Requirement (JSQR). If an ab-initio single vendor situation is likely, then the case will progress as per provisions of paragraph 100 (Chapter II).

12. The resources of SEPC may be augmented by professional technical experts who have extensive knowledge/experience on the equipment/ systems under consideration. Their services should be utilized for review, rationalisation and finalization of the SQRs, prior to accord of approval. HQ-IDS/SHQ may maintain a list of such experts from appropriate fields, which may include experts drawn from academia and/or experts from industry, as required.

13. **Approval:** SQR must be approved by the competent authorities at the respective SHQs. A copy of SQR duly approved by the respective SHQ authorities would be submitted along with the ‘Statement of Case’ for seeking AoN. No changes to the SQR will be permitted after obtaining the AoN. In situations where SQRs need to be amended post the issuance of AoN, a fresh AoN has to be obtained with the amended SQR.

14. **Amendment to SQR Parameters:** Changes pertaining to detection of typographical errors or discrepancies (if any), prior to the issue of RFP, after obtaining AoN, may be permitted with due approval of the AoN according authority, provided that they would neither put any vendor at a disadvantage, nor materially change the character of the RFP.

**Acceptance of Necessity (AoN)**

15. In order to seek AoN, the SHQs would prepare a Statement of Case (SoC), and draft RFP as per format at Appendix (xxx) and Schedule (xxx) respectively of the DPP. The SoC will include assessment of the acquisition category against the Defining Attributes as given at Annexure (xxx) to Appendix (xxx) of DPP. The SoC and draft RFP would be signed, with date, by the Head of the respective User/Plans Directorate/equivalent of the Services. Six copies of the SoC would be prepared, justifying the procurement proposal. One copy each would be forwarded to DDP, DRDO, MoD (Fin), Acquisition Manager, Technical Manager and Administrative Branch of MoD. The SoC
would include the total quantities required, the break up based on five years plans, and the quantity that is required to be procured in next two years. The quantity vetting would be recommended by the Administrative Branch in consultation with MoD (Fin). The quantities duly vetted along with other comments on the proposal, would be sent back to the SHQ, within the indicated time frame. DRDO and DDP will also forward their comments to SHQ, who would then compile all the comments and give their final views. The SoC along with all the comments, would then be forwarded to HQ-IDS, which would examine aspects of interoperability and commonality of equipment for the three Services. The SoC would thereafter be placed for consideration of the categorisation committees (SCAPCC/SCAPCHC). In cases of equipment/systems/platforms made of technology having short obsolesce cycles, appropriate timelines pertaining to the various stages of procurement must be provided for approval, by the AoN according authority at the time of according AoN.

16. The SCAPCC/SCAPCHC will also invite industry representatives, associations/representatives nominated by industry associations, whenever participation by Indian industry is probable. The representatives so invited would give presentation and clarifications, as required by the Categorization Committee. The representatives would, however, not be present in the internal discussions and during the decision making process of the Categorization Committee. Based on the inputs received, the Categorization Committee will submit its recommendations to the AoN according authority.

17. After evaluating the recommendations of the SHQs/initiating departments, the SCAPCC will refer the cases for according AoN to SCAPCHC for an estimated cost up to Rs. 150 Crores. For cases beyond Rs. 150 Crores, the SHQs/initiating departments will refer cases to the SCAPCHC, which will carry out the task of categorization, based on the recommendations of SHQs/initiating departments, and refer the cases between Rs. 150 crores to Rs. 300 to the DPB, and refer cases beyond Rs. 300 crores to DAC for accord of AoN.

18. In order to ensure that AoN according process is completed in a time bound manner, each case would be processed by DRDO/DDP/MoD/MoD (Fin) within four weeks of receipt, so that the proposals are considered by the Categorisation Committee within a 4 to 6 week cycle.
19. Cases in which ToT is being sought, the appropriate Production Agency (PA) would be approved by the AoN according authority based on the recommendations of the SCAPCHC/DPB/relevant lower categorisation body. The PA could be selected from any of the public/private firms including a joint venture company based on the inputs from DDP and, if required, from DRDO. Cases in which foreign vendors are allowed to select an Indian production agency, the eligibility criteria of PAs, will be provided in the RFP. The eligibility criteria for Indian private firms as PA, shall be promulgated by the DDP.

20. Cases in which the total requirement of equipment/weapon system is spread over two or more plan periods, the AoN will be processed for the entire quantity, clearly indicating the quantities sought during various periods/stages. The AoN once accorded will be deemed to be valid for the subsequent procurements also; however, quantity vetting would be done at each subsequent stage.

21. AoN for categories under ‘Buy’ and ‘Buy and Make’ schemes will be valid for six months, AoN will be valid for one year in case of ‘Buy and Make (Indian)’ category, and all turnkey projects. AoN would lapse for all cases where the RFP for approved quantity is not issued within the original validity period of AoN. In such cases, the SHQ would have to re-validate the case and seek fresh AoN with due justification for not processing the case in time. For cases where the original RFP has been issued within the original validity period of AoN and later retracted for any reason, the AoN would continue to remain valid, as long as the original decision and categorization remain unchanged, provided the subsequent RFP is issued within a period not exceeding the original validity period of the AoN, from the date of retraction of original RFP.

22. Preference will be given to indigenous design, development and manufacturing of defence equipment. Therefore, whenever the required arms, ammunition & equipment are possible to be made by Indian Industry, within the time lines required by the Services, the procurement will be made from indigenous sources. While examining procurement cases, the time taken in the procurement and delivery from foreign sources vis-à-vis the time required for making it within India, along with the urgency and criticality of the requirement will be examined before deciding to proceed on categorisation. Accordingly, the Categorisation Committees, while
considering categorisation of all capital acquisition under the Defence Procurement Procedure (DPP), will follow a preferred order of categorisation, as detailed in paragraph 4 (Chapter I).

23. In accordance with the order or preference prescribed at Paragraph 4 (Chapter I), all Statements of Cases (including cases under Chapter IV ‘Procedure for Defence Shipbuilding’ and cases under Chapter V ‘Fast Track Procedure’) seeking AoN shall contain (at paragraph (xxx) of Appendix (xxx)) a detailed justification for recommending categorisation as well as reasons why each of the higher preferred categorisation have not been considered suitable for the purpose. Considering the merits of the case and the requirement timelines, DAC may approve any procurement to be pursued under the FastTrack Procedure, at the time of AoN, to ensure expeditious procurement for urgent operational requirements foreseen as imminent or for situations in which a crisis emerges without a prior warning.

24. The categorization committees may recommend higher or lower threshold of indigenous content than those stipulated for various categories in paragraphs 7 and 8 (Chapter I). Detailed justification for the same should be submitted while seeking AoN.

25. **Procurement from Director General of Supplies & Disposal:** After AoN, for the procurement of common user equipment available at Director General of Supplies & Disposal (DG S&D) rate contracts, has been accorded by DAC/DPB/SCAPCHC, approval of CFA will be sought and orders will be placed directly, by SHQ, on the DG S&D approved source of supply (Rate Contract Holders).

26. **Procurement from SHQ units:** Products developed by Army Base Workshops, Naval Dockyards and Air Force Base Repair Depots for ‘in house’ requirements can be procured by the Services from these agencies under ‘Buy (Indian – IDDM)’ or ‘Buy (Indian)’ category with the approval of SCAPCHC. The total cost of proposed quantity of each item required by SHQ under this procurement will be within the delegated powers of the SHQ. The costing of such proposals will be vetted by the IFA with the respective Services. SHQ can carry out user trials for the equipment without issue of RFP. Procurement of the equipment will be done by the services by placing indents.
27. **Offsets:** The offset clause would be applicable for ‘Buy (Global)’ or ‘Buy and Make’ categories of procurements where the indicative cost of acquisition is Rs. 2000 Crores or more, as on the date of accord of AoN. However, DAC may consider partial or full waiver of offset clause. In case of a waiver for a particular acquisition case, eligible/selected Indian vendors need to be exempted from the corresponding IC stipulations. The procedure for implementing the offsets provisions is given at Appendix (xxx) to this Chapter.

**Solicitation of Offers**

28. Solicitation of offers will be as per ‘Single Stage - Two Bid System’. It will imply that a RFP would be issued soliciting the technical and commercial bids together, but in two separate and sealed envelopes.

29. Once the SQRs have been finalised, the sources of procurement of the weapon system/stores shall be ascertained and short-listing of the prospective manufacturers/suppliers carried out by the SHQ, in accordance with guidelines issued by Acquisition Wing from time to time. The short-listed vendors will be the Original Equipment Manufacturers (OEMs) or authorised vendors or export agencies authorized/sponsored by foreign Governments (applicable in the case of countries where domestic laws do not permit direct export by OEMs). In cases involving ToT, the short-listing of the vendors would take into account their ability to transfer requisite technology for indigenous production. The Technical Managers may increase the short-listed vendor base based on vendor capability; Acquisition Wing will maintain a databank exclusively for this purpose. Keeping the security and other relevant aspects in view, appropriate publicity may be given to the proposed procurement with a view to generate maximum competition. In order to generate maximum vendor response the following means would be adopted:

a) **Vendor identification through internet:** Necessary information derived from operational requirements of the Services would be made available on the MoD and SHQ websites. All vendors desirous of responding to any of the listed proposals would be asked to send their request to the Technical Managers concerned as per the format at Appendix (xxx) to this Chapter, which would also be uploaded on the website. All the relevant details like the financial status of the company,
product structure with specifications, annual report, past supplies/contracts etc., will be sought from the prospective vendors. On scrutiny of their response, interested vendors would be included in the vendor database. This database would be product/system specific. The vendor database may be shared with various Industry associations as deemed necessary.

b) **Case Specific Advertisement on the Internet:** In addition to the method indicated in sub para (a) above, when a case is being processed for seeking AoN, the SoC would also include information regarding the specific procurement, that can be placed on the MoD and SHQ websites to generate larger vendor response. This aspect would be discussed and deliberated by the SCAPCC/SCAPCHC to recommend as to whether or not the information can be placed on the MoD and SHQ websites. For cases which are recommended to be placed on the websites the nature/scope of the information would also be indicated, keeping the security concerns of the services in mind. A draft format indicating nature/scope of information to be provided in such cases is placed at Appendix (xxx) to this chapter. After DAC/DPB/SCAPCHC accords approval, the details would be placed on the MoD website by respective SHQ and the vendors would respond to Technical Manager concerned as per the format at Appendix (xxx) to this chapter.

c) Expression of Interest (EoI) and advertisements through newspapers may be resorted to in case the measures adopted above do not generate sufficient vendor responses.

d) Subsequent to the accord of AoN, additional vendors who did not respond to the RFI, may express interest for receipt of RFP and submission of bid, within four weeks from the date of publication of details on the MoD and SHQ websites, by the SHQ.

30. It would be open for the Acquisition Wing in MoD to procure “Commercially Off the Shelf” (COTS) equipment, not available on DG S&D rate contract as per provisions in paragraph 25 (Chapter II), on the basis of open tenders.

31. The procedure for RFP vetting and issue will be as follows:

a) All activities internal to SHQ for preparation of RFP, which includes consultation with all agencies concerned such as procurement and maintenance directorates at SHQ, Quality Assurance agencies, DRDO
etc. would be completed prior to consideration of the case by SCAPCC/SCAPCHC. All issues identified after internal vetting of draft RFP at SHQ, which merit incorporation in the SoC for AoN, be included in the SoC for consideration by SCAPCC/SCAPCHC.

b) Concurrent to the circulation of the SoC, a draft RFP will be circulated to AM, TM, FM, and other stakeholders. Observations, if any, will be intimated to the SHQ, based on which the SoC and the RFP will be amended accordingly. Collegiate vetting of RFP will be done after the accord of AoN.

c) In cases where ToT is being sought, the nominated production agency would prepare the detailed ToT requirements for inclusion in the RFP. In ‘Buy and Make’ cases where the choice of PA has been left to foreign vendors, the DRDO would prepare the detailed ToT requirements.

d) Approval of DG (Acquisition)/VCOAS/VCNS/DCAS/CISC/DG ICG for issue of RFP would be obtained after accord of AoN.

e) The RFP will be issued by the respective Technical Managers.

f) No addition to the vendors would be allowed after issue of the RFP.

**Buy and Make (Indian)**

32. The process of issue of RFI etc. for such cases shall follow standard acquisition processes as per paragraphs 2 - 14 (Chapter II), except that SQRs can be finalised after the issue of AoN, but prior to issue of RFP in ‘Buy & Make (Indian)’ cases.

33. While seeking AoN under paragraphs 15 - 24 (Chapter II), the SHQ shall specify in the SoC the ratio of distribution of technologies required to be absorbed by the Indian vendor, as per categorizations given at Para 1(k) of Appendix (xxx) to Schedule (xxx) of this Procedure. These technologies shall be identified in consultation with DRDO. Other technologies to be absorbed shall be determined by the Indian vendors at their discretion.

34. Preliminary SQRs (PSQRs) shall be appended to the SoC while seeking AoN for ‘Buy & Make (Indian)’ cases. AoN for such cases shall be valid for a
period of one year from the date of accord.

35. Solicitation of offers shall be progressed as per paragraphs (28 - 31), and 43 - 54 (Chapter II).

36. First stage vendor short-listing by SHQs under paragraph 29 (Chapter II) shall be carried out based on PSQRs approved at the AoN stage. However, after accord of AoN but prior to issue of RFP, the SHQ shall hold consultations along with DDP and DRDO representatives with the first stage short-listed vendors. These consultations may relate to PSQRs, delivery timelines and technology absorption aspects.

37. Representatives of DDP and DRDO will be associated with vendor list finalization under paragraph 29 (Chapter II).

38. If required, representatives of DDP and DRDO shall be associated with collegiate vetting of RFP under paragraph 31 (b) (Chapter II).

39. The RFP shall seek an indigenisation and a technology absorption plan in strict accordance with (i) IC requirements at various stages of the delivery schedule, and (ii) technology absorption requirements, as detailed in the RFP.

40. Further processing of these cases shall be undertaken as per procedure prescribed for ‘Buy and Make’ category.

41. Vendors, while responding to the RFP, shall ensure that their foreign partner(s) from whom technology transfer is obtained should be OEMs or their authorised licensees, design agencies or government sponsored export agencies. In addition, such foreign partner(s) should not have been debarred, suspended or put-on-hold by the MoD.

42. The Indian vendors participating in such cases shall remain liable to achieve mandatory IC requirements for this category as laid down under paragraph 8 (Chapter I).

43. **Unsolicited Bids:** Bids/response to RFPs shall not be accepted from any vendor, other than those vendors to whom a RFP has been issued.
44. **Change of Name of Vendor:** Whenever a change in vendor name occurs during any stage of procurement process - from submission of RFI till execution of complete contract - due to any reason such as change in business strategy, merger and acquisitions, or any other reason, guidelines/procedure as given at Appendix (xxx) of this chapter, are to be followed. Whenever a vendor applies to regulatory authorities for change of name, it must inform the SHQ User Directorate/MoD at the earliest. Notwithstanding the on-going process of change of name of any vendor concerned, the procurement process shall continue. On approval of change of name of vendor by legal authorities, and issuance of new certificate of incorporation by Registrar of Companies (ROC)* or any other relevant authority, all relevant documents, self-authenticated by authorised representative of new vendor (legal entity), must be submitted to the SHQ User Directorate/MoD by vendor at the earliest. Also an undertaking by the new vendor as applicable has to be submitted as per the format given in Annexure Appendix (xxx). Grant of consent for change of name by authorities concerned at SHQ/MoD is subject to submission of all relevant documents.

*Note 1:* Registrar of Companies (ROC) are appointed as per the applicable provisions of Companies Act, covering various States and Union Territories of India. For the purpose of this paragraph and related appendix and annexure thereof, the term ROC also includes relevant regulatory authorities of different countries in case of foreign vendors.

**Request for Proposal (RFP)**

45. The RFP will be a self-contained document that will enable vendors to make their offer after consideration of full requirements of the acquisition. A standardised RFP document is attached as Schedule (xxx) to Chapter I. This will be applicable for all acquisitions. It will generally consist of four parts as under:

a) The first part elaborates the general requirement of the equipment, the numbers required, the time frame for deliveries, the environmental parameters for functioning, conditions of usage and maintenance, requirement for training, Engineering Support Package (ESP), Offset obligations (if applicable) and warranty/guarantee conditions, etc. It specifies the prescribed procedure and last date and time for submission of offers.
b) The second part of the RFP incorporates the SQRs describing the technical parameters of the proposed equipment in clear and unambiguous terms. In case equipment is being procured for the first time and needs to be evaluated, the RFP will include the requirement of field evaluation on a ‘No Cost No Commitment’ (NCNC) basis. Compliance of offers would be determined only based on the parameters spelt out in the RFP.

c) The third part of the RFP outlines the commercial aspects of the procurement, including clear statements on Payment Terms, Performance-cum-Warranty Guarantees, additional bank guarantee in respect of Essential Parameters - B (if applicable), and Guarantees against Warranty Services to be performed by the supplier. It also includes standard contract terms along with special contractual conditions, if any.

d) The fourth part of the RFP defines the criteria for evaluation, trial methodology, and acceptance, both in terms of technical and commercial contents. A format will be enclosed for submission along with commercial offer to facilitate preparation of Comparative Statement of Tenders (CST) duly incorporating credit score for EPP wherever applicable, and identification of Lowest (L1) vendor. Submission of incomplete details in the format enclosed, along with commercial offer, will render the offer liable for rejection.

46. In cases where ToT is involved, the RFP would include the requirement for indigenous manufacturing under ToT. The RFP should spell out the requirements of ToT in scope, range and depth of the technology required. These could cover technology for repair and overhaul, production from Completely Knocked Down (CKD)/Semi Knocked Down (SKD) kits and production from raw material and component level. Aspects to be included in the RFP, in case production from SKD/CKD/Indigenous Manufacture (IM) Kits is based, are given at Appendix (xxx) to the RFP Document at Schedule (xxx).

ToT for Maintenance Infrastructure

47. The provision of ToT to an Indian vendor, for providing Maintenance
Infrastructure, would be applicable for ‘Buy (Global)’ category cases. The decision to apply this clause would be discussed and deliberated in the relevant lower Categorisation Committee meetings on a case to case basis and approved by AoN according authority. In such cases, the vendor would have to transfer technology for maintenance to an Indian entity which would be responsible for providing base repairs (third line) and the requisite spares for the entire life cycle of the equipment, and the cost of MToT is to be borne by Indian private entity or the Government, as the case may be. The Indian entity could be an Indian vendor or entities like OFB/Army Base Workshops/Naval Dockyards/Naval Aircraft Yards/Base Repair Depots of Air Force. This entity would be identified at SCAPCHC/SCAPCC stage and would be included in the recommendations of SCAPCHC/SCAPCC as also in the SoC submitted to the AoN according authority for accord of AoN. Existing technical arrangements if any, of the foreign OEMs with Indian industry, may be taken cognizance of. The RFP would spell out the specific requirements of ToT for Maintenance Infrastructure that could cover the production of certain spares, establishment of base repair facilities including testing facilities and the provision of spares for the entire life cycle of the equipment. Both the vendor and the nominated Indian entity would be jointly responsible for providing the maintenance facilities and support for that equipment. Guidelines pertaining to the selection of Indian private entity, will be promulgated by DDP.

48. The concept of maintenance for all types of equipment should normally be based on estimation of the cost of ‘life cycle product support’ of the equipment. Towards this end, and for all cases above Rs. 100 Crores, the RFP should seek the cost of the Manufacturer’s Recommended List of Spares (MRLS), itemised Spare Parts Price List, optional equipment, and the likely consumption rate of the spares based on the exploitation pattern of the equipment. The RFP should also mention that the vendor would have to finalise the terms for the life time product support in the current contract only.

49. Consequent to the issue of RFP, a number of queries relating to the RFP may be raised by the vendors. It should be ensured that all the queries are answered in an acceptable time frame so that the vendors are able to submit their techno-commercial offers by the due date. If necessary, a pre-bid meeting of all the vendors may be invited by the user directorate along with representatives from Weapons Equipment Directorate/ACNS (P&P)/ACAS
(Plans), representatives of Defence Offset Management Wing (DOMW) for Offset matters, representatives of PA for ToT/MToT matters, and TMs and FMs. The clarifications should be processed by the SHQ and be given in writing to all the vendors by the TMs preferably within 3 weeks of the pre-bid meeting. However, it needs to be ensured that the parameters of RFP (SQRs) should not be changed/amended at this stage.

50. The offers received should be opened on the notified date & time, by the members of a committee chaired by the TMs/SHQs, in the presence of the bidders or their authorised representatives, as may choose to be present. The committee will open the envelope containing the sealed technical and commercial offers. The technical offer will be opened by the committee and sent to SHQ for evaluation by a Technical Evaluation Committee (TEC) and the sealed envelope containing the commercial bid will be sent to the AMs/SHQs, unopened. Offers which do not conform to the prescribed procedure for submission of offers, as laid down in paragraph 21 of the standardised RFP (Schedule I), or which are received after the scheduled time for submission of offers, and unsolicited offers, will not be accepted.

51. In case a single bid is received at the bid submission stage, SHQ may proceed with the process and complete the Technical Evaluation without retracting the RFP. Within 4 weeks from the acceptance of the Technical Evaluation Committee (TEC) report, the case must be referred to the AoN according authority. In case it is concluded that there is no scope for change in SQRs and other conditions of the RFP; and that retraction and reissue of RFP is not likely to increase the vendor base, then the case may be progressed with the approval of DAC, provided the vendor agrees to hold the original commercial bid till completion of the procurement process. In such single vendor situation, efforts should be made to complete the acquisition process before expiry of original validity of commercial bid.

52. In case of Buy and Make (Indian) category, situations may arise in which all bids submitted by Indian vendors, indicate a collaboration with a single foreign vendor. Such cases have to be discussed and deliberated by the AoN according authority, and if it is concluded that there is no scope for change in SQRs and other conditions of the RFP; and that retraction and reissue of RFP is not likely to increase the vendor base, then the case may be progressed with the approval of the DAC.

53. In case of Buy and Make category, situations may arise in which all bids
submitted by foreign vendors, indicate a collaboration with a single Indian vendor, where foreign vendors were permitted to select an Indian Production Agency. This may also not be treated as a single vendor situation, as techno commercial arrangement of collaboration for each foreign vendor may be different from those of other vendors.

54. **Extension of Time:** No extension of time will be provided under normal circumstances. However, situations may arise in which it may be appropriate to extend the time allowed for submission of offers. If an extension is being sought by the vendor, the request with justification must be received by the TM concerned from the vendor at least two weeks prior to bid submission date, failing which such requests may not be entertained. The extension so granted should not exceed a period of eight weeks from the original date of submission of offers. Extension of only four weeks could be given by the DG (Acquisition)/VCOAS/VCNS/DCAS/CISC/DG-ICG, and the approval for any further extension has to be sought from the Raksha Mantri.

**Technical Evaluation Committee (TEC)**

55. A TEC will be constituted by the SHQ for evaluation of the technical bids received in response to RFPs, with reference to the QRs, under an officer from the SHQ. It will include, representatives of the user service, maintenance agency, representatives of QA. In addition, in cases where ToT is involved, TEC will also include representatives of PA and DRDO, as deemed necessary. The TEC will examine the extent of variations/differences, if any, in the characteristics of the equipment offered by various vendors with reference to the QRs as given at Appendix (xxx) to RFP, and prepare a ‘Compliance Statement’ short listing the equipment for trials/induction into service, as applicable. TEC will also examine compliance of vendors to provisions of RFP as listed at Appendix (xxx) of the Schedule (xxx). Non-compliance of vendors to any of the required provisions would lead to rejection of the bid at this stage. Cases where ToT for maintenance infrastructure to an Indian Public/Private entity is sought, the TEC will examine the joint compliance of the OEM and the Indian entity for establishing the required maintenance infrastructure as laid down in the RFP. In cases where an OEM bids, along with other vendors supplying the same product of the OEM, only the bid of the OEM will only be accepted.
The TEC may invite the vendors for technical presentations/clarifications on technical issues.

56. A technical offer, once submitted, should not undergo subsequent material changes. However, minor variations which do not affect the basic character/profile of the offer may be acceptable, under the following conditions:

a) To ensure fair play, an opportunity to revise minor technical details should be accorded to all vendors in equal measure.

b) No extra time to be given to any vendor to upgrade their product to make it SQR compliant; except in case of essential parameters – B, as detailed in paragraph 10.2 (Chapter II).

c) No dilution of SQR is carried out.

d) The original commercial quote submitted earlier must remain firm and fixed.

57. The Director General (Acquisition) will formally accept the report of the TEC, after due examination by the Technical Manager concerned. Issues, if any, raised by the Technical Manager on the TEC Report should be addressed in a collegiate manner with the Service Head Quarter. For delegated power cases, the TEC report will be approved and accepted by the respective CFAs at the SHQs. In case of a single vendor situation, post technical evaluation by TEC, procurement process will continue as planned without retracting the RFP for this reason, provided the vendor agrees not to revise the commercial bid, during the remaining part of the acquisition process. SHQ will however examine reasons for single vendor situation, record the same in their report, and submit the report to the AoN according authority. In case it is concluded that there is no scope for change in SQRs and other conditions of the RFP; and that retraction and reissue of RFP is not likely to increase the vendor base, then the case may be progressed with the approval of the DAC, provided the vendor agrees to hold the original commercial bid till completion of the procurement process. In such single vendor situation, efforts should be made to complete the acquisition process before expiry of original validity of commercial bid.

**Field Evaluation Trials (FET)**

58. Field Evaluations Trials (FET) will be conducted by the User Service on the
basis of trial methodology given in the RFP. The trial methodology should be comprehensive and un-ambiguous in its scope. Methodology for evaluation of each parameter should also be clearly detailed in the RFP, so that the vendors fully understand its implications. Parameters which can be evaluated at TEC stage, based on documents or certificates rendered by accredited agencies, may not be included in the field trials. The scope of field trials should be optimized to cover all required parameters and the trial methodology must be approved by the Principal Staff Officer (PSO) concerned at the SHQ, prior to the inclusion in the RFP.

59. The manufacturers of the short listed equipment shall be asked to send the desired number of units of the equipment/weapon system to India for FET. SHQ will formulate the Trial Directive in conformity with the trial methodology given in the RFP and constitute the Trial Team. The trial directive must specify the fundamental points that need to be addressed for validating the essential parameters, and EPP along with the evaluation score credits thereof, as stipulated in SQRs. The SQRs of the equipment would be a part of the trial directive. Parameters not mentioned in the RFP should not be considered for FET. The validation of the support system and maintainability trials, integral to and complimenting the trial programme of the weapon system, should be held simultaneously, wherever feasible. Representatives of DRDO, QA agency may also be part of the FET, based on requirement. A representative of the Acquisition Wing may also participate in the FET as an observer. After each stage of the trials, a debriefing of all the vendors would be carried in a common meeting (wherever feasible) as regards the performance of their equipment. Compliance or otherwise, vis-à-vis the RFP parameters, would be specifically communicated to all the vendors at the trial location itself. It would also be ensured that all verbal communication with the vendors is confirmed in writing within a week and all such correspondences are recorded and documented. FET shall be conducted by the user and a detailed Field Evaluation Report shall be drawn up and sent to SHQ for Staff Evaluation.

60. FET will be conducted by the user, only pertaining to conditions where the equipment are most likely to be deployed. In other conditions where the probability of deployment is not high, appropriate certifications confirming the functional effectiveness under such conditions may be obtained; in cases where applicable, simulations based testing may be resorted to. All weather
testing should be carried out only in cases in which such testing are absolutely essential. All the requirements for FET must be unambiguously stated in the trial methodology included as part of the RFP.

61. When specifically indicated in the RFP for low value items being procured in large quantities, the cost of items that are provided for FET would be reimbursed to the vendors who qualify in the FET. Relevant guidelines for the same will be issued by the Acquisition Wing, in consultation with the SHQ.

62. The requirement of FET/NCNC Trials will not be applicable for procurement cases in respect of acquisition/construction of Ships, Submarines, Yard Craft, Tugs, Ferry Craft and Barges, where there is no prototype available for conduct of NCNC Trials. However, Technical Evaluation and Delivery Acceptance Trials for these will be carried out.

63. The trial team, for equipment being procured for more than one Service, will have representatives of each Service for whom equipment is being procured. Such trial team will be headed by representative from the Service nominated as the lead Service. For trials of equipment involving ToT, representative of Production Agency may be included as an associate member.

64. Single OEM equipment being fielded by multiple Indian vendors may have joint trials if two or more Indian vendors so desire. The Indian vendors who will jointly field the equipment, may place a request and provide an undertaking that they will accept the trial results jointly and severally.

65. FET will normally be conducted on NCNC basis. There may be cases where trials are not visualised or trials need to be conducted abroad in vendor premises. Where field evaluation is not feasible, there may be possibility of conducting evaluation through computer simulation. In such cases, the exact scope of the trials shall be included in the Statement of Case while seeking the AoN. The SCAPCC shall debate the scope of trials and recommend suitable options to be approved by the SCAPCHC/DPB/DAC, as applicable.

66. There may be cases when, during the process of trials in India, it emerges that certain validations need to be carried out abroad in the vendor premises. This may be necessitated due to export restrictions, security related issues, availability of testing infrastructure/platforms or such like reasons. Permission for such validations to be carried out abroad would have to be
sought from the Raksha Mantri. Similar actions as given in paragraphs 58 - 65 (Chapter II), would be taken in the cases where Trial Teams are deputed abroad for evaluation purposes.

67. In certain cases, particularly in those involving integration of systems or sensitive equipment, the Acquisition Wing can depute a Multi-Disciplinary Technical Delegation abroad for evaluation and an Empowered Committee for negotiation purpose; both could be combined as a Multi-Disciplinary Committee. The Technical Delegation should have representatives, on need basis, from the user service, DRDO, Maintenance agency, QA agency and the TMs. In addition, AMs, and FMs or their representatives will be included in the Empowered Committee. Such committee would be constituted after due approval of the DPB.

68. After the acceptance of TEC Report, all selected vendors would be asked to provide their equipment for trials in India, except when trials are to be conducted at vendor premises. Any vendor failing to produce equipment for trials by due date would normally be given a grace period of 15 days to produce the equipment for trials. An additional grace period of up to 30 days may be obtained by SHQs from their respective Vice Chiefs or DG-ICG, keeping in view the practical time period necessary for trials. Equal opportunity would be provided to all vendors while granting such grace period. Wherever feasible, the entire trials viz. user, technical, Maintainability Evaluation Trials (MET) and EMI/EMC would be conducted simultaneously in order to save time. If the equipment is not fielded at the start of trials, then the vendor/equipment would not be considered at a later point of time.

69. All evaluations for confirmation/validation of parameters should be completed and accepted prior to commencement of the CNC. In cases where subsequent confirmation/validation are merited, the same would be approved in the Staff Evaluation Report duly recorded in the CNC minutes. Approval of CFA would be sought specifically on such issues.

**Staff Evaluation**

70. The Staff Evaluation will analyse the Field Evaluation results and shortlist the equipment recommended for introduction into the services. The Staff Evaluation Report will be approved by the Service Head Quarters and
forwarded to the Technical Managers. Issues, if any, raised by the Technical Manager on the Staff Evaluation Report, should be addressed in a collegiate manner with the Service Headquarter. After due examination, the Technical Manager, will submit the Report to the Director General (Acquisition) with recommendations for acceptance or otherwise. For delegated power cases, the staff evaluation report will be approved and accepted by the respective CFAs at the SHQs. In case no vendor meets the SQRs in the field evaluations, then the case would be foreclosed on approval of Director General (Acquisition), for MoD cases and the respective SHQ authorities for cases under delegated powers, and a fresh RFP will be issued after reformulating the SQRs. The SHQs would inform the appropriate vendors about result of trials and evaluation, along with reasons for disqualification. Such communication would be done after acceptance of TEC/Staff Evaluation/Technical Oversight Committee Report (whichever applicable).

71. Design and Development cases undertaken by DRDO/DPSUs/OFB will be progressed as follows:

a) SHQs will initiate SoCs for Design and Development cases from LTIPP/SCAP/AAP in consultation with DRDO/DPSUs/OFB.

b) AoN for Design and Development cases under 'Buy (Indian - IDDM)' category, with IC as specified by DRDO/DPSUs/OFB, would be sought by SHQ from the DAC prior to commencing the case. The SoC would include, inter alia, PSQRs; Minimum Order Quantity (MoQ); and timelines up to successful completion of trials and issue of commercial RFP. In certain cases where the quantities are limited and production by industry is not feasible, production could be undertaken by DRDO/DPSUs/OFB with the approval of DAC.

c) Design and Development of prototype by DRDO/DPSUs/OFB would be done as per their internal procedures. Competitive procedures shall invariably be followed. Once the prototype is ready, the PSQRs would be frozen and User trials of the prototype would be conducted by SHQ followed by Staff Evaluation to be approved by VCOAS/VCNS/DCAS/DG-ICG. The Staff Evaluation would also recommend validation trials, if felt necessary.

d) Post-prototype trials and staff evaluation, commercial RFP would be issued to the development-cum-production partner of DRDO or the DPSU which has undertaken the Design and Development project.
Indent would be placed on OFB in cases where it has undertaken the Design and Development. These cases would not be treated as single vendor situations.

e) The issue of commercial RFP and stages thereafter would be progressed as per provisions of DPP.

72. Cases in which bids have been submitted by more than one bidder in a competitive manner, and the Staff Evaluation after trials shortlists only one equipment for introduction into service would not be considered as a single vendor situation, as the techno-commercial offers would have been received before trials and the commercial bids were competitive in nature. Bidders had submitted their offers in an open competition and were not aware of any single bidder getting approved after the trials.

73. **Turnkey Projects:** There are cases where the project involves supply, installation and commissioning of varied machines/equipment for establishing specialized maintenance/ information technology/ communication/ storage/ overhauling facilities (with or without infrastructure) at one or more locations in country. Such products including up-gradation/modernization of existing assets may be carried out on Turnkey Basis and may also include setting up of requisite specialized technical infrastructure. The scope of such projects is large and varied involving number of activities, hence there is a requirement of identifying a single agency capable of completing the project on a Turnkey basis. In this context apart from the vendors listed as per paragraph 29 (Chapter II), reputed integrators would also be considered. Being a Turnkey Project, the trials are not initially envisaged till establishment of the Test Bed and hence it is essential to select the vendors with requisite capabilities prior to issuing RFP, as per the SOP (ID 3(65)/ D (Acq)/44) published by MoD, dated 17/10/14, and amended from time to time. For such cases, a Detailed Project Report (DPR) would be worked out by the SHQ concerned. It should lay down the detailed scope of work involved, bill of material, approximate cost estimates and the time frame for project completion. This report should be placed before the GSEPC for ratification. The DPR would be forwarded to the SCAPCC/SCAPCHC and thereafter to SCAPCHC/DPB/DAC as applicable, along with the Statement of Case while seeking the AoN and categorisation. In certain complex cases, the DPR may be outsourced by SHQ, the justification of which may be given in the statement of case for seeking the AoN. Consequent to the AoN, a committee would be formed comprising...
representatives of user directorate, maintenance directorate, DRDO, DDP, Def (Fin), Technical Manager and any other agency as deemed necessary, for carrying out the selection of the prospective vendors who would be issued the RFP. The sequence of procurement procedure in such cases would be:

b) Acceptance of Necessity.
c) Selection of Vendors.
d) Issue of RFP.
e) Technical Evaluations to shortlist the prospective vendors.
f) Price Negotiations.
g) CFA Approval and Contract conclusion.
h) Establishment of Test Bed.
i) Project Implementation.

74. **Technical Oversight Committee**: TOC must provide expert oversight over the technical evaluation process. The Acquisition Wing will constitute a TOC for all acquisition proposals in excess of Rs. 300 crore, and for any other case recommended by the Defence Secretary/DPB/DAC. The TOC will comprise three members drawn from a standing panel of specialists (serving Service Officers, DRDO scientists and DPSU officials). Members of the standing panel should be maintained by the Acquisition Wing for a maximum term of 2 years. Panelist nominated should have adequate seniority and experience and should not have been involved with that acquisition case, in any capacity in the past. The TOC will be tasked to see whether the trials, trial evaluations, compliance to QRs and selection of vendors were done according to prescribed procedures. Mandate of TOC would also include providing oversight on the adopted trial methodology during trials vis-a-vis trial methodology given in the RFP and the trial directive. The TOC will also review and bring out the status of a grievance or complaint, if any existing at this stage, pertaining to acquisition scheme, and will have to give its observations and recommendations, based on a majority decision, within 30 days, which may be extended by a maximum period of 15 days, with the consent of the Defence Secretary. Technical Managers of the Acquisition Wing will provide the secretarial support to the TOC and ensure availability of all inputs from DDP/Acquisition Wing, Defence Finance and SHQ to the TOC. The SHQ will clarify any queries raised by the TOC. The TOC report will be submitted to the Defence Secretary for approval.
**Contract Negotiation Committee (CNC)**

75. The CNC will be constituted after the staff evaluation report has been accepted. Initial activities of the CNC shall include benchmarking and all other activities prior to the opening of commercial bid. The standard composition of the CNC shall be as indicated at Appendix (xxx) to this chapter. Any change in the composition of the CNC may be effected with the approval of Director General (Acquisition). Where considered necessary, a Service officer or any officer other than from the Acquisition Wing of the MoD may be nominated as Chairman of the CNC with the prior approval of Raksha Mantri. The organisations/agencies concerned should ensure that their representatives in the CNC have adequate background and authority to take a decision without any need to refer back to their organisation/agency. The sealed commercial offers of the technically accepted vendors shall be opened by the CNC at a predetermined date and time under intimation to vendors, permitting such vendors or their authorised representatives to be present, only after the acceptance of the TOC report, wherever applicable. The bids of the competing firms shall be read out to all members present and signed by all members of the CNC. The CNC would carry out all processes after opening of commercial bids, till the finalization of CNC report.

76. In cases, where ToT for Maintenance Infrastructure is being sought, the maintenance contract involving the OEM, and the industry receiving the technology would also be negotiated along with the main contract.

77. The contract negotiation process would start with preparation of a ‘Compliance Statement’ incorporating the commercial terms offered in the RFP and that sought by the vendor(s), analysis of the discordance and the impact of the same. A similar statement would be prepared in regard to deviations noticed in the delivery schedules, performance-cum-warranty/guarantee provisions, acceptance criteria, Engineering Support Package (ESP), etc. Comprehensive analysis of the commercial offer would form the basis for subsequent decisions.

78. The CNC would prepare a Comparative Statement of Tenders (CST) with a view of evaluating the technically acceptable offers and determine the lowest acceptable offer (L1 Vendor); the methodology detailed in paragraph 10.3 (Chapter II), will be used wherever applicable.
79. Once the L1 vendor is identified in multi-vendor cases, the contract should be concluded with the vendor and normally there would be no need for any further price negotiations. However, it is important that the reasonability of the prices being accepted for award of contract should be established. In all cases, CNC should establish a benchmark and reasonableness of price, as a preliminary activity, in an internal meeting before opening the commercial offer. Wherever necessary, service of experts or information from institutional sources, may be utilized by the CNC for preparing benchmark price for a given scheme. Once the commercial offers are opened and the price of the vendor is found to be within the benchmark fixed in the internal meeting, there should be no need to carry out any further price negotiations. The RFP in multi-vendor cases should clearly lay down that no negotiations would be carried out with the L1 vendor once the reasonability of the price quoted by the vendor is established. Aspects of advance and stage payments (where applicable) should also be given upfront in the RFP so that it facilitates selection of L1 vendor.

80. In case it is found that the lowest tenderer (L1) is not able to supply the entire quantity within the prescribed time-frame, the CNC will have the authority to divide the quantity amongst other qualified tenderers (L2, L3…… in that order), on the condition that other tenderers accept the price and terms & conditions quoted by the lowest tenderer. In cases, where it is decided in advance to have more than one source of supply, ratio of splitting the supply would be pre disclosed in the RFP.

81. Cases in which contracts have earlier been signed and benchmark prices are available, the CNC would arrive at the reasonable price, taking into consideration the escalation/foreign exchange variation factor. The endeavour should be to conclude the CNC early so that the operational/urgent requirement of the indenting Service is met in a time-bound manner.

82. For certain category of items, where orders have been placed in the past or involves invoking of the Option Clause, there could be downtrend of prices since the last contract. It would thus be necessary for the CNC to verify that there has been no downward trend since the last purchase and this would have to be kept in mind while arriving at the prices.

83. To ensure product support during the assured life cycle of the product, the
CNC would finalise the following with the L1 vendor:

a) Assured supply of information on product/technological improvement, modifications and upgrades.

b) Obsolescence management and life time purchases.

c) An illustrated spares price catalogue with base price and pricing mechanism for long term.

84. In cases involving Buyer Nominated Equipment being procured from OFB, the commercial bid will clearly indicate the cost of BNE as quoted by OFB, with documentary proof. L1 in such cases will be determined after deducting the cost of the OFB supplied BNE, from the total cost quoted by the vendor. However, payment will be made after adding the actual cost of BNE, at the time of purchase from OFB by the vendor, to the L1 cost determined as mentioned above; the cost of equipment supplied by OFB will be considered minus excise duties and other applicable levies. This provision is applicable only in cases where the BNE has to be procured from OFB.

85. **Fall Clause:** An undertaking would be sought from the bidder that the bidder has not supplied/is not supplying the similar systems or subsystems at a price lower than that offered in the present bid in respect of any other Ministry/Department of the Government of India and if the similar system has been supplied at a lower price, then the details regarding the cost, time of supply and quantities should be included in the commercial offer. If it is found at any stage that the similar system or sub-system was supplied by the Bidder to any other Ministry/Department of the Government of India at a lower price, then that very price with due allowance for quantities and intervening time period would be applicable to the present case and the difference in the cost would be refunded by the Bidder to the Buyer, if the contract has already been concluded.

86. **Return of Commercial Offers:** Situations would arise when the validity of the commercial offers submitted by vendors expire before acceptance of staff evaluation report. In such cases, vendors would be given an option to either extend the validity of the commercial offer for a specified period (the period to be decided in consultation with SHQ) or to submit fresh commercial proposals. For cases where vendors want to submit fresh commercial proposal, their old proposals would be returned unopened to them by the AMs. However, for the cases where the RFP is retracted after submission of the bids or a vendor is rejected at TEC/Trial/Staff Evaluation Stage or a
vendor unilaterally withdraws from the acquisition process, their commercial offers would be returned unopened to them by the TMs/SHQs.

**Approval of Competent Financial Authority**

87. The CNC should document the selection of vendor using a formal written recommendation report addressed to the relevant approval authority. The report must be complete in all respects and should be checked by the members of the CNC. It should comprehensively elaborate the method of evaluation and the rationale for the selection made.

88. All CNC members should sign the recommendation report, in the interest of probity and accountability, as evidence that they concur with the process adopted and the ultimate selection made. Any dissenting view, including the reasons for the same, should also be documented.

89. The report of the CNC should include:

   a) A brief background to the requirement.
   b) Composition of the CNC.
   c) An explanation of the commercial evaluation process, selection criteria and commercial evaluation matrices, if used.
   d) Brief description of different phases of the commercial negotiation process.
   e) A summary of the recommendations.

90. The CNC Report, along with the summary of recommendations, would be processed by the Director/Acquisition Manager/SHQ at their level, as applicable, for obtaining expenditure clearance and CFA approval.

91. **Standard Contract Document:** The Standard Contract Document at Chapter VII indicates the general conditions of contract that would be the guideline for all acquisitions. The date of signing of the contract would be the effective date of contract for all acquisitions, unless the contract specifies otherwise. The draft contract would be prepared as per these guidelines. However, for single vendor procurements, if there is a situation where Government of India has entered into agreements with that country regarding specific contractual clauses, then the terms and conditions of such agreements would supersede the corresponding standard clauses of DPP. Consequent to the approval of the CFA, the contract would be signed by the
Acquisition Manager/Director (Procurement) concerned in the Acquisition Wing, or by an officer authorised by the PSO at the SHQ.

92. **Integrity Pact:** An ‘Integrity Pact’ would be signed between government department and the bidders for all procurement schemes over Rs. 20 crores. The Pre Contract Integrity Pact document is placed as Annexure (xxx) to the Appendix (xxx) of Schedule I (RFP format). In ‘Buy and Make (Indian)’ or in ‘Buy and Make’ cases, the Indian or Foreign vendors submitting multiple bids will be required to submit one integrity pact and one IPBG.

**Post Contract Monitoring**

93. While responsibility for contract administration and management would be that of the SHQ concerned, post-contract monitoring would be conducted by the Acquisition Wing. Depending on the degree of complexity of a project, the reviews will be carried out as elucidated below:

   a) **Simple Projects:** Projects involving one time off the shelf buys, without any design and development, shall be reviewed by the Acquisition Manager/equivalent service officer in the SHQ.

   b) **Complex Projects:** Projects which require design, development and testing in consultation with the users, with likely ToT, and have enlarged scope in terms of basic complexities, depth of design and development, and consideration of a large number of participants, would be reviewed by a steering committee headed by Director General (Acquisition) in the MoD or Principal Staff Officer at SHQ, with members from MoD, MoD (Fin), DRDO, DDP and SHQ. In such cases, the Acquisition Wing will submit quarterly Contract Implementation Reports (CIR) to the DPB.

94. **Equipment Induction Cells (EICs):** EICs will be raised for major projects on a case-to-case basis in SHQ at the discretion of SHQ. The EICs will deal with the induction of major equipment and help in planning the requirement of facilities essential for the serviceability and maintainability aspect of that acquisition.

**Subsequent Procurement of Already Contracted Equipment**
95. For equipment/systems/platforms already inducted into service, it may be necessary to go back to the OEM/vendors for placing repeat orders. In such cases it may be ensured that the SQRs of the equipment are as per the previous order. All such cases would not be construed as single vendor cases. In such cases, after seeking AoN, a commercial RFP would be issued to the vendor, for quantity not exceeding 100% of the previous order. Specific approval of DPB (in acquisition cases up to Rs. 300 crores) or DAC (in acquisition cases excess of Rs. 300 crores) as the case may be, would be obtained for Repeat Order of quantity exceeding 100% of previous order. Such restriction in Repeat Order would not be applicable for cases categorized as ‘Buy and Make’/‘Make’/‘Design & Development’ cases. Repeat order cases may fall under any of the following categories:

a) **Additional Quantities**: This may be necessitated to make up for deficiency in the existing scaling or to cater for the requirements due to new raisings/war wastage reserves (WWR)/sector stores.

b) **Replacement Equipment**: This may be necessitated due to equipment declared ‘Beyond Economical Repairs’ (BER) or damages or loss to the earlier equipment by way of accidents/natural calamities or such like reasons.

c) Major-assemblies/sub-assemblies/Special Maintenance Tools (SMT)/Special Test Equipment (STE)/maintenance/integration of Buyer Furnished Equipment (BFE).

d) **Spares for All Levels of Maintenance**: It must, however, be ensured that when spares etc. are procured from OEMs of sub-assemblies, the assurances/warranties extended by the OEM for the main equipment retain their validity.

96. Repeat order cases, where equipment has already been inducted into service and thereafter it involves change in SQRs/modifications of minor nature/upgrades of assemblies or subassemblies, would have to be decided by AoN approving authority as indicated in paragraph 17 (Chapter II).

97. For repeat orders to be placed on OFB for Capital items included in the AAP, the Acquisition Manager will place indents on OFB.

98. If repeat order is to be placed for equipment/system which have been
indigenously developed or for which ToT has been obtained earlier by an Indian vendor, it would not be treated as a ‘single vendor’ case and only commercial RFP would be issued. It will however be checked prior to placing further orders that the technology absorption levels agreed to while concluding ToT contract have been achieved.

99. If equipment proposed to be procured has already been procured by a sister service after following due process, then such cases would be treated as repeat order and provisions of paragraphs 95 – 98 (Chapter II) would apply.

100. **Ab-initio Single Vendor Cases**: If certain state-of-the-art equipment being manufactured by only one vendor, which may not necessarily be a DPSU, is to be procured to attain qualitative edge over our adversary, then such cases should be discussed, deliberated and decided by DAC, after proper technology scan is carried out by HQ-IDS, in consultation with DRDO.

101. Cases which are being undertaken by DRDO/DPSUs/OFB/Indian private industry as design and development projects, would not fall in the category of Single Vendor cases. However, approval of DAC for carrying out the design and development need to be sought prior to commencing the design and development process.

102. If DPSUs/OFB/Indian private industry signs a MOU with a foreign firm for co-production/ToT/procurement of equipment to be offered to services with approval of DAC, then such procurements, at a later point of time, would not be considered single vendor cases requiring approval of DAC again. Alternatively, if the DPSUs/OFB/Indian private industry signs a MOU without the approval of the DAC then it would have to compete in a competitive manner for the said procurement.

**Inter Government Agreement**

103. There may be occasions when procurements would have to be done from friendly foreign countries which may be necessitated due to geo-strategic advantages that are likely to accrue to our country. Such procurements would not classically follow the Standard Procurement Procedure and the Standard Contract Document but would be based on mutually agreed provisions between the Governments of both the countries. Such procurements will be done based on an Inter-Governmental Agreement
after clearance from CFA. The following cases would fall under the purview of this provision:

a) There are occasions when equipment of proven technology and capabilities belonging to a friendly foreign country is identified by our Armed Forces while participating in joint international exercises. Such equipment can be procured from that country which may provide the same, ex their stocks or by using Standard Contracting Procedure as existing in that country. In case of multiple choices, a delegation may be deputed to select the one, which best meets the operational requirements.

b) There may be cases where a very large value weapon system/platform, which was in service in a friendly foreign country, is available for transfer or sale. Such procurements would normally be at a much lesser cost than the cost of the original platform/weapon system mainly due to its present condition. In such cases, a composite delegation would be deputed to ascertain its acceptability in its present condition. The cost of its acquisition and its repairs/modifications would be negotiated based on Inter-Governmental Agreement.

c) In certain cases, there may be a requirement to procure a specific state-of-the-art equipment/platform, however, the Government of the OEM’s country might have imposed restriction on its sale and thus the equipment cannot be evaluated on ‘No Cost No Commitment’ basis. Such equipment may be obtained on lease for a specific period by signing an Inter-Governmental Agreement before a decision on its purchase is taken.

104. In cases of large value acquisitions, especially cases requiring product support over a long period of time, it may be advisable to enter into a separate Inter Government Agreement (if not already covered under an umbrella agreement covering all cases) with the Government of the country from which the equipment is proposed to be procured after the requisite inter-ministerial consultation. Such an Inter-Governmental Agreement is expected to safeguard the interests of the Government of India and should also provide for assistance of the foreign Government in case the contract(s) runs into unforeseen problems.

105. **Procurement on Strategic Considerations:** In certain acquisition cases, imperatives of strategic partnerships or major diplomatic, political,
economic, technological or military benefits deriving from a particular procurement may be the principal factor determining the choice of a specific platform or equipment on a single vendor basis. These considerations may also dictate the selection of particular equipment offered by a vendor not necessarily the lowest bidder (L1). Decisions on all such acquisitions would be taken by the Cabinet Committee on Security (CCS) on the recommendations of the DPB.

**Processing of Procurement Cases**

106. In order to cut down the delays in procurement of equipment and ensure that the procurement system is more responsive to the needs of the Armed Forces, the following steps need to be taken:

   a) Broad time frame for completion of different procurement activities, given at Appendix (xxx), should be adhered to. Major deviations from this time frame should be brought to the notice of the DPB, for necessary corrective measures.

   b) Once the statement of case is forwarded by SHQ to MoD, consolidated observations/clarifications sought from up to and including the level of JS/AM in the MoD and MoD (Fin) should be clarified in an across the table discussion, and minutes of the same recorded on file. All efforts should be directed towards avoiding multi-layered examination of proposals in MoD (Acquisition Wing), and decisions should be taken by AMs/FMs/TMs in a collegiate manner.

**Deviations from DPP**

107. Any deviation from the prescribed procedure will be put up to DAC through DPB for approval.

108. Situations not foreseen and explained in the DPP may arise; under such circumstances the spirit as explained in preamble would provide the DAC the necessary guidance to determine the appropriate course of action.

**Conclusion**
109. Defence Procurement Procedure - 2016 would be in supersession of Defence Procurement Procedure – 2013, and will come into effect from 1st April, 2016. DPP – 2016 will be applicable to all AoNs granted thereafter from the date it comes to effect, except in cases where specific approval has been granted by the Raksha Mantri for AoNs to be processed under earlier versions of DPP. However, all cases where RFPs have already been issued under earlier versions of DPP would continue to be processed under such earlier versions. The cases for which AoNs have been granted under earlier versions of DPP, but RFPs have not been issued up to 1st April 2016, will be processed under the earlier versions of DPP concerned; in case the SHQ concerned wants to migrate any such case under DPP - 2016, approval of the DAC needs to be sought.

-x-x-x-
Chapter III – Procedure for ‘Make’ Category of Acquisition

Background

1. The Defence Production Policy, 2011, issued by Ministry of Defence considers self-reliance in defence manufacturing as a vital strategic and an economic imperative; and places emphasis on utilising the emerging dynamism of the Indian industry by leveraging domestic capabilities for fostering export capabilities in this sector. The policy, inter alia, entails further simplification of procedure under ‘Make’ category of acquisition, introduced in DPP-2006, in a manner that enables design and development of required defence equipment/system/platform or upgrades thereof; and components, parts, materials and assembly/sub-assembly by Indian industry, R&D organisations, academic institutions or their combination.

2. The ‘Make in India’ initiative of the Government of India, aims to promote the manufacturing sector, and increase the contribution of manufacturing output to 25% of GDP. Defence sector is prominent among the 25 sectors of industry covered under the ‘Make in India’ initiative. The provision of ‘Make’ category of capital acquisition is a vital pillar for realizing the vision behind the ‘Make in India’ initiative. Hence it is imperative that the ‘Make’ procedure should be structured to provide the necessary leverage to make adequate investments, build the required capabilities, and match up to the contemporary and futuristic requirements of the Indian armed forces.

3. The ‘Make’ procedure, outlined in this chapter, therefore seeks to address the multiple objectives of self-reliance, wider participation of Indian industry, impetus for MSME sector, sound implementation, transparent execution and timely induction of equipment into Indian armed forces.

4. Only Indian vendors including Association of Persons (AoP), as detailed in Appendix (xxx) to this chapter, are eligible for participation under ‘Make’ program of acquisition.

5. Successful development under this scheme would result in acquisition, from successful Development Agency/Agencies (DA/DAs), through the ‘Buy (Indian – IDDM)’ category with indigenous design and development, and a minimum of 40% IC, by inviting commercial bid and thereafter following the procedures detailed in Chapter II of DPP.
6. The sub-category under ‘Make’ category shall be further sub-divided into the following:

6.1 **Make-I (Government Funded):** Projects under ‘Make-I’ sub-category will involve Government funding of 90%, released in a phased manner, and based on the progress of the scheme, as per terms agreed between MoD and the vendor.

6.2 **Make-II (Industry Funded):** Projects under Make-II category will involve prototype development of equipment/system/platform or their upgrades, or their sub-systems/sub-assembly/assemblies/components with a focus on import substitution, for which no Government funding will be provided for prototype development purposes.

**Make - Project Management Unit**

7. Each SHQ (including Coast Guard) shall establish a permanent Make - Project Management Unit (PMU), within its service. The Make - PMU must be headed by a two star rank officer or equivalent and staffed appropriately with professionals of various ranks/branches and specialisations, depending upon the nature and the number of ongoing/envisaged projects under ‘Make’ procedure, for the respective SHQs. The Make-PMU Head, under each service head quarter, will have a tenure of three years and the staff positioned in PMU shall have longer tenures to ensure continuity during execution of projects. Officers of PMU shall be members/member secretaries of the Integrated Project Management Teams (IPMT), which will function under the overall control and directions of the Make – PMU Head, who shall be responsible for ownership of the service level ‘Make’ projects. The mandates of every Make – PMU are as follows:

    a) Closely monitor the implementation of ‘Make’ projects for the corresponding SHQ.
    b) Ensure timely development and implementation.
    c) Assign responsibilities and hold task owners accountable for delivery.
    d) Identify potential issues that will impact project cost or delivery, and resolve them swiftly.

8. Make - PMU may also hire expert practitioners from domains such as finance, legal and technology, from public and private sectors. Expenses for hiring the services of experts/consultants shall be borne by the SHQ concerned.
**Development and Acquisition Process under ‘Make’ category**

9. The acquisition process under Make Procedure would involve the following functions:

   a) Advance Planning and Consultations.
   b) Feasibility Study.
   c) Preliminary Services Qualitative Requirements (PSQRs).
   d) Categorization and accord of Acceptance of Necessity (AoN) by the competent body.
   e) Constitution of IPMT.
   f) Preparation of Project Definition Document (PDD).
   g) Expression of Interest (EoI).
   h) Selection of Development Agency (ies).
   j) Approval of CFA and Funding Arrangements.
   k) Design and Development of Prototype.
   l) User Trials by SHQ.
   m) Staff Evaluation.
   n) Solicitation of Commercial Offers.
   o) Commercial negotiations by Contract Negotiation Committee CNC).
   p) Award of Contract.

**Advance Planning and Consultations**

10. On the basis of Long Term Integrated Perspective Plan (LTIPP) or otherwise, SHQs will identify the potential projects to be undertaken under ‘Make’ category of acquisition. Besides, the SHQs shall initiate collegiate discussions on such potential projects with various stakeholders such as DRDO, DDP, Indian industry etc., in early stages after approval of LTIPP; this will enable potential R&D Institutions and/or production agencies to take necessary steps to undertake requisite R&D efforts and/or investments for infrastructure upgradation. The advance timing of these collegiate discussions shall take into account the complexity of the defence equipment/system/platform or upgrades thereof, as the case may be; all relevant factors not limited to quantities and delivery schedules need to be detailed.
11. Based on collegiate decisions detailed in paragraph 10, or in other cases as may be appropriate, SHQ shall forward an indicative list of potential ‘Make’ projects, together with draft Preliminary Service Qualitative Requirements (PSQRs), to HQ-IDS for inclusion in relevant medium term and short term plans, as per the projected induction timeframes, and estimated timelines for development of prototype. The aim should be to pre-plan and pre-position ‘Make’ programs so as to initiate developmental activities sufficiently ahead of the actual requirements of the capabilities.

12. The criteria for sub-categorization of the ‘Make’ programs are as follows:

12.1 **Make-I (Government Funded):** Projects involving design and development of equipment, systems, major platforms or upgrades thereof; necessitating harnessing of critical technologies, and may involve large infrastructure investment for development, integration, test and manufacturing facilities. Usually, projects under Make-I sub-category will involve a development period of not less than three years.

12.1.1 Projects under the Make–I sub-category, with estimated cost of prototype development phase not exceeding Rs. 10 crore, will be earmarked for MSMEs. However, if at-least two MSMEs do not express interest for a Make-I program of less than Rs. 10 crore, the same shall be opened up for all, under the condition that interested MSME(s), if any at that stage and meeting the eligibility criteria, will get preference over Non-MSMEs in selection of DAs.

12.2 **Make-II (Industry Funded):** Projects involving design and development of equipment, minor platforms, systems, sub-systems, components, parts or upgrades thereof; use of readily available commercial, military or dual use mature technologies, which may involve marginal infrastructure investment for development, integration, test and manufacturing facilities. Import substitution will be a key focus of projects under this category.

12.2.1 Projects under the Make–II sub-category, with estimated cost of prototype development phase not exceeding Rs. 3 crore, will be earmarked for MSMEs. However, if no MSME expresses interest for a Make-II program of less than Rs. 3 crore, the same may be opened up for all, under the condition that interested MSME(s), if any at that stage and meeting the eligibility criteria, will get preference over Non-MSMEs in selection of DAs.
Annual Acquisition Plan (AAP) – Make

13. A dedicated Annual Acquisition Plan (AAP), on the same lines as explained in Chapter I of this DPP, will be prepared for schemes under ‘Make’ category. It will be a two year roll on plan and will have two parts: Part A would comprise of carry over schemes from the AAP of previous year and schemes where AON has been accorded during the year; Part B would include the cases likely to be initiated for seeking AON in the next one year. AAP for ‘Make’ would be prepared, approved, maintained as per provisions in Chapter I of DPP.

14. HQ-IDS will compile a list of ‘Make-II’ sub category projects, and host it on the Ministry of Defence website. Status of the projects in this list should be updated periodically, or immediately as and when changes occur.

Feasibility Studies

15. SHQ would be responsible for undertaking feasibility studies of all projects under AAP – ‘Make.’ The aim of this study would be to identify the projects which Indian Industry has the capability to design and develop, within the timeframe required by the respective Services.

16. Feasibility studies will be carried out with involvement of all important stakeholders such as HQ-IDS, DRDO, DDP, Advisor (Cost) and MOD (Finance)/IFA as required. Industry associations including MSME associations, OFB & DPSUs may be consulted if considered necessary. SHQ may engage consultants/experts to assist in preparation of feasibility study report. Funding requirements for preparation of feasibility studies shall be borne by SHQ.

17. The Feasibility Study shall include following aspects:

   a) Long-term interests of MOD for indigenous development of capabilities, both in terms of manufacturing and technologies, within the Indian industry.
   b) A preliminary assessment of enabling technologies to realize the requisite equipment/system/platform/components or their upgrades; and their availability or accessibility to Indian industry.
   c) A preliminary assessment of capability of Indian industry to undertake design and development of the requisite equipment/system/platform or their upgrades; and likely achievable indigenous content at prototype stage as well as production stage.
   d) Estimated time period for development.
e) A preliminary assessment of capability of Indian industry with respect to quantities envisaged for procurement during the ‘Buy (Indian-IDDM)’ phase and timelines.

f) Estimated Cost of prototype development phase and for subsequent procurement phase under ‘Buy (Indian - IDDM)’ category.

g) Suggested sub-category under ‘Make’ procedure.

h) Number of Development Agencies (DAs) to be selected based on the cost of prototype development, quantities required, or any other consideration. (Feasibility Study will generally recommend not more than two DAs, however in exceptional case, with due justifications, it can recommend three DAs).

i) Exit Criteria.

j) Any other aspect considered important.

Preliminary Services Qualitative Requirements (PSQRs)

18. Based on the feasibility study, the SHQ concerned would formulate the Preliminary Services Qualitative requirements (PSQRs), specifying essential and desirable parameters. The essential parameters of PSQRs of equipment would be of proven technologies available in Indian/world market. Research to achieve the desirable parameters, if any, may commence along with or after the development of prototype through various mechanisms e.g. instituting chairs/ projects in research and academic institutions like IITs, IISC and DRDO etc. These PSQRs shall form part of the Statement of Case (SoC) while seeking AON for ‘Make’ projects.

Categorisation and Accord of AoN

19. **Interaction with Industry by SHQ:** SHQ will place relevant information on the MoD and SHQ websites and seek inputs from industry. SHQ will use the inputs from industry to carry out the categorization, and for preparing the SoC.

20. **Statement of Case:** The SHQs will prepare SoC, and submit the same to HQ-IDS, which would examine aspects of interoperability and commonality of equipment for the services. Feasibility study report and assessment of the defining attributes of ‘Make’ category, along with a list of prospective development agencies, exit criteria, and PSQRs will be enclosed with the SoC.

21. After reviewing the comments of the HQ-IDS on aspects of inter-operability, the SHQs/initiating departments, will refer the cases to SCAPCC/SCAPCHC as the
case may be. The SCAPCC will refer the SoC for according AoN to SCAPCHC for an estimated cost up to Rs. 150 Crores. For cases beyond Rs. 150 Crores, the SHQs/initiating departments will refer cases to the SCAPCHC, which will carry out the task of categorization, based on the recommendations of SHQs/initiating departments, and refer the cases between Rs. 150 crores to Rs. 300 to the DPB, and refer cases beyond Rs. 300 crores to DAC for accord of AoN. However, incase three DAs are to be selected for the project, approval of DAC will be required irrespective of the estimated project cost.

22. Following would be highlighted in the SoC seeking AoN by SHQ:

a) Estimated time period.
b) Estimated development cost.
c) Likely production cost.
d) Recommended sub-category under the ‘Make’ category.
e) Recommended level of Indigenous Content (higher than the minimum prescribed for ‘Buy (Indian – IDDM)’ category.
f) If any vendor has offered to suo-moto take up development under a sub-category lower than the one being recommended.
g) Likely development agencies.
h) Quantity of order to be placed, post the successful development of prototype.
i) Tentative time frame of procurement.
j) Acceptability of multiple technical solutions and division of ordered quantity among successful DAs.

23. The AoN shall be sought based on the combined estimated cost of prototype development phase and the cost of subsequent procurement under ‘Buy (Indian – IDDM) as detailed in paragraph 5 (Chapter III).’ The cost of development and the procurement should be indicated separately in the SoC.

Validity of AoN

24. AoN for ‘Make’ category projects will be valid for one year. For all sub-categories where EoI is not issued within one year from accord of AoN, SHQ would have to move a case for revalidation of AoN with due justification for not processing the case on time. For cases where the original EoI has been issued within one year from accord of AoN, and later retracted for any reason, the AoN would continue to remain valid, as long as the original decision and categorization (sub-category) remain unchanged, and the subsequent EoI is issued within six months from the date of retraction of original EoI.
Constitution of IPMT

25. Once AoN is accorded for acquisition under ‘Make’ category, the Department of Defence Production/SHQ will constitute an Integrated Project Management Team (IPMT) under Head of Make - PMU or suitable officer belonging to the Make - PMU, who will also act as member secretary of IPMT; IPMT will consist of representatives from SHQ, HQ-IDS, DRDO, DDP, DGQA/DGAQA/DGNAI, Advisor (Cost), MoD (Finance)/IFA as required, and other experts if considered necessary.

26. The IPMT, through the Make-PMU Head for the service, shall submit six-monthly progress report to the Defence Production Board (DPrB) through Principal Staff Officer (PSO) concerned at SHQ. The DPrB shall provide policy guidance as may be required in ‘Make’ cases. The IPMT’s responsibilities shall include the following important functions:

   a) Preparation of Project Definition Document (PDD).
   b) Short listing of Indian companies/organisations for the purpose of issuing EoI.
   c) Preparing expression of Interest (EoI) preparation and obtaining approval thereof from the PSO concerned at SHQ and issue of EOI.
   d) Assessment and Ranking of EOI responses, and obtaining approval for DAs from DPrB.
   e) Receipt and evaluation of DPRs from short-listed DAs.
   f) Finalisation of DPRs on technical, financial and other aspects.
   g) Preparation of draft Project Sanction Order (‘development contract’).
   h) Obtain CFA approval, through DDP, as per extant delegation of financial powers detailed in Appendix (xxx) (Chapter III).
   i) Monitoring and reporting of aspects relating to prototype development including generation of Intellectual Property.
   j) Any other responsibilities as may be entrusted by the DAC/DPrB/PSO at SHQ.

Project definition Document and Expression of Interest

27. The IPMT will prepare a Project Definition Document (PDD) as per the sample format given at Appendix (xxx). The PDD shall be approved by PSO concerned at the SHQ, and shall serve as the principal guidance document for preparation of DPR.
28. Short listing of Indian vendors for issue of EOI shall be done by IPMT from the list of companies/organizations received from SHQs, and additional companies/organizations if any, as per response to IPMT’s request for ‘Make’ proposal from Indian Industry hosted on the website of MOD.

29. The details of the vendors shortlisted for participation in the ‘Make’ projects would be maintained by the SHQs, and the same would be placed in the public domain by them. Relevant extracts of PSQRs would be circulated as part of an EoI, issued only to Indian vendors short-listed by IPMT. The EoI shall be approved by the PSO concerned at SHQ and shall contain all information as per sample format at Appendix (xxx).

30. All evaluation criteria, sub-criteria etc., including respective weightages accorded to each of them, for assessing responses from EoI recipients (Individual as well as for AoP), shall be finalized and detailed as part of EoI.

31. Indian vendors who are issued an EoI, shall have the choice to respond either in their individual capacity as EoI recipients, or as an AoP (i.e. consortium) of Indian companies/organizations, through an AoP Agreement led by an EOI recipient, as enumerated at Annexure (xxx) of Appendix (xxx).

Selection of Development Agency (ies)

32. The IPMT would undertake an assessment of EoI responses based on approved criteria. An illustrative list of evaluation criteria is contained in sample format at Appendix (xxx). It shall be ensured that the evaluation criteria relate only to the test, production, R&D, system integration and technological capabilities in India, including past experience and performance of EoI recipients as may be required. Inspection of vendors premises should be avoided and selection should, to the extent, possible be based on self-certification.

33. In the case of EoI recipient forming AoP i.e. consortium, the assessment, if any, shall be carried out with specific reference only to the roles and responsibilities of individual members under their AoP agreement.

34. The list of Indian vendors or consortium as stated above, ranked as per the evaluation criteria shall be forwarded by the IPMT to DPrB through PSO concerned at SHQ, for selection of vendor as per AON. The selected vendor shall be referred to as Development Agency (DA).
35. The DAs, shall then be required to submit a DPR, including cost estimates, as per sample format at Appendix (xxx), to IPMT for their examination. For this purpose, PSQRs and relevant extracts from the PDD will be shared by the IPMT, with the short-listed DAs. The DPRs shall be prepared by DAs and examined by the IPMT with specific reference to project milestones as described in sub-paragraphs 51.1 to 51.7 Chapter (III).

36. Prior to CFA approval, the IPMT will engage with the selected DA(s) for any modifications/refinements/amendments to DPR, if considered necessary. DA(s) may collaborate with academic and/or research institutions and/or foreign companies/foreign research and academic institutions having required technologies for the development of project. DA(s) would be required to disclose the details of such collaborations in DPR. IPMT will submit the finalized DPR to Secretary (DP), through PSO concerned at SHQ, for approval.

Approval of Competent Financial Authority (CFA) and Funding Arrangement

CFA Approval

37. The financial sanction for project development under Make-I sub-category, taking the relevant prototype development costs into account, would be obtained by the DDP as per delegation of financial powers detailed in Appendix (xxx) (Chapter III).

38. For ‘Make-II’ sub-category of development, sanction for prototype development as detailed by selected DAs, with nil financial implications for MOD, would be obtained by the DDP as per delegation of financial powers detailed in Appendix (xxx) (Chapter III).

Funding

39. Funds for development projects approved under this procedure shall be borne under the Account Head ‘Make Procedure - Prototype Development Account’ operated by respective SHQs.

Funding for Make-I

40. 90% of the development cost will be borne by the MOD, and 10% of the development cost will be borne by the selected DA(s), as approved by the
DAC/DPB/SCAPCHC and mentioned in the EOI. Guidelines for approval and acceptance of cost-sharing arrangements are available at Appendix (xxx).

41. IPMT shall forward a draft project sanction order (“development contract”) to DDP for approval. The approved DPR along with Appendix (xy), (yz) and (zx) shall form part of the Project Sanction Order. Thereafter, IPMT will issue ‘Project Sanction Order’ to the selected DAs.

42. IPMT at every phase/sub-phase of the project will also assess the project on the relevance of continuing the project with respect to time and cost overruns, operational requirements, availability of same/similar equipment or technology in the market and accordingly recommend to SHQ for release of funds.

43. For all projects under Make-I sub-category, an advance of 20% of the total prototype development cost, will be paid against a bank guarantee for the equivalent amount. On completion of every stage against the milestones detailed in the DPR, DAs will submit claims for reimbursement to IPMT. While submitting reimbursement claims, the Chief Executive Officer/a suitable nominee along with an authorized auditor will certify the incurred expenditure linked to a particular development stage. Based on the recommendations of IPMT, SHQ will reimburse the development cost within sixty days, which may extend up to another 30 days in exceptional cases. The advance will be adjusted proportionately in subsequent payments as per the payment terms prescribed in DPR and bank guarantees will be proportionately and automatically reduced until full extinction.

44. If Commercial RFP for the equipment, for which prototype has been successfully developed, is not issued within two years from the date of successful completion of prototype development as described in para 58, the DA(s) will be entitled for reimbursement of remaining 10% of the development cost. The same shall be written off with the approval of the Competent Authority.

Funding for projects under Make-II sub-category

45. IPMT shall forward a draft Project Sanction Order (‘development contract’), with nil financial implications, to DDP for approval as per delegated financial powers. The approved DPR along with Appendix (xy), (yz) and (zx) shall form part of the Project Sanction Order. Thereafter, IPMT will issue Project Sanction Order to the selected DA(s).
46. No reimbursement of development cost for projects under Make-II sub-category, will be made. However, if an RFP for the equipment, for which prototype has been successfully developed, is not issued within two years from the date of successful completion of prototype development as described in paragraph 58, DA(s) will be entitled for reimbursement of 100% of the development cost as indicated in the DPR. The same shall be written off with the approval of the Competent Authority.

47. Funds will be released to the DA(s), only on obtaining a statement of expenditure certified by an authorised auditor.

Access to books of accounts

48. The DAs shall maintain separate books of accounts with an independent bank account, for the project sanctioned under Make-I and Make-II sub-categories of prototype development; MOD or its authorized representative(s) shall have unfettered rights to access these books of account of DAs.

Cost Overrun

49. Based on the recommendations of IPMT, cost overruns may be approved by the CFA concerned.

Time Overrun

50. The approval of extension of timelines for any ‘Make’ project up to 20% of the timelines agreed upon in the approved DPR may be accorded by VCOAS/VCNS/DCAS/DG-ICG/CISC, based on the recommendations of Head-PMU, and extension of time beyond 20%, the matter would be referred to DPrB.

Design and Development of Prototype for Make-I sub-category

51. The design and development stage under ‘Make-I’ projects is expected to undergo the following phases:

51.1 **Project Definition Phase:** This phase is a prelude to the Preliminary Design Phase, and involves mobilisation of initial start-up resources, including development laboratories etc., as specified in the agreed DPR.
51.2 **Preliminary Design Phase:** During this phase, the design parameters are established for configuration, performance in compliance to user’s requirements and trade-off in the design. This also takes into consideration various tests and studies to be conducted.

51.3 **Detailed Design Phase:** This phase includes the detailed design of systems/sub-systems down to all components. Specifications of various equipment, systems and sub-systems that are to be used in the product/equipment/weapon systems would be finalised and all PSQRs frozen, and they will be duly ratified as SQRs by respective SEPC/ISEPC. Permissible variance wherever acceptable, may be indicated as a range/percentage of SQR parameters. Engineering design documents, drawings, process planning would be firmed up. These detailed designs followed by critical design review may need to be fine-tuned several times, during the agreed period for this activity in the DPR. Any platform/equipment/interface-details required by the DAs with associated resources would be made available by SHQ concerned, if included and approved at the DPR stage.

51.4 **Fabrication/Development Phase:** Manufacture of sub-assemblies would be carried out based on the final specifications arrived at in the detailed design phase. Limited quantities, as given in the EOI and agreed to in DPR, can be fabricated/developed against the total prototype quantities required for subsequent stages.

51.5 **Test & Analysis Phase:** Concurrent with the design phase, testing of several components, system/sub-system is undertaken. Test and analysis should also include software verification. Design testing through simulation can also be undertaken. The testing may require specialized facilities like conduct of proof firing and extensive firing trials for weapon systems. Provisioning of laboratory and other in-house facilities and special equipment, if any, shall be made on terms and conditions as agreed upon in the approved DPR.

51.6 **Integration Phase:** During this phase, various systems and sub-systems are integrated and the system integration testing is carried out in accordance with the test procedures approved and agreed upon. The integration procedure, the interface details, the performance and assembly of modules/sub systems would be finalised.
51.7 **Performance Evaluation Phase:** After the integration of the various sub-systems, the prototype would be subjected to technical and limited field trials to assess the overall performance of the systems against stated SQRs by the development agencies and IPMT. Based on the test and analysis conducted by them, there may be a need for change of design to meet essential SQRs. This is a continuous process until the design is finally proven, and meets the essential SQRs, subject to agreed time limits as per approved DPR.

52. After the prototype has been developed, the IPMT would carry out user trial readiness review of the prototype before offering it for user trials.

53. Intellectual Property Rights (IPRs) in the ‘Make’ projects undertaken under provisions of this Chapter shall vest as described in Appendix (xxx).

**User Trials**

54. User trials would be carried out by the SHQ in close consultation with IPMT to validate the performance of the system against the parameters/specifications approved after the development of prototype. SHQ will formulate the trial Directives and constitute the Trial Team. The trial directive must specify the fundamental points that need to be addressed for validating the ‘essential’ parameters.

55. The SQRs of the equipment would therefore be a part of the trial directives, and only the essential parameters as detailed in the SQRs will be tested. The validation of the support system and maintainability trials, integral to and complimenting the trial programme of the defence equipment/upgrades/product/system should be held simultaneously, wherever feasible. Representatives of DRDO, QA agency may also be part of the field evaluation, based on requirement. The user can recommend modification to the system for ease of handling and its maintainability. At this stage, no changes should be suggested which require re-designing of the system/sub-system or technology upgrade. Such suggestions would only be considered and implemented in subsequent phases of development.

56. Based on the inputs of SHQ/IPMT, the DPR will clearly include the list of trials/items/facilities/consumables, which will be provided free of cost during trials. It will also specify the number of times free tests will be carried out. The liability against any collateral damages/third party, to the extent permitted under the Indian Insurance Act, occurring during the course of trials should be covered.
through insurance cover by the respective DA(s). The cost of such insurance cover may be included in the project under DPR.

**Staff Evaluation**

57. Based on the User Trials, the SHQ would carry out a staff evaluation, which gives out the compliance of the demonstrated performance of the equipment vis-à-vis the SQRs. The staff evaluation report will be approved and accepted at the Service Head Quarters by the VCOAS/VCNS/VCAS/DG-ICG/CISC. On acceptance of the Staff Evaluation, the SQRs shall form the basis for the ‘Buy (Indian – IDDM)’ category of acquisition.

58. Once the Staff Evaluation Report is accepted and final installment under prototype phase as per DPR has been released, no more funds would be released from ‘Make Procedure - Prototype Development Account’.

59. The procedure followed for procurement would thereafter be same as for ‘Buy (Indian – IDDM)’ category as defined in paragraph 5 (Chapter III), from the successful DA/DAs, in accordance with Chapter II, except to the extent outlined below. The quantities in the ‘Buy (Indian – IDDM)’ phase cannot be reduced from the quantities indicated in EoI issued for the prototype development phase.

**Design and Development of Prototype for Make-II sub-category**

60. The involvement of IPMT during the design and development stage under Make-II sub-category projects will be limited to the following:

   a) Finalisation of SQRs and trial methodology, which shall be incorporated into the DPR.

   b) Providing clarifications related to functional or operational aspects of the equipment under development, as may be sought by the DAs from time to time, during the design and development of prototype.

   c) Coordinating user trials with the SHQs, based on the trial methodology, as mentioned in paragraph 60.i, and arrangements detailed in approved DPR. SHQ will formulate the trial Directives and constitute the Trial Team. The trial directives must specify the fundamental points that need to be addressed for validating the “essential” parameters.

61. The procedure of carrying out the staff evaluation, approval and acceptance of staff evaluation report, and the finalization of SQRs for procurement under ‘Buy
(Indian – IDDM)’ category of acquisition, is as detailed in paragraph 57 (Chapter III).

**Solicitation of Commercial Offers**

62. A Request for Proposal would be issued to the agencies accepted in the staff evaluation report for soliciting their commercial offers and additional technical information/documentation, as may be necessary. In case of development by an AoP, RFP shall be issued to ‘Lead Partner’ who will submit an undertaking to supply the required quantities under Buy (Indian - IDDM) phase with life cycle support for the product.

63. The Pre-Contract Integrity Pact, listed as detailed in paragraph 92 (Chapter II of DPP), shall apply mutatis mutandis, to ‘Buy (Indian – IDDM)’ phase of ‘Make’ project. The process of commercial negotiations by the CNC (to be constituted as per provisions detailed in Chapter II) would commence thereafter.

**Commercial negotiations by Contract Negotiation Committee (CNC)**

64. The CNC will carry out all processes from opening of commercial bids till conclusion of contract.

65. In cases involving large quantities and where multiple technological solutions are acceptable, on approval of DAC/DPB/SCAPCHC, an option may be provided in the EoI during the ‘Make’ phase and subsequently in the RFP for the ‘Buy (Indian – IDDM)’ phase for procurement of specified quantities from other vendors (referred to as L2 herein) who have successfully developed the prototype/product, on the condition that this second vendor accepts the price and terms & conditions quoted by the L1 vendor.

66. In case, multiple technological solutions are not acceptable, the successful L2 vendor will be issued a certificate by the DDP indicating that the product has been successfully trial evaluated, to facilitate L2 vendor to explore other markets and remain in the production of the product.

67. Consequent to approval of the CFA, the procurement contract(s) would be signed by the Acquisition Manager/Director (Procurement) concerned in the Acquisition Wing or by officer authorized by PSO concerned in SHQ for the cases falling within their delegated powers. The draft contract(s) would be prepared as per the Standard Contract Document at Chapter VI of DPP.
Upgrades

68. The next phase of up-gradation of the prototype for development of its Mark II/Mark III variants would be guided by desirable parameters of PSQRs.

Project Management, Review and Monitoring

69. The progress of the ‘Make’ phase would be monitored by the IPMT under overall guidance of respective PMU as per the defined milestones listed in the DPR, including generation of Intellectual Property. The Government may engage services of independent consultants/experts for assessing the physical and/or financial progress of the Make project. IPMT, through respective PMU will also periodically apprise the progress of the project to PSO concerned at SHQ or to DPrB through PSO concerned at SHQ, as the case may be. Project management, review and monitoring arrangements may be suitable tailored for Make – II sub-category, based on the nature of the project and involvement of IPMT, as outlined in DPR.

70. All contemporary Project Management tools and practices, relevant for Design and Development of Technology intensive projects, shall be employed by IPMT.

Foreclosure

71. In case the project does not proceed according to the predetermined milestones as per paragraph 51.1 or 51.7 of this chapter, and as agreed in the DPR, and/or if there are undue time and cost overruns, or failure of the prototype(s) on staff evaluation or on account of any other reasons, the ‘Make’ project may be foreclosed in respect of the DA(s) concerned and proposal for foreclosure will be approved by the authority who had accorded AoN.

72. In such cases, the total expenditure made by the DA(s) on the prototype development till foreclosure would be assessed and if excess funds have been paid to the DA(s), the same shall be recovered; if the expenditure is in excess of the amount paid, the balance shall be paid to the DA(s). The total amount paid to the DA(s) shall be written off with the approval of the competent authority.

Disposal of tangible assets created in Make-I projects
73. The ownership of all tangible assets and the developed prototypes under the Make – I category shall vest with the MOD. These may be passed on to the DA at depreciated value as per the extant guidelines of the Government of India.

74. In case of foreclosed Make-I sub category of projects, the tangible assets thus created may be disposed of as per the extant Government guidelines. Expenditure incurred on intangible assets as defined in the relevant Indian Accounting Standards will be written off with the approval of competent authority.

**Disposal of tangible assets created in Make-II projects**

75. For Make-II sub-category projects, in which 100% development cost is to be reimbursed on account of non-issue of RFP within 24 months from the date of successful development of prototype, the ownership of all tangible assets and the developed prototypes shall vest with the MOD. These may be passed on to the DA at depreciated value as per the extant guidelines of the Government of India.

76. In case of foreclosed Make-II sub category of projects, the tangible assets thus created may be disposed of as per the extant Government guidelines. Expenditure incurred on intangible assets as defined in the relevant Indian Accounting Standards will be written off with the approval of competent authority.

77. All deviations on matters concerned with ‘Make’ cases not covered under this chapter, as well as all cases of deviations, shall require prior approval of the DPrB, before going to DAC.

78. Typical expected timelines for undertaking ‘Make’ Projects are contained in Appendix (xxx). The table indicating the role & responsibilities of various authorities is at Appendix (xxx). The entire Make procedure in the form of Flowcharts is placed at Appendix (xxx). All the formats given as Appendices and Annexures to this chapter are illustrative and may be amended/modified, as per the requirements of projects under consideration.

79. Any development process under Make procedure of previous DPPs, may be carried out as per procedures of old case or may be migrated to this new Make procedure, after due consultation with the selected DAs and if it is found to be in the interest of the project.
80. Any clarification or difficulty arising during execution shall be referred to Secretary (Defence Production), who would either take a final decision or refer the case to the DAC for final decision.

-X-X-X-
Chapter IV - Procedure For Defence Ship Building

General

1. A Naval/Coast Guard ship consists of an assortment of weapons, sensors and support systems, along with propulsion, power generation and auxiliary systems, facilities for crew, fuel and provisions. All the surveillance and weapon systems are interlinked and integrated through an elaborate data management system. The system integration of complex sensors and weapons between themselves and to the ship’s systems and combat management system is crucial for a ship design and construction project. The platform design successfully integrates systems acquired from different sources.

2. To achieve this successfully, a ship construction programme, therefore, necessarily involves feasibility studies on the basis of the staff requirements, concept design, model tests, preliminary design, specialist design studies, detailed design, system integration, construction, tests and trials. It also involves technology application and transfer, selection of various equipment, development of new equipment, identification and purchase of a large number of items, including weapons and sensors from numerous indigenous and foreign suppliers.

Preamble

3. In accordance with the Defence Procurement Procedure, Capital Acquisitions have been categorized under six main categories as described at Para 6 to 11 of Chapter I of DPP, namely; Buy (Indian-IDDM), Buy (Indian), Buy (Global), ‘Buy and Make’ ‘Buy and Make (Indian)’ and ‘Make’. Naval shipbuilding is a capital and technology intensive complex activity that requires a separate procedure for design / construction /acquisition of naval ships, submarines, yard crafts, auxiliary ships and Coast Guard vessels through design/construction. This Chapter is divided into two sections as follows:-

(a) Section ‘A’. Acquisition of Naval and Coast Guard Ships, submarines, yardcrafts and auxiliary crafts etc by nomination to DPSU.

(b) Section ‘B’. Acquisition of Naval Ships, Coast Guard Ships,
submarines, yardcrafts and auxiliary crafts etc on competitive basis.

4. Actions indicated for Naval authorities in succeeding paragraphs would be carried out by Coast Guard authorities mutatis-mutandis, in cases where this procedure is followed for Coast Guard acquisitions.
Section ‘A’

Acquisition of Naval and Coast Guard Ships, Submarines, Yard Crafts and Auxiliary Crafts etc. by Nomination to DPSU.

5. **Applicability.** This section is primarily applicable for acquisition of Naval/CG ships, submarines, auxiliaries, yard crafts and Coast Guard vessels of indigenous designs by IHQ MoD (N) to be constructed by DPSU shipyard(s) on nomination basis. However, it can be used as guidelines wherein the design is undertaken by the nominated shipyard(s) and/or construction through nomination to any other Indian shipyards.

6. **Procedure.** The Naval Ship Building Procedure under this section will cover the following:-

   (a) Outline Staff Requirements
   (b) Acceptance of Necessity
   (c) Nomination of Shipyards
   (d) Preliminary Staff Requirements
   (e) Preliminary Design
   (f) Preliminary Build Specifications
   (g) Build Strategy
   (h) Budgetary and Estimated Costs
   (j) Contract Negotiations
   (k) Approval of CFA
   (l) Conclusion of Contract
   (m) Detailed Design
   (n) Procurement of Ship-borne Equipment
   (p) Monitoring of Projects
   (q) Revision of Cost
   (r) Closure of the Project
   (s) Liquidated Damages, if applicable
Outline Staff Requirements

7. IHQ MoD (N) are to prepare the Outline Staff Requirements (OSRs), which are to include the role of the ship, dimensions of its hull, limiting dimensions if any, capability of major machinery, weapons, sensors and details of accommodation, manpower, endurance etc.

8. The OSRs would form the basis on which the feasibility studies and concept design of the ship, identification of OEMs/ vendors for specific weapons, sensors, machinery and equipment are to be carried out.

Acceptance of Necessity (AoN)

9. The proposal for induction of the ships is to be linked to the Maritime Capability Perspective Plan (MCPP)/Five Years Plan which stipulates the numbers and type of vessels required as well as timelines for such inductions. The guidelines for accord of AoN would be as per Chapter II of DPP. The Statement of Case for the proposal is to be prepared by IHQ MoD (N) and processed in line with the details given in Para 24 of Chapter II of DPP. This will inter alia contain Outline Staff Requirements, broad category of weapons and sensors to be fitted on the ship along with the status of their indigenous development if applicable, operational necessity, approximate cost and budgetary provisions. The proposal is to clearly indicate whether it is a new design, Follow on ships or Follow on ships with substantial design / equipment changes. Separate case may be taken up, to progress design work such as design validation studies, consultancy services, and creation of design facilities including procurement of software/hardware, which will be projected to the AoN according authority, based on proposal in SoC.

Nomination of Shipyard

10. SHQ along with MoD/DDP and MoD (Fin) will carry out a capacity assessment of the shipyards and forward recommendations on the nomination of the shipyard for the project along with AON for approval by DAC. More than one shipyard may also be nominated. In case of nomination of more than one shipyard, lead shipyard is also to be recommended in the proposal along with allocation of ships to each shipyard.
Chapter IV

11. Cases for nomination of a yard for Coast Guard ships will also be approved by the DAC based on the merits of each case.

Preliminary Staff Requirements

12. On completion of the feasibility analysis/concept design, the OSRs are to be refined, and the Preliminary Staff Requirements (PSRs) are to be promulgated based on the selected option of the concept design. The procedure for the Services Qualitative Requirements (SQRs) as set out at Para 9 to 14 of Chapter II of DPP 16 shall be followed for new weapons and related sensors as appropriate.

Preliminary Design

13. Based on the promulgated PSRs, the preliminary design, including hull form design, weapons/sensors/equipment fit, identification of OEMs/vendors for specific weapons, sensors, machinery and equipment, model tests, validation studies and other design activities are carried out by IHQ MoD (N)/Shipyard in consultation, as necessary. The propulsion package, weapons/sensors, hull equipment and engine equipment may be identified by the customer. Based on the necessity, SHQ may indicate the requirement for model test and other design validation studies as well as for augmentation of existing design facilities at Design/ Production Directorate. This will be authorised at the time of seeking AoN.

14. Due to long gestation period in ship-building, there may be occasions when systems/equipment, which are still under development or those not fully evaluated, have to be considered in order to ensure that the ship when ready has the latest state of the art capabilities at the time of induction into service. The dates for freezing of developmental system would be indicated in the contract. Further, due to operational reasons adaptation of developmental systems, shortfalls observed during installation/trials of equipment/systems etc may require modifications in design.

Preliminary Build Specifications

15. Based on the preliminary design, the Preliminary Build Specifications (PBS) of the vessel are to be prepared by SHQ and forwarded to the nominated shipyard(s). The SHQ and nominated shipyard will interact to finalise these and other related documents.
16. In cases where the vessel is not designed by IHQ MoD (N), the nominated shipyard will prepare the preliminary build ship specifications based on the PSRs and finalise these, along with draft contract and other related documents through interactions with SHQ.

Build Strategy

17. The nominated shipyard(s) is/are to propose a build strategy based on the preliminary build specifications, required delivery schedules, yard infrastructure and available resources. This would include the proposed construction schedule, Level 1 work breakdown structure, detailed master control network with resource allocation plan for utilization of shipyard manpower, infrastructure and committed infrastructure up-gradation specific to the project, if applicable, outsourcing plan, the tentative procurement schedule for major long lead items, including weapons and sensors, and the schedule for design documentation and drawings. This should also include shipyard’s plans to meet the resource requirements of the new project together with other on-going projects.

Budgetary Cost

18. After approval of the build strategy by IHQ MoD(N), the shipyard(s) is/are to forward a budgetary cost for the construction of the ship on the basis of the Build Strategy, along with draft contract.

19. Budgetary Cost - New Design Ships/ Follow-On Ships with Substantial Design/Equipment Changes. In case of new design projects or Follow-on projects with substantial design/equipment changes, the shipyard will forward estimated budgetary cost broken down to the extent possible, into standard elements such as labour cost indicating number of man-days, overheads, direct expenses, profit payable to shipyard, specially contracted works, approximate cost of raw material, all major equipment, weapons, sensors and propulsion machinery chosen, freight, insurance, clearing charges, taxes, duties and levies on input materials and services etc as well as the expected year wise cash flow separately for fixed and variable component. The cost should take into account normal escalation in cost of various elements and known equipment and machinery as per the scheduled time of procurement, so as to arrive at an estimated completion cost. Details of cost
elements, which cannot be assessed at this stage such as cost of new/ developmental equipment, exchange rate variation etc should be explicitly indicated.

20. **Estimated Cost – New Design Ships/ Follow-on Ships with Substantial Design/Equipment Changes:** The estimated cost of the project is to include the budgetary cost provided by the shipyard, costs towards project studies, functional design development through design bureaus/agencies and detailed design work by shipyard/ specialist agencies. Augmentation of design facilities at Design/ Production Directorate of Navy, creation of infrastructure and any other costs, if required in the shipyard etc, are also to be reflected as separate items. Cost of supply of MRL - B&D spares, up to 15% (excluding levies, taxes, and handling charges, transportation, insurance, service tax on handling charges etc) of the basic cost of the vessel and Cost of Manufacturer's recommended list of On Board Spares (MRL-OBS), may also be included in the Estimated Cost, as applicable.

21. Variations in cost of equipment nominated to be supplied by OFB will be paid as per actuals in the variable cost element of the project iaw Para 84 of Chapter II of the DPP. For new design ships, the estimated cost shall be as close to the final cost as possible explicitly indicating variable cost elements and projected cost of weapons, related sensors and other items under development, if any.

22. Cost for BFE integration (on a case to case basis) will be decided by the CNC.

23. **Budgetary Cost – Follow On Ships:** In case of ships of Follow on projects with minor design changes or equipment change requiring minimal design changes, the shipyard is to forward a firm cost for construction of the ship with variable element only for new and developmental systems, if any, in conformance with the Build Strategy, indicating the year wise requirement of funds.

24. **Estimated Cost – Follow On Ships:** The estimated cost should be carefully worked out based on the budgetary quote given by the nominated shipyard and should be broken down into fixed and variable cost elements, such as labour cost indicating number of man-days, overheads, direct expenses, profit payable to shipyard, specially contracted works, approximate cost of raw material, all major equipment, weapons, sensors and propulsion machinery chosen. Any other costs, if required in the shipyard etc, are also to be reflected as separate items. Cost of supply of MRL - B&D spares, up to 15% (excluding levies, taxes, and handling charges, transportation, insurance, service tax on handling charges etc) of the basic cost of the vessel and Cost of Manufacturer's recommended list of On Board Spares (MRL-OBS), may also be included in the Estimated Cost, as applicable.
25. Variations in cost of equipment nominated to be supplied by OFB as detailed in Para 84 of Chapter II of the DPP will be paid as per actual; in the variable cost element of the project.

26. Cost for BFE integration (on a case to case basis) will be decided by the CNC.

27. **Modifications:** In view of Para 14 above, the construction of ships may require to accommodate unforeseen changes necessitated due to minor operational requirements of the user etc. Since it is not feasible to forecast these, a provision needs to be made for the same, while obtaining CCS/CFA approval. The extent of modification cost would be examined by SCAPCHC/DPB/DAC, as the case may be. Based upon the deliberations during the accord of AON a percentage of the project cost will be included in the CFA approval on 'Not Exceeding Basis' for modifications, subject to a maximum of 4% of the basic cost. Payment for contingencies, as per actual, will also be included under this Head. Any extra time required beyond the delivery date of the ship, on account of modification would be restricted to a maximum of 4% of the original contract delivery period under the project. Expenditure on modification/contingency cost along with commensurate time extension (if any) will be approved by the concerned CFA based upon delegated financial powers in consultation with IFA.

**Contract Negotiations**

28. Before seeking the approval of CFA, negotiations on the price and the other aspects of the contract with shipyard are to be undertaken and concluded by a Contract Negotiation Committee (CNC). The standard composition of the CNC shall be as indicated at Appendix B to Chapter I of this procedure.

**Approval of CFA**

29. The proposal for the design and construction of the ship is thereafter, to be taken up for the approval of the CFA.

30. The proposal for CFA approval should indicate the estimated cost of the project as brought out above, the time schedule for completion, spread of expenditure, availability of funds, categories and operational details of major
defence

defence

of

on

a

31. While seeking CFA approval, the time schedule for the following activities as applicable may also be specifically indicated:

(a) Freezing of SRs.

(b) Selection of weapons and sensors including those under development.

(c) Time required for project studies, design, model testing etc in case of projects involving concurrent development / design.

(d) Freezing of preliminary design.

(e) Broad ordering schedule for weapons and sensors, major equipment and propulsion machinery and also price negotiations with nominated shipyard for the entire project in case of Follow-on Projects.

(f) Time schedule for obtaining subsequent approval of CFA for new design ships, Follow on ships with substantial design/equipment changes.

32. **Follow On Ships.** For ‘Follow on Ships’, CFA approval would be sought on fixed price basis if there are minor changes in the design/equipment fit. In case of substantial changes in the design/equipment fit, CFA sanction is to be obtained in two stages in accordance with Para 29 below.

33. **New Design Ships/ Projects with Substantial Changes in Design/Equipment:** In cases of new design ships as well as Follow on projects with substantial changes in design/equipment vis-à-vis parent ship, where it is not possible to estimate the likely firm cost of components, subsequent approvals of the CFA need to be obtained as the cost elements are firmed up. In such cases, based on the first stage approval of CFA, the work on shipbuilding, viz., ordering of equipment and material and development of detailed/production design, etc, commencement of construction can start. The ordering of equipment under variable component will be progressed in accordance with diagram at Para 37. Thereafter, after firming up estimates of all cost elements under variable cost, second stage
approval of CFA will be taken on cost estimates (on not exceeding basis (if necessary), within a period, preferably within two years or as specified at the time of initial CFA approval on a case to case basis.

**Conclusion of Contract with the Shipyards**

34. The contracts should be on ‘Fixed Price’ basis for Follow-on ships and on Fixed plus Variable Price in case of new design or Follow-on ships with substantial design/equipment changes based upon the first stage CFA approval, indicating inter alia permissible price escalation, exchange rate variations, increase in statutory levies etc. However, variable price element would be indicated on not exceeding basis in the Supplementary Contract based on the 2nd stage CFA approval.

35. The contract is to be signed within a period of two months from the date of CFA approval. In cases, where subsequent CCS approvals are necessitated, Supplementary Contracts are to be signed within two months of such approval. In case of delay in signing of contract, approval of RM is to be sought with full justification for the delay.

36. In view of the peculiarities associated with the design and construction of naval ships, illustrative contracts shall be promulgated separately by MoD/ DDP for guidance.

37. Amendments to contracts concluded with the shipyards will be affected after due approval of MoD and MoD (Finance).

**Detailed Design**

38. On conclusion of contract, shipyard is to commence Detailed Design, order equipment & material and obtain binding data for the detailed design. The actual construction of the ship can, however, start in parallel along with the detailed design.

**Procedure for Procurement of Ship-borne Equipment**
39. **Procurement of Non-Weapon Equipment.** Procurement of long lead and other items are to be initiated at an early stage, to ensure timely availability based upon the construction schedule. Due to the peculiar nature of the ship construction activity, different procedures have to be followed for procurement of equipment and material for the ship. The procurement of all yard materials, ship borne hull equipment & material, associated fittings as well as Propulsion machinery and Engineering Equipment will be by the shipyard.

40. **Procurement of Weapons and Related Sensors:**

   (a) As indicated in Para 9 above, while seeking approval for Acceptance of Necessity and also CFA approval, the broad categories, operational details and potency of the weapons and related sensors to be fitted in the ship are to be indicated.

   (b) The categories of the weapons and related sensors shall be as approved by the CFA. As brought out in the diagram at Para 37, the procedure for procurement of weapons and sensors will be as follows:

   (i) **Weapons and related Sensors to be imported from Abroad for the First Time:** Weapons and related sensors imported from abroad for the first time may be processed for procurement as BFE. If these weapons and sensors are to be procured by the shipyard, technical Negotiations/Price Negotiations will be undertaken by a Committee constituted by the Shipyard with reps of SHQ and MoD (Fin). FET of such weapons and sensors may be carried out by IHQ MoD (N), through the shipyard. Thereafter, after firming up estimates of all cost elements under variable cost, second stage approval of CFA will be taken on cost estimates (on not exceeding basis (if necessary), within a period specified at the time of initial CFA approval. The placement of order would be by the shipyard. In both cases, prior approval of DAC/DPB will be required.

   (ii) **Imported Weapons and related Sensors existing in Service:** Procurement of weapons and related sensors from foreign sources, which are existing in service or their upgraded versions, is to be carried out by the Shipyard. Technical Negotiations/Price Negotiations will be undertaken by a committee constituted by the Shipyard with reps of SHQ and MoD (Fin). The placement of order would be by the shipyard.
(iii) **Indigenous Weapons and related Sensors under Development or existing in Service:** Procurement of indigenous weapons and related sensors under development or existing in service is to be carried out by the shipyard. Technical Negotiations/ Price Negotiations will be undertaken by a Committee constituted by the Shipyard with reps of SHQ and MoD (Fin). The placement of order would be by the shipyard.
41. The procedure for procurement of ship-borne equipment is broadly depicted in the diagram below:-

- **SHIP**
  - Hull Equipment and Materiel
  - Weapon & related Sensors
  - Propulsion machinery and Engineering equipment

- **SHIP**

- **INDIGENOUS:** Those systems that are developed/produced by Indian vendor, public or private, either by themselves or through technical collaboration.
  - Technical Negotiations/Price Negotiations by Committee constituted by shipyard with reps of Navy and MoD (Fin) and placement of order by shipyard

- **IMPORT (New):** – In principle approval by DPB/DAC
  - Procurement as Buyer Furnished Equipment (BFE)/ order by shipyard wherein Technical Negotiations/Price negotiations by Committee constituted by shipyard with rep of Navy and MoD (Fin). IHQ MoD (N) may carry out FET of such weapons and sensors through the shipyard

- **IMPORT (Existing in Service):** – Those weapons and systems which exist on earlier platforms and have been performing satisfactorily
  - Technical Negotiations/Price Negotiations by Committee constituted by shipyard with reps of Navy and MoD (Fin) and placement of order by shipyard
42. **Single Vendor Situations.** In cases where certain state-of-the-art new weapons and related sensors being manufactured by only one vendor are to be utilised, the procedure set out at Para 100 to 102 of Chapter II of DPP shall be followed.

43. **Inter Government Agreement.** In cases where the state-of-the-art new weapons and related sensors are available only in one country and an Inter Government Agreement is involved, the procedure set out at Para 103 and 104 of Chapter II of DPP shall be followed.

44. **Procurement on Strategic Considerations.** For acquisitions of new weapons and related sensors based on considerations of strategic partnerships, the procedure set out at Para 105 of Chapter II of DPP shall be applicable.

45. **Nomination of Equipment.** To enable standardisation, accruing the advantage of ToT, retain/select those equipment on Follow-on class/ships which are fundamental to design, interchange ability, interoperability, repair infrastructure, maintenance and support of OEM, spares logistics and inventory control, system integration, training etc, SHQ may nominate equipment from single vendor. For Weapons and related Sensors nominated on Single Vendor by SHQ, the procedure of obtaining DAC approval outlined at Para 38 will be followed. For other equipment, the requirement of single vendor nomination will be vetted by a Committee comprising members from SHQ, DDP (Dte of Standardisation) and shipyard. Based on the recommendations of the Committee, a certificate for procurement on single vendor basis, duly approved by PSO, will be issued. The Statement of Technical Requirements (SOTRs) and Ordering Instructions (OIs) for the shipyard will be prepared by IHQ MoD (N) as per approved procedure.

**Payment Terms**

46. The payment terms for each shipbuilding project would be negotiated and finalised by the CNC since these are dependent upon the indigenous and imported content of the equipment fit. However, a broad suggested payment schedule, for fixed price element, is placed at Appendix A and Appendix B for guidance.
47. Payment terms for augmentation/modernisation of shipyard infrastructure, where provided for, will be separately formulated, negotiated with the shipyard and finalised by the DDP.

48. **Payment Mode.** The Variable Cost element, where applicable, will be paid on actuals, within the overall ceiling of total variable cost approved by CFA. Payment of variable cost element would be done through opening of a separate project account. The interest accrued on this account will be credited to the Consolidated Fund of India. Shipyard can make payments against actual cost incurred for procurement after submission of relevant documents. Guidelines in this regard will be issued by MoD (Fin).

**Monitoring of Projects**

49. After conclusion of contract, physical construction activity is to commence at the shipyard. All shipbuilding projects are to be monitored as follows:-

(a) Six monthly review by an Apex Steering Committee under the Chairmanship of Secretary (DP) as notified by MOD.

(b) Committee under the chairmanship of CWP&A with members from MoD (Acq Wing/DP/ Fin/ DGQA/DGAQA/DGNAI), Design/ Production Directorate, CDA (N) and shipyard that will monitor shipbuilding projects on a quarterly basis. Such reviews may be delegated to nominated reps on as required basis. A corresponding Committee may also be constituted by ICG.

(c) In case of ICG, the Committee would be headed by JS&AM (MS) with DDG (M&M), PD (Mat), FM(MS), TM(MS), CMD of concerned project as members.

50. These committees shall be suitably empowered to ensure efficient execution of the project.

51. The Apex Steering Committee under the chairmanship of Secretary (DP) will consist of the following officers:-
(i) Additional Secretary (DP).
(ii) Joint Secretary (NS), Member Secretary.
(iii) Joint Secretary & Acquisition Manager (MS)
(iv) Additional FA & JS (Defence PSUs).
(v) TM(MS).
(vi) Financial Manager (MS).
(vii) CWP&A.
(viii) DGND/ACWP&A.
(ix) ACNS(P&P)/PDNP.
(x) CMD of concerned Shipyard.
(xi) Director and Project Superintendents of concerned project of Shipyard.
(xii) PDND/PDSP.
(xiii) DDG (M&M), PD (Mat), and PD (SA) in case of ICG.

52. The terms of reference of the Steering Committee are as under:-

(i) To review the physical progress of the project with specified reference to compliance of milestones laid down for completion of various activities of ship construction.

(ii) To monitor the financial progress of the project to ensure that the project progresses within the financial limits sanctioned by the Govt.

(iii) To identify technical and administrative hold ups and give suitable directions so that the project proceeds as per the time schedule and cost approved by the Govt.

(iv) To review fulfilment of contractual obligations at pre-determined stages.

(v) Any other matter requiring direction and guidance of the Steering Committee.

53. The secretarial assistance for the committee will be provided by the Naval System Division of Department of Defence Production. The Apex Steering
Committee will meet at least once in six months.

Approval of CFA for Revised Project Cost

54. After the project is approved by CCS as in Para 25-29 above, the MoD, IHQ/MoD(N)/ICG HQ, DDP and the shipyard will endeavour to ensure that the ship construction proceeds strictly as per the time schedule and cost approved by CCS. Since all the cost elements both fixed and variable including possible escalations on account of price, exchange rate variation, increase in statutory levies etc, are taken into consideration for estimating the project cost, there should not normally be any occasion/need for the project to slip either in time schedule or in cost. However, if due to any unavoidable circumstances, the project is likely to be delayed or the cost per ship as approved by CCS is likely to be exceeded, the following procedure is to be adopted for seeking approval of the Competent Authority for the revised cost:

(a) Increase in project cost, which arises entirely due to change in statutory levies, exchange rate variation and price escalation within the originally approved project time cycle will be submitted to RM for approval.

(b) Increase in project cost up to 10% of the approved cost estimated by CCS (after excluding the increase due to statutory levies, exchange rate variation and price escalation within the originally approved project time cycle) will also be submitted to RM for approval.

(c) Increase in project cost exceeding 10% but upto 20% of the approved cost estimated by CCS (after excluding the increase due to statutory levies, exchange rate variation and price escalation within the approved project time cycle) will be submitted to RM and FM for approval.

(d) Increase in project cost exceeding 20% of the approved cost estimated by CCS (after excluding increase due to statutory levies, exchange rate variation and price escalation within the approved project time cycle) due to reasons such as time overrun, under estimation, change in scope etc will be submitted to CCS for approval.

(e) ‘Statutory levies’ means State and Central Taxes, including import
and export duties as notified by Govt of India and paid by the project authorities but excludes water, electricity charges and Petroleum, Oil & Lubricants (POL) price increases.

(f) No expenditure beyond the existing sanction can be incurred unless the revised project cost is approved by the Competent Authority as indicated above. However, in exceptional cases, in the interest of the project, if such a necessity arises, the procedure set out at Para 54 shall be followed. Sub-Paras (a) to (e) above are in line with the guidelines issued by Ministry of Finance vide O.M. No.1 (3)/PF II/2001 dated 18.2.2002.

(g) In all cases where the revised project cost overrun is over 20% and is accompanied by time overrun of over 10%, while seeking approval of CCS for the revised cost estimates and time schedule, accountability aspects for such cost and time overruns should be fixed and indicated in the CCS Note (in line with the guidelines of the Planning Commission issued vide letter No.14015/2/98PAMD dated 19th August,1998).

Closure of the Project

55. The cost analysis of the first ship of the project shall be carried out by a team led by Advisor Cost (DDP) within a period of 12 months from the second reading of the D-448 document check list, so that realistic and firm cost estimates for the other ships of the class can be worked out.

56. The final closure of the ship construction project is to be carried out within the time schedule of 12 months from the second reading of the D-448 document check list of the last ship of the project. All tasks not carried out by the shipyard should be listed and carried out separately. Where the final closure is not possible within the specified time frame, the approval of the competent authority for extension of the time limit shall be taken. The final closure of the project is important so that the exact costing can be worked out and approvals for the follow on projects can be obtained on a firm basis.

Liquidated Damages
57. **Liquidated Damages**: In case of delay in completion of the project and if the delay is attributable to the shipyard, Liquidated Damages will be levied after a Grace Period, as amplified below:

   (a) **Grace Period**: Grace period will be calculated at the rate of 5% of the build period (in months), subject to a minimum of one month and a maximum of three months.

   (b) **Liquidated Damages**: Beyond the Grace Period, LD will be levied at the rate of 0.25% of the Vessel Cost of the ship upto a limit of 5%, for every 1% delay wrt the build period. Vessel cost is as defined at Para 2 of Encl 6A of Schedule to Chapter IV, excluding cost for BFE and B&D spares.

**Deviations and Exemptions**

58. If any deviations from the prescribed procedure are envisaged and any exemptions are to be taken, approval of DAC through DPB shall be sought, as prescribed at Paragraph 107 of Chapter II of DPP.

**Review**

59. Review of the procedure would be undertaken by the DPB as per guidelines in force.
SECTION ‘B’

ACQUISITION OF NAVALAND COAST GUARD SHIPS, SUBMARINES, YARD CRAFT AND AUXILIARIES ETC ON COMPETITIVE BASIS

60. **Applicability.** While the acquisition of ships on Nomination basis has been prescribed in Section A, the methodology to be followed for acquisition of ships, submarines, auxiliaries and yard crafts through competitive bidding on multi-vendor basis under the categories Buy (Indian – IDDM), ‘Buy’ (Indian), ‘Buy and Make, ‘Buy and Make (Indian)’ and ‘Buy Global’, as described at Para 6 to 11 of Chapter 1 of DPP, are set out in this section. The acquisition process under this section would be an amalgamation of the processes prescribed in Section A, read in conjunction with certain Clauses of Chapter I.

**Acquisition Process**

61. The process of acquisition of ships under this Procedure would involve following steps:-

(a) Request for Information (RFI)
(b) Staff Requirements (SRs).
(c) Acceptance of Necessity (AoN).
(d) Solicitation of offers.
(e) Evaluation of Technical Offers by Technical Evaluation Committee (TEC).
(f) Commercial negotiations by Contract Negotiation Committee (CNC).
(g) Approval of Competent Financial Authority (CFA).
(h) Award of Contract.
(j) Contract administration and post Contract management.
62. For cases being steered under 'Buy and Make (Indian)', the additional steps as envisaged at **Para 32 to 42 of Chapter II of DPP** would also be applicable.

63. The applicability of various provisions of Chapter I, II and Section A Chapter IV are enumerated below:

<table>
<thead>
<tr>
<th>Sl No</th>
<th>Steps Involved</th>
<th>Concordance</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>Staff Requirements (SRs). Acceptance of Necessity (AoN).</td>
<td>Procedure for Outline Staff Requirements, AoN and PSR leading to SRs would be guided by Paras 7, 8, 9 and 12 of Section A, as applicable. AoN will be valid for 18 months.</td>
</tr>
<tr>
<td>(b)</td>
<td>Solicitation of offers Evaluation of Technical Offers by Technical Evaluation Committee (TEC)</td>
<td>To be guided by the provisions of Chapter II for short-listing of the vendor. The Paras of Chapter II under Group headings Solicitation of Offers, TEC and CNC would be followed as applicable. RFP will be formulated and issued post finalisation of Guideline Specifications. [Paras 28 to 57, except Para 31 and 74 to 86 of Ch 2] SHQ, along with MoD/DDP and MoD (Fin) will carry out periodic capacity assessment of shipyards and forward recommendations to DG (Acq) for issue of RFP.</td>
</tr>
<tr>
<td>(c)</td>
<td>Solicitation of offers Evaluation of Technical Offers by Technical Evaluation Committee (TEC)</td>
<td>To be guided by the provisions of Chapter II for short-listing of the vendor. The Paras of Chapter II under Group headings Solicitation of Offers, TEC and CNC would be followed as applicable. RFP will be formulated and issued post finalisation of Guideline Specifications. [Paras 28 to 57, except Para 31 and 74 to 86 of Ch 2] SHQ, along with MoD/DDP and MoD (Fin) will carry out periodic capacity assessment of shipyards and forward recommendations to DG (Acq) for issue of RFP.</td>
</tr>
<tr>
<td>(d)</td>
<td>Solicitation of offers Evaluation of Technical Offers by Technical Evaluation Committee (TEC)</td>
<td>To be guided by the provisions of Chapter II for short-listing of the vendor. The Paras of Chapter II under Group headings Solicitation of Offers, TEC and CNC would be followed as applicable. RFP will be formulated and issued post finalisation of Guideline Specifications. [Paras 28 to 57, exceptPara 31 and 74 to 86 of Ch 2] SHQ, along with MoD/DDP and MoD (Fin) will carry out periodic capacity assessment of shipyards and forward recommendations to DG (Acq) for issue of RFP.</td>
</tr>
<tr>
<td>(e)</td>
<td>Solicitation of offers Evaluation of Technical Offers by Technical Evaluation Committee (TEC)</td>
<td>To be guided by the provisions of Chapter II for short-listing of the vendor. The Paras of Chapter II under Group headings Solicitation of Offers, TEC and CNC would be followed as applicable. RFP will be formulated and issued post finalisation of Guideline Specifications. [Paras 28 to 57, except Para 31 and 74 to 86 of Ch 2] SHQ, along with MoD/DDP and MoD (Fin) will carry out periodic capacity assessment of shipyards and forward recommendations to DG (Acq) for issue of RFP.</td>
</tr>
<tr>
<td>(f)</td>
<td>Approval of Competent Financial Authority (CFA). Award of Contract</td>
<td>To be guided by Paras 87 to 90 of Chapter II. As regards Repeat Order/Option Clause, Para 94 to 99 of Chapter II would apply, as applicable.</td>
</tr>
<tr>
<td>Sl No</td>
<td>Steps Involved</td>
<td>Concordance</td>
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<tr>
<td>(h)</td>
<td>Contract administration and post Contract management</td>
<td>For monitoring of projects, Para 97 of Chapter II would be applicable. The Committee under CWP&amp;A would be constituted as per Para 45 (b) of Section A.</td>
</tr>
<tr>
<td>(j)</td>
<td>Offsets</td>
<td>To be guided by Para 27 of Chapter II. Offsets will be applicable on the total Contract Cost as defined at Para 2 of Encl 6 of Model Shipbuilding RFP.</td>
</tr>
<tr>
<td>(k)</td>
<td>Modification</td>
<td>To be guided by Para 37 of Section A of Chapter IV. However, Modification Cost to be approved at AoN Stage.</td>
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</table>

64. **Procurement of Ship Borne Equipment**: The procurement of shipborne equipment would be undertaken by the shipyard in accordance with the shipyards internal policy. Nominated Equipment/ Buyer Furnished Equipment would be clearly defined in the RFP.

65. **Field Trials**: The requirement of Field Evaluation Trials, as per Para 62 of Chapter II of DPP 16, will not be applicable for procurement cases in respect of acquisition/construction of Ships, Submarines, Yard Craft, and auxiliaries, etc. However, Simulated Signature Studies of complete platforms in respect of stealth characteristics, magnetic signature, EMI/EMC, Noise analysis, etc may be included in the SOC. The requirement of trials in the case of specialised new induction equipment/sensors being bought through the shipyard route should be detailed in the RFP. These would also be included in the Statement of Case while seeking the AON.

66. **Transfer of Technology (ToT)**: In cases where ToT is being sought, the appropriate Production Agency (PA) would be approved by the DAC based on the recommendations of the DDP. Clauses in Chapter I covering ToT would apply in
shipbuilding cases, as applicable. The PA could be selected from any of the public/private firms including a joint venture company based on the inputs from DDP and, if required, from DRDO. The RFP in such cases would spell out the requirements of TOT depending upon the depth of the technology which is required. Clauses related to ‘ownership of design’ or ‘manufacture under license’ need to be spelt out in the RFP. The nominated Production Agency (PA) for the receipt of technology will be closely associated in the preparation of RFP.

67. Ship production being an inherently complex process, needs to be divided into clearly identifiable/tangible stages for monitoring. The payments made to the shipyards therefore need to be set against achievement of these stages which need to be clearly verifiable. In this regard, Guidelines for Payment terms for ships would be in accordance with Appendix A. The Payment Terms for yard craft is at Appendix B. All payments for non-deliverables will be secured with Bank Guarantees. In case a shipyard does not claim a stage payment till delivery (and claims it post delivery of vessel), there is no requirement to submit bank guarantee of equivalent amount at the time of claiming payment.

Miscellaneous

68. **Closure of Project, LD, Deviations and Exemptions.** For approval of cases for Closure of Project, LD, Deviations and Exemptions, provisions of Section A (Paras 52 to 54) would apply.

69. **RFP.** All issues related to terms and conditions of procurement would be amplified in the RFP. A standardised RFP is placed as Schedule to this Chapter.

70. **Nomination of Equipment.** To enable standardisation, accruing the advantage of ToT, retain/select those equipment on Follow-on class/ships which are fundamental to design, interchangeability, interoperability, repair infrastructure, maintenance and support of OEM, spares logistics and inventory control, system integration, training etc, SHQ may nominate equipment from single vendor. For Weapons and related Sensors nominated on Single Vendor by SHQ, the procedure of obtaining DAC approval outlined at Para 38 of Section A, as applicable will be followed. For other equipment, the requirement of single vendor nomination will be vetted by a Committee comprising members from SHQ, DDP (Dte of Standardisation) and IFA (N). Based on the recommendations of the Committee, a certificate for procurement on
single vendor basis, duly approved by PSO, will be issued. The nominated single vendor equipment will be indicated in the RFP.

71. In case of competitive bidding, bank guarantees will be submitted by all shipyards, including DPSUs, against non-deliverable stages. The deliverable stages will be defined in the RFP.

-x-x-x-
Chapter V – Fast Track Procedure

General

1. Fast Track Procedure for meeting urgent operational requirements was promulgated vide MoD ID No: 800/SS (A)/2001 dated 28 Sep 2001. This procedure has been reviewed and modified based on experience gained in implementation. This procedure, named the Fast Track Procedure, is set out in succeeding paragraphs.

Aim

2. The objective of this procedure is to ensure expeditious procurement for urgent operational requirements of the regular and special forces, foreseen as imminent during war as well as peace time, and for situations in which crisis emerges without prior warning.

3. Fast Track Procedures may also be applied for cases where undue/unforeseen delay, due to reasons beyond the control of the acquisition set up, is seen to be adversely impacting the capacity and preparedness of the regular and special forces.

Scope

4. The Fast Track Procedure (FTP) will cover acquisitions undertaken by the Ministry of Defence and Defence Services under ‘Buy category’ or outright purchase. The acquisitions may or may not be part of LTIPP /SCAP / AAP. Such acquisitions are applicable for both indigenous sources and ex- import. Procurement proposals in which user trials are envisaged will not be under the purview of FTP.

5. The acquisition under FTP can be categorised as under:-

(a) Procurement of equipment already inducted into Service.
(b) Procurement of new equipment.

**Acquisition Process**

**Acceptance of Necessity (AON)**

6. The adoption of FTP to meet urgent operational requirements will be authorised by special DAC meeting chaired by the Raksha Mantri based on proposals moved by respective SHQs with the approval of the concerned Service Chief. This Committee would comprise of the Service Chief(s), Defence Secretary, Secretary (Defence Production), Secretary (R&D), Secretary Defence (Finance), Director General (Acquisition), HQ IDS (CISC) and other officials of the MoD as deemed necessary. The proposal would be processed by HQ IDS which will act as secretariat to the special DAC. Copies of the proposal/s would also be circulated to the other members of the committee. The projected requirement must be related to an operational situation foreseen as imminent or for a situation where a crisis has emerged without prior warning. The requirement, as projected, must identify the items required, their numbers, mode of procurement, broad Operational Requirements (ORs) / Services Qualitative Requirements (SQRs) desired and the time-frame within which they need to be inducted. The format for the Statement of Case (SoC) for processing such proposals is given as Appendix (xxx).

7. Consequent to the initiation of the proposal, a special meeting of the DAC would be convened within seven days. The DAC would discuss the proposal and accord Acceptance of Necessity to the proposal. Decisions on following aspects will explicitly emanate from the analysis by the DAC:

(a) Equipment and the quantities approved.

(b) Source of Procurement.

   (i) A Vendor whose Equipment is already in Service. If so:

   (aa) For additional quantities of an ongoing
contract.

(ab) For Invoking ‘Option Clause’ of a Contract. In case the quantities required are in excess of the ‘Option Clause’ of the contract, the same would be clearly brought out for approval by the DAC. The quantity could be up to 100% with the approval of DAC.

(ac) For Placing Repeat Orders on Past Suppliers. The quantities could be limited to 100% of the previous contract.

(ad) A case where the vendor is not able to supply the entire quantity of required item and the procurement may be made from other known vendors whose equipment has been found acceptable in the past.

(ii) Procurement of a New Equipment based on:

(aa) Single vendor.

(ab) Multi vendor.

(ac) Option of procuring from friendly countries ex-stock or through lease.

(c) Composition of the Empowered Committee.

(d) Estimated cost of the proposal.

(e) Time schedule for induction to be specified by the DAC.

8. Minutes of meeting of the special DAC, as approved, would be construed as the AON and based on which the SHQ/Acquisition Wing/ Empowered Committee would initiate the procurement process.

9. Given the limited time-frame, the FTP would necessarily have to be confined to such items as would be available within the specified time-frames and therefore, long lead items such as major weapon system should be avoided. The items involved should preferably be such which are already in Service or have
been trial evaluated or are available widely in the world / in service in foreign defence forces / indigenous market for ready procurement so that the time required for evaluation is minimised. The Indian DAs / Ambassadors in their respective country would confirm the information furnished by the vendors regarding the item being ‘In Service in Foreign Defence Forces’. The TEC would include such information received from DAs in their technical compliance statement.

Procurement of Equipment Already Inducted into Service

10. Procurement of equipment already inducted into Service may entail placing orders under following conditions:

(a) **Additional Requirements of Equipment on the Vendor who is Executing an Ongoing Contract:** The concerned Acquisition Manager would invite the vendor for negotiations for additional quantities. The CNC would conclude the negotiations preferably at the same price and terms & conditions. It will however, have the right to negotiate and arrive at a mutually agreed price and terms & conditions with the vendor in case of differences.

(b) **Invoking Option Clause:** The concerned Acquisition Manager would invoke the option clause and invite the vendor for signing the addendum to the contract.

(c) **Past Supplier for the Subject Item:** In such cases a repeat order would be placed on the vendor. The SHQ would forward a draft commercial RFP to the Technical Manager. The draft RFP would be vetted in collegiate manner by Acquisition, Finance and Technical Managers and issued in the shortest possible time. The vendor can be called for negotiations along with the commercial offer itself. Quantity to be procured would be restricted to 100% of the quantity contracted earlier.

(d) There may be a situation where the vendor who has supplied the equipment earlier is unable to supply the required quantity within the given time frame. In order not to proliferate the existing inventory, Acquisition Wing will first invite commercial offer from the vendor and negotiate the price based on the LPP. Thereafter Acquisition Wing in
coordination with SHQ will invite all vendors (As approved by the DAC), whose equipments have been trial evaluated and found acceptable for introduction into Service, for supply of the balance quantity of equipment at the negotiated price with the last supplier. The apportionment of quantity would be as per the earlier L2, L3, in that order.

Procurement of New Equipment

11. **Service Qualitative Requirements (SQR)/ Operational Requirement (ORs):** For procurement of new equipment, there would be a requirement of formulation of Service Qualitative Requirement (SQRs) or Operational Requirements (ORs) by the concerned Service HQs. While formulating the SQRs/ORs, it would be kept in mind that the required equipment is widely available in the world market/ in service in foreign defence forces/ indigenous market. Such SQRs/ORs could be approved by appropriate authority at Service HQs and may be without endorsement by Staff Equipment Policy Committee. The SQRs / ORs would be forwarded along with the proposal when initiated by the Service Chief.

12. **Solicitation of Offers:** Solicitation of offers will be as per ‘Single Stage-Two Bid System’. RFPs will be processed by SHQs within 10 days of approval of the proposal by the Apex Committee. In order to save time, collegiate vetting of RFP will be resorted to at Service HQs while obtaining the views of maintenance and QA agencies. RFP would then be vetted in a similar manner by Acquisition, Finance and Technical Managers. RFP will be approved by Director General (Acquisition)/ Additional Secretary (Acquisition) and issued by Technical Managers to all known vendors on a limited tender basis.

13. **Request for Proposal (RFP):** The RFP will be a self-contained document that will enable vendors to make their offers after consideration of full requirement of the acquisition. The standardized RFP document under FTP would be as per Schedule I of DPP with relevant modifications / amendments.

14. **Technical Evaluation:** The Technical Evaluation Committee will carry out evaluation of the technical bids received in response to RFP, with reference
to QRs. It will examine the extent of variations/differences, if any, in the technical characteristics of the equipment offered by various vendors with reference to the QRs and prepare a compliance statement shortlisting the equipment, which are acceptable for procurement. The Director General (Acquisition) will formally accept the report of the TEC on recommendations of the Technical Managers. Any deviation/waiver to SQRs or any single vendor situation that may emerge, would have to be recommended by the concerned Service Chief for consideration and approval of the Raksha Mantri. However, cases where the procurement has been approved ab-initio on a single vendor basis, no relaxation of SQRs would be permitted.

15. **Empowered Committee:** Although there would be no requirement of any trial evaluation of the identified equipment, an Empowered Committee may be authorized to visit the premises of vendors to witness demonstrations/evaluate the equipment as required. The Empowered Committee would have the powers to negotiate and conclude contracts in the shortest possible time, and would have adequate representations from different wings of the Ministry/Service HQs to ensure that requisite expertise and authority for procurement action is available. They would be provided with a range of deviations in performance according to TEC Report (where applicable) from that laid down in the QRs, to expedite the selection of equipment.

**Contract Negotiation Committee (CNC)**

16. The standard composition of the CNC shall be as indicated at Appendix (xxx) to this procedure. Any change in the composition of the CNC may be effected with the approval of Director General (Acquisition).

17. Cases for which contracts have already been signed and benchmark prices are available, the CNC would arrive at the reasonable price, taking into consideration the escalation/foreign exchange variation factor. The endeavour should be to conclude the CNC early so that the operational/urgent requirement of the indenting service is met in a time-bound manner. Guidelines to be followed for early conclusion of CNC are given in succeeding paragraphs.
18. For certain category of items, where orders have been placed in the past, there could be a downtrend of prices since the last contract. It would thus be necessary for the CNC to verify that there has been no downward trend since the last purchase and this would have to be kept in mind while arriving at the prices.

19. In case it is found that the lowest tenderer (L1) is not able to supply the entire quantity within the prescribed time-frame, the CNC will have the right to divide the quantity amongst other qualified tenderers (L2, L3…… in that order), on the condition that other tenderers accept the price and terms & conditions quoted by the lowest tenderer, if feasible.

20. (Amended by MoD ID No. 2153/DG(ACQ)/2007 dated May 25th, 2007) In multi-vendor cases, on opening of commercial offers, once L1 vendor is identified the contract should be concluded with him and normally there would be no need for any further price negotiations. However, it is important that the reasonability of the prices being accepted for award of contract should be established. In all cases, CNC should establish a benchmark and reasonableness of price in an internal meeting before opening the commercial offer. Once the commercial offers are opened and the price of the vendor is found to be within the benchmark fixed, in the internal meeting, there should be no need to carry out any further price negotiations. The RFP in such multi-vendor cases, should clearly lay down that no negotiations would be carried with the L1 vendor once the reasonability of the price quoted by him is established. As far as possible all aspects contributing towards formulation of a commercial offer by the vendor should be included in the RFP. In such cases, the services may have to state the requirement of maintenance by the OEM/authorized vendor for a specified period. Aspects of advance and stage payments (where applicable) also to be given upfront in the RFP so that it facilitates selection of L1 vendor.

21. **Oversight Committee:** For projects over ` 300 Crore, a committee comprising Secretary (Defence R&D), Secretary (Defence Finance), Additional Secretary of the Department of Defence and Deputy Chief at SHQ would scrutinize each case from the procedural angle within three days before the contract is signed / order is placed.

22. **Contract Conclusion:** The contract will be signed after the CFA approval of the case. The date of signing of the contract would be the effective date
of contract. To ensure adherence to the delivery schedule the contract should specify the date by which the vendor would have to submit the BGs as also the date by which MoD would have to open the LCs. The Standard Contract Document as in DPP would be the guidelines for acquisitions under FTP. Any deviations to the standard contractual clauses would be accorded by Raksha Mantri on recommendation of the CNC/Empowered Committee.

**Additional Provisions**

23. In case of procurement from a Defence Public Sector Undertaking (DPSU), a Letter of Intent (LoI) may be placed immediately on the DPSU which supplied this store last or is having a running contract. The details concerning prices would be negotiated and incorporated in a Supply Order subsequently.

24. In case of procurement from OFB, for an already introduced item, indent would be placed by Acquisition Manager after AON has been accorded.

25. In certain acquisition cases it may be expedient to procure equipment from friendly countries by sale/lease/otherwise ex their own stocks. In such cases, Government-to-Government Agreements at appropriate level would be established to facilitate the issue of such stores. Care, however, would be exercised to ensure that adequate residual shelf life remains available for our Armed Forces. In such cases a technical delegation may be sent to check the condition of the equipment being offered as required. Only if it is technically acceptable would the case be processed further.

26. **Inspection:** Considering the urgent nature of requirements and to ensure that items being supplied conform to the technical specifications agreed in the contract, detailed Pre Dispatch Inspection (PDI) of the stores need to be carried out by our inspectors at the premises of the vendor, wherever considered necessary by the SHQ. If PDI is not to be carried out, then the vendor will furnish his own Certificate of Quality or of the Defence Forces of his country or of its accredited quality assurance agency. In such cases, Joint Receipt and Inspection (JRI) would be carried out by the Ministry of Defence and the vendor in India. In such cases, certain sums from those due for payment to the vendor would be retained to be released only on successful completion of JRI. In case of items procured through Govt to
Government agreements signed at appropriate level, PDI may not be insisted upon and their Certificate of Quality may be considered for acceptance.

27. **Performance Bank Guarantee (PBG):** Since the contract will be for short term duration and supplies will be required in shorter time frame, the performance of the contractual obligations by the vendor need to be enforced by obtaining a PBG @ 10% of the value of the contract from a first class international bank.

28. **Liquidated Damages (LD):** In case of delay in supplies, the vendor shall be levied LD @ 1.5% per week subject to maximum of 15% of value of delayed store.

29. **Termination Clause:** The contract to be signed in FTP will have a Termination Clause which will be made applicable in the following cases:-

   a) The delivery of the material is delayed for causes not attributable to Force Majeure for more than three months after the scheduled date of delivery.

   b) The Seller is declared bankrupt or becomes insolvent.

   c) The ‘Buyer’ has noticed that the seller has utilized the services of an Indian / Foreign agent in getting this contract and paid any commission to such individual / company etc.

30. **Advance Payments:** The amount of advance payment permissible should be stated upfront in the RFP. There should be a cap on the amount of advance payable which should be in line with the (G-F-R) of the Ministry of Finance. Any advance will have to be supported by a Bank Guarantee of equal amount from a first class bank of international repute.

31. In case of supplies from countries with which Bi-lateral Agreement exists for Standard Terms & Agreements of Contract, the same would supersede the corresponding terms & conditions of the Standard Contract Document.

32. **Integrity Pact:** An ‘Integrity Pact’ would be signed between government department and the bidders for all procurement schemes over Rs. 20 crore. The Integrity Pact would be a binding agreement between the government
department and bidders for specific contracts in which the government promises that it will not accept bribes during the procurement process and bidders promise that they will not offer bribes. The draft Integrity Pact document is placed as Annexure (xxx) to the Appendix (xxx) of Schedule (xxx) of DPP.

33. Since the procurement under FTP would be for cases of urgent operational requirements, it is imperative that all activities be carried out in a time-bound manner. The proposed time frame for each activity is given at Appendix (xxx). In case it takes more than six months to conclude the contract or time in excess of the schedule indicated by the DAC for induction of the equipment, the proposal/ case would be referred back to the DAC for appropriate directions.

34. While the above provisions are adopted as the guidelines for emergency procurement, it may not always be possible to ensure complete compliance of above conditions. In such cases, the specific approval-seeking waiver would be obtained from the Raksha Mantri.

**Pre-Contract Monitoring**

35. Concerned SHQs would report the progress of FTP cases on a monthly basis to the DPB.

**Post-Contract Monitoring**

36. While responsibility for contract administration and management would be that of the SHQ concerned, post-contract monitoring would be conducted by the Acquisition Wing. The projects would be reviewed by the Acquisition Manager / equivalent Service Officer in the respective SHQs.

37. The concerned Services HQ would make arrangements to monitor the receipt and ensure expeditious induction of stores subsequent to delivery of items. The DPB would be informed about the progress of induction of the equipment on a fortnightly basis.

38. **Fall Clause:** An undertaking would be sought from the bidder that he has not supplied/ is not supplying the similar systems or subsystems at a price lower
than that offered in the present bid in respect of any other Ministry/Department of the Government of India and if the similar system has been supplied at a lower price then the details regarding the cost, time of supply and quantities should be included in the commercial offer. If it is found at any stage that the similar system or sub-system was supplied by the Bidder to any other Ministry/Department of the Government of India at a lower price, then that very price with due allowance for quantities and intervening time period will be applicable to the present case and the difference in the cost would be refunded by the Bidder to the Buyer, if the contract has already been concluded.

Conclusion