

Draft Defence Procurement Procedure 2020

Analysis

Chapter I - Draft DPP 2020

Acquisition Categories, Acquisition Planning and Indigenous Content

Structure of Draft DPP 2020

Chapter I	Acquisition Categories, Acquisition Planning and Indigenous Content
Chapter II	Acquisition Procedures for Categories Under 'Buy', and 'Buy and Make' Schemes
Chapter III	Procedure for Procurement under 'Make' and 'Innovation' Categories {Chapter III and IIIA of DPP 2016 merged}
Chapter IIIA	Procedure for Acquisition of Systems Designed and Developed by DRDO / DPSU / OFB {New Chapter}
Chapter IV	Procedure for Defence Ship Building
Chapter V	Fast Track Procedure
Chapter VI	Standard Contract Document
Chapter VII	Revitalising Defence Industrial Ecosystem through Strategic Partnerships
Chapter VIII	Post Contract Management {New Chapter}

Preamble, Chapter VII, and Chapter on ICT projects are not included in 746 pages

- Revised DPP 2016 version released on 01 November 2019
<https://mod.gov.in/sites/default/files/UVDPP20161119.pdf>
- Amendments undertaken in 4 phases related to Business Process Re-engineering
- “De-bottleneck” procurement process, “Ease of Doing Business”
- ✓ Analysis / discussions during Webinar to focus on the Revision of provisions in DPP 2016 and New Features

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Classification of Capital Acquisition schemes

- ‘Buy’, ‘Buy and Make’, Leasing, ‘Design and Development (D & D) and Strategic Partnership Model (SPM)’.
 - Under the ‘Buy’ scheme procurements are categorised as ‘Buy (Indian - IDDM)’, ‘Buy (Indian)’, **Buy (Global - Manufacture in India)** and ‘Buy (Global)’.
 - Under the ‘Buy and Make’ scheme, the procurements are categorised as ‘Buy and Make (Indian)’ and ‘Buy and Make’.
- ❖ *New classes - Leasing, ‘Design and Development (D & D) and Strategic Partnership Model (SPM) – have been included.*
- ❖ *Further, under ‘Buy’, a new category - Buy (Global - Manufacture in India) – has been added.*

Priority of Categorisation.

- On the same lines as in DPP 2016.
- Buy (Global - Manufacture in India) category has been inserted above 'Buy(Global)' category.

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'Buy (Global - Manufacture in India)' –

Outright purchase of equipment from foreign vendors as approved by the AoN according authority, in quantities as considered necessary, with a minimum of 50% Indigenous Content (IC) on cost basis of the total contract value which can be achieved in the manufacturing of either the entire equipment or spares/assemblies/sub-assemblies / Maintenance, Repair and Overhaul (MRO) facility for the entire life cycle support of the equipment, through its subsidiary in India. Acquisition under this category can also be carried out without any initial procurement of equipment in FF state.

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'Buy (Global)'

Foreign vendors will also need to discharge offsets in all Buy (Global) cases more than 2000 crores other than Single Vendor Cases (SVC) being progressed based on IGAs including FMS.

{This is an explicit feature now. DPP 2016 has a provision wherein DAC may waive off offsets when necessary}

Leasing

New category introduced for financing of equipment. Two sub-categories **Lease (Indian)**, where Lessor is an Indian entity and is the owner of the asset, and **Lease (Global)** {where Lessor may be a foreign entity} permitted.

{Hopefully, as in case of Buy(Indian) category of acquisition, Indian Companies will be allowed to participate in Lease(Global) sub-category. Clarification should be sought at this stage itself}

Design and Development (D & D) / Innovation.

Will cover all projects under design and development by DRDO, DPSU, & OFB, **Make” procedure**, ‘Innovation for Defence Excellence (iDeX), TDF, ‘Open Challenge’ etc.

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Overall enhancement in requirement of Indigenous Content (IC)

Category	DPP2016	Proposed in DPP 2020
1. Buy (Indian-IDDM)	Min 40%	Min 50%
1. Buy (Indian)	Min 40%	Indigenous design -Min 40%, otherwise -Min 60%
1. Buy & Make (Indian)	Min 50% of Make	Min 50% of Make
1. Buy & Make	-	Buy & Min 50% of Make
1. Buy (Global –Mfr in India)	-	Min 50%
1. Buy (Global)	-	Min 30%for Indian vendors

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Definition of Indian Vendor.

The text of the definition of Indian Vendor as given in DPP 2016 has been appended with the additional text.

The following additional conditions are to be met by the Indian Vendors:-

- (a) **Ownership by resident Indian Citizen(s).** FDI in the Indian entity will be as per sectoral limits prescribed by the Government of India, as amended from time to time. It is pertinent to note that, for the calculation of foreign equity in the Indian Entity equity held by Foreign Portfolio Investors (FPI) (category I and II only) and Indian mutual funds will not be included.
- (b) **Control**, as defined in 'The Companies Act, 2013', of the Indian entity by resident Indian Citizen(s).

New Topics Introduced.

- Military Materials. Indigenous availability of high-end Military Materials and Special Alloys is an important facet of self-reliance in defence sector. Detailed guidelines included in the chapter.
- Indigenous Software. Promote indigenous applications software, while the backend software i.e. Operating Systems continues to be OEM defined.
- Aero-engines and FAB. Aero engines and FAB manufactured in India will mandatorily be procured for applicable defence equipment as Buyer's Nominated Equipment/ sub-assemblies.

Definition of Indigenous Content (IC)

To compute IC, exclude from the contract value **less taxes and duties** of the equipment/item, the following elements of manufacturing / production / assembly: -

- (a) Direct costs (including Freight/transportation and insurance) of all materials, components, sub-assemblies, assemblies and products imported into India.
- (b) Direct and Indirect costs of all services obtained from non-Indian entities/citizens.
- (c) All license fees, royalties, technical fees and other fees/payments of this nature paid out of India, by whatever term/phrase referred to in contracts / agreements made by vendors/sub-vendors.

Methodology for IC Verification

- a) Certificate of IC by Prime Contractor
- b) IC data to be captured for Prime Contractor, all the top indigenous suppliers by value ensuring that total of cost of PC and value of these top T1 suppliers account for a minimum of 80% by value of the total contract value
- c) And IC data of those Tier-2 suppliers who meet the below stated criteria to be captured: -
 - (i) the contract value of T2 supplier exceeds 10 Crores; or
 - (ii) the contract value of T2 supplier is greater than 5% of the Contract Value of the T1 supplier

Methodology for IC Verification

d) For Indigenous Supplies from the balance T1 suppliers, the import content shall be aggregated in the IC Proforma by the PC, under the head 'Balance T1 Suppliers' at a flat estimated rate of 15% of the total value of supplies.

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Comments / Suggestions from Participants