

Analysis

Chapter III

Procedure for Procurement Under 'Make' and 'Innovation' Categories

New or Revised Salient Features

Draft Defence Procurement Procedure 2020

Schedule of Webinars on Draft Defence Procurement Procedure 2020		
Date & Time	Topic	Link for Registration
Wednesday 08 April 2020 1630 Hrs	Appendix to Chapter II – Defence Offset Guidelines	Register
Friday 10 April 2020 1130 Hrs	Chapter III - Procedure for Procurement Under 'Make' and 'Innovation' Categories	Register
Saturday 11 April 2020 1630 Hrs	Chapter III A - Procedure for Acquisition of Systems Designed and Developed by DRDO / DPSU / OFB	Register
Tuesday 14 April 2020 1130 Hrs	Chapter IV - Procedure for Defence Ship Building	Register

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Structure of Chapter III

Section – I “Make” Categories

- Make-I – Govt funded
- Make-II – Industry funded
- Make-III – Indigenously Manufactured (industry funded)

Section II – Innovation

- Innovation for Defence Excellence
- Technology Development Fund
- Open Competition

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Structure of Chapter III

Appendix – A : Technology Development Fund Scheme

Appendix- B : Delegated Financial Powers of CFAs for D&D and Innovation

Appendix-C : Phases in Design and Development of Prototype for Make-I Sub-category

Appendix-D : Project Definition Document Illustrative Format

Appendix – E : Expression of Interest Illustrative Format

Annexure I- Information Proforma: An Illustrative List of Elements

Annexure II – Documents / Information to be Submitted as part of Response to
EOI

Structure of Chapter III

Appendix – F : Detailed Project Report – An Illustrative List of Elements

Appendix – G : Guidelines for Approval and Acceptance of Cost Sharing Arrangements

Appendix – H : Intellectual Property rights of Government in “Make” Projects

Appendix – J : Estimated Timelines for “Make-I” Projects

Appendix – K : Indicative Criteria for Selections of DAs for “Make-II” Projects

Appendix- L : Tentative Timelines for “Make-II” Projects

Appendix – M : Illustrative Terms and Conditions for Participation In “Open Competition”

Section – I “Make” Categories

- Make-I – Govt funded
- Make-II – Industry funded
- Make-III – Indigenously Manufactured (industry funded)

Organisation

- a) Service Headquarters are required to establish an **“Innovation & Indigenisation Organisation (IIO)”** to run the schemes under this Chapter.
- b) It is pertinent that concepts of Project Management Unit, Integrated Project Management Team for Make-I and Project Facilitation Team for Make-II which are there in DPP 2016 therefore will get subsumed into this new organisation.
- c) Further, each Service already has a Directorate of Indigenisation (DOI). May be this organisation will be re-named as IIO.

“Make” – Sub-categories

- Sub-categories Make-I and Make-II (Chapter III and IIIA respectively of DPP 2016) have been retained with some changes.
- Make-I – It remains a **Government funded** scheme. However, funding has been pegged at max 70% of prototype development cost, **based on viability gap funding method**.
- **In Make-II cases, where innovative solutions have been offered even by a single individual or a firm, the cases would be progressed as a Resultant Single Vendor.**

“Make” – Sub-categories

- Make-III {Indigenously Manufactured (IM)} – This is a new sub-category. The projects under this sub-category would encompass sub-systems/ sub-assembly/ assemblies/ components/ materials / ammunition, etc, which although not designed / developed indigenously, but are being manufactured in India as **import substitution** for product support of weapon systems / equipment **held in the inventory of the Services**. Indian firms may manufacture these **either in collaboration or with ToT** from foreign OEMs.

➤ Indigenous Content during procurement Phase –

- ✓ Post prototype development, acquisition to be from successful Development Agency(ies) (DA/DAs), through the 'Buy (Indian-IDDM)' category with a minimum of 50% IC.
- ✓ Schemes under Make III (IM) will be procured under the Buy 'Indian' route with a minimum IC of 60%.

➤ Eligibility for Participation.

- i. Only Indian entity as per Par 16 of Chapter I {Definition of Indian Vendor – companies owned and controlled by Indian Citizens & meeting FDI norms}, are eligible for participation under Make–I.
- ii. In case of Make-III (IM), an Indian vendor can enter into a JV with OEM, however the management of the Company should be in Indian hands, with Indian citizens in majority on the board of directors.
- iii. Further guidelines including indicative financial criteria are given in Appendix. These are generally the same as under DPP 2016.

➤ Incentives for MSMEs

- i. Projects under the Make-I sub-category, with estimated cost of prototype development phase not exceeding ₹10 Crores and cost of subsequent procurement not exceeding Rs 50 Cr/year based on delivery schedule at the time of seeking AoN will be earmarked for MSMEs. However, if **at-least two MSMEs** do not express interest for a Make-I programme earmarked for them, 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.**

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ii. Projects under the **Make-II / Make-III** sub-category, with estimated cost of prototype development phase not exceeding Rs 3 Crore and cost of subsequent procurement not exceeding Rs 50 Cr/year based on delivery schedule at the time of seeking AoN, will be earmarked for MSMEs. If **no MSME** expresses interest for these 'Make-II/Make-III' programme earmarked for them, **the same may be opened up for all.**

Planning.

I – Shortlist of Projects

- SHQs identify potential projects in consultation with industry.
- Host list on MoD/SHQ website / share with the industry.
- SHQs hold consultations with the stakeholders.
- **Industry can also forward Suo-moto proposals under Make-II, Make-III, as well as 'Open Competition' category.**
- AIP by Collegiate Committee headed by Secretary (DP)

Planning.

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II - AIP by Collegiate Committee headed by Secretary (DP)

Planning.

Points to Note:

- ✓ To widen the research base and encourage private industry participation, Projects where private sector has the ability to develop and manufacture, or has evinced interest in participating through the Innovation categories (iDEX/‘Competition Route’) or the Make-II route (including suo-moto proposals), **shall preferably be assigned for Private Industry.**
- ✓ Projects once identified and approved under ‘Make’ categories shall not be retracted due to technology being developed by DRDO/DPSU/OFB.
- ✓ Where applicable, public sector organisations may endeavour to tie-up with industry to participate in such projects within established timelines.

Planning.

III - On AIP, **upload list** of potential projects along with project briefs, questionnaire for industry, on **MoD and SHQ websites** to seek Industry participation.

- ✓ Share details with Industry through the IBO-DPSU also.
- ✓ Timely feedback to industry on Suo-moto proposals, which are either not accorded AIP or not accepted for further pursuance.

Execution.

- I. Feasibility Studies (3 months for Make II / III, 06 months for Make-I)
- II. Preliminary Staff Qualitative Requirements (PSQRs)
- III. Approval of Necessity (AON)
 - Statement of Case
 - ✓ Recommended IC
 - ✓ Minimum Order Quantity (for Make-II, cover 5 years)
 - ✓ Acceptability of multiple technical solutions and division of tendered quantity among successful DAs, where applicable
 - ✓ List of likely DAs for Make-I
 - ✓ Foreclosure Criteria

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- **At AON stage**, In case of 'Make-1' category (Govt Funded)
 - ✓ if three DAs, instead of two are to be selected for the project, approval of DAC will be required.
 - ✓ **However, in case more than two vendors opt to fund the entire prototype development cost through their own resources, all such Vendors would be allowed to partake in the prototype development, as DAs.**
 - ✓ Such cases may either be migrated under 'Make-II' or processed under Make-I, with nil financial implications towards prototype development.
 - ✓ In such cases, no additional approval of DAC will be required.

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➤ AoN for Low Value 'Make-II' Projects.

- ✓ Criteria for 'Low Value Projects' under Make-II procedure:-
 - (i) Technical specifications of the equipment/item and Last Purchase price (LPP) are known.
 - (ii) The estimated cost of prototype development phase does not exceed Rs 3 Crores and cost of subsequent procurement does not exceed Rs 50 Cr/year based on delivery schedule at the time of seeking AoN.

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➤ Validity for AoN.

- ✓ Make – I **One year**
- ✓ Make-II / III – **Six months**

➤ Constitution of Project Facilitation Team (PFT)

- ✓ Preparation of Project Definition Document (PDD) – **(Only for Make-I).**
- ✓ Preparing EoI and obtaining approval thereof from the PSO concerned at SHQ and **issue of EoI.**
- ✓ Analysis of EoI responses for **shortlisting DAs** (Indian companies/organisations) for preparation of DPRs.
- ✓ **Issue of RFP for preparation of DPR** and solicitation of commercial offers – **(Only for Make-I).**
- ✓ Evaluation of DPRs and **shortlisting of DAs** with regard to technical/other aspects as well as ability to deliver the project requirements – **(Only for Make-I).**
- ✓ Assist in **selection of two/three DAs** (as applicable, from the shortlisted panel, based on commercial offers – **(Only for Make-I)**

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➤ “Make – I” Projects

Eligibility Criteria

- ✓ The entity needs to be registered for **minimum five years**; **three years** in the case of MSMEs.
- ✓ The entity shall have long-term issuer credit rating equivalent to Credit Rating Information Services of India Limited (CRISIL) or ICRA Limited “**BBB**” accorded by Reserve Bank of India (RBI) / Securities Exchange Board of India (SEBI) approved agencies. In case of MSMEs, the minimum rating should be ‘**SME-4**’. Rating report should not be older than 12 (twelve) months and be the latest available rating.
- ✓ The entity needs to be **profitable** for **at least three out of the last five years**; in case of MSME, it needs to be profitable (Profit after tax (PAT)) for **at least one out of the last three years**.

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➤ “Make – I” Projects

Eligibility Criteria

- ✓ The entity should have a positive minimum ‘Net Worth’, as described below:-
 - (i) For ‘MAKE’ projects having AoN cost (combined estimated cost of prototype development phase and cost of subsequent procurement) **>₹ 5000 Crore**, a minimum ‘Net Worth’ equivalent to **5% of the development cost indicated at the time of AoN, subject to maximum of ₹ 1000 Crore.**
 - (ii) For ‘MAKE’ projects having AoN cost (combined estimated cost of prototype development phase and cost of subsequent procurement) **≤₹ 5000 Crore**, a **positive ‘Net Worth’ for all companies including MSMEs.**

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➤ “Make – I” Projects

Eligibility Criteria

- ✓ **Technical Criteria** – Integration capability, Domain specific competence, Design and manufacturing facilities etc.

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➤ “Make – I” Projects

Selection of DA and Funding.

- ✓ Shortlisted Vendors submit DPR and commercial offer for development of prototype(s). as per ‘Single Stage - Two Bid System’, and the commercial offer shall be submitted in a separate envelope.
- ✓ The commercial offer – (i) estimated cost of prototype development and (ii) amount (share) the vendor is seeking from the GoI for development of the prototype(s).
- ✓ Generally two vendors, who qualify based on DPR, seeking the lowest amount (share) from GOI for prototype development, will be declared as the lowest two bidders.
- ✓ In case more than two vendors opt to fund the entire prototype development cost through their own resources, all such vendors would be allowed to partake in the prototype development, as DAs. In such situations, the case may be migrated under Make-II process keeping the AoN according authority informed.

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➤ “Make – II” Projects

Eligibility Criteria

- ✓ Public limited company, private limited company, partnership firms, limited liability partnership, one Person Company, sole proprietorship **registered as per applicable Indian laws**. In addition, such entity shall also possess or be in the process of acquiring a license/development of products if the product under project requires license as per DIPP's licencing policy.
- ✓ The entity has to be owned and controlled by resident Indian citizens; entity with excess of 49% foreign investment will not be eligible to take part in Make category of acquisition.
- ✓ Other Financial, Technical and Commercial criteria will be spelt out by concerned SHQ based on the project requirement.

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➤ “Make – II” Projects

Selection of DAs

- ✓ After accord of AoN,
 - (a) Issue of Expression of Interest (Eoi).
 - (b) Evaluation of Eoi responses.
 - (c) Award of Project Sanction Order.

- ✓ Quantities in 'Buy (Indian-IDDM)' phase preferably covering requirements of five years.
- ✓ **Acceptability of Multiple Technological Solutions, if available.**
- ✓ Details of Evaluation Criteria for assessment of EOI.
- ✓ **All the shortlisted companies will be called Development Agencies (DAs).**
- ✓ **Project shall be progressed ahead even if only one Eoi respondent is found meeting the eligibility criteria.**
- ✓ Industry can also forward Suo-moto proposals under Make-II. These proposals will be examined by SHQs in a time-bound manner, preferably within two months and would be brought to Collegiate Committee headed by Secretary (DP),

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➤ “Make-III {Indigenously Manufactured (IM)} Projects

General

- ✓ These projects would encompass sub-systems/ sub-assembly/ assemblies/ components/ materials, ammunition, etc, which although not designed / developed indigenously, but are being manufactured in India as import substitution for product support of weapon systems/equipment held in the inventory of the Services.
- ✓ Indian firms may manufacture these either in collaboration or with ToT from foreign OEMs.
- ✓ Whilst such cases would generally be pursued under the Revenue route, SHQs could choose to process the initial contract under the Capital acquisition route.

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➤ “Make-III {Indigenously Manufactured (IM)} Projects

Eligibility and Selection of DAs

After accord of AoN, eligibility and Selection of DAs **akin to Make-II**

- (a) Issue of Expression of Interest (Eoi).
- (b) **Evaluation of Eoi responses.**
- (c) Award of Project Sanction Order.

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➤ “Make-III {Indigenously Manufactured (IM)} Projects

Points to Note: -

- ✓ Schemes under Make III (IM) will be procured under the Buy ‘Indian’ route with a minimum IC of 60%.
- ✓ For products which are being developed as an import substitute and their *prices are known, no benchmarking & no negotiation will be carried out, even in single vendor cases, if the offered price is lower than AoN cost by 20% or more.* However, in such cases, the CNC will satisfy itself that the price of the selected offer is reasonable with respect to the AoN cost and consistent with the quality required.

Should it not be
higher (para 78)

Section II – Innovation

- Innovation for Defence Excellence
- Technology Development Fund
- Open Competition

Objective.

To use a multi-pronged approach and reach out / engage a large pool of innovators / technocrats / professionals / academicians including amongst the smaller enterprises, start-ups and MSMEs, to foster innovation in a coherent, strategized, and integrated manner.

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Approach

- ✓ Fund prototype development through Innovations for Defence Excellence (iDEX), Technology Development Fund (TDF) and newly conceived 'Open Competition' approach.
- ✓ Procurement of the final product under Buy(Indian-IDDM) category of DPP.
- ✓ For iDEX and TDF, Standard Operating Procedures have already been promulgated by Defence Innovation Organisation and DRDO respectively. These are available on the following links :-

https://www.makeinindia.defence.gov.in/admin/writereaddata/upload/files/Complete%20document%20on%20iDEX_1.pdf

<https://tdf.drdo.gov.in/tutorial>

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- ✓ Projects of Start-ups, MSMEs etc. **with low capital investments and high innovation** would be **supported through grants** and pursued under the iDEX category. The procurement of the final product will be processed under the Buy (Indian-IDDMM) route.
- ✓ Like the Make-II category, Innovators/Industry/academia/start-ups can also forward **suo-moto proposals** for innovation to SHQ/iDEX-DIO. These proposals will be examined by SHQs in a time-bound manner, preferably **within two months**.

Open Competition

To support 'out-of-the-box thinking' and encourage wider participation of innovators/entrepreneurs, an 'Open Competition' approach has been introduced to promote innovation. The process will be User led and will focus on known problems impacting the Services.

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Open Competition

- ✓ Only projects where **prototype development** is possible **within two years**, and where the **cost of prototype development of each unit does not exceed the enhanced powers of the VCDS / Vice Chiefs / Head of the organisation** under the R&D Schedule of the **Delegation of Financial Powers to Defence Services (DFPDS)** will be pursued under the 'Open Competition' category.

VCOAS / MGO / GOC-in-C ARTRAC – 500 Lakhs

VCNS - 1000 Lakhs

VCAS / DCAS, AOC-in-C (HQ MC) , AOM - 500 Lakhs

- Grants for prototype development in these categories will be sanctioned by the SHQs from the existing delegated powers in DFPDS for R&D/innovation.

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Open Competition : The Process: -

- a) Defining of Problem Statement. (host problem Statements on MOD Website)
Constitute Project Facilitation Team
- b) Feasibility Study.
- c) 'Approval-in-Principle'.
- d) Issue of Competition Document.**
- e) Phase I - Submission of Proposal/Presentation by participants for shortlisting DAs for Phase II (Limited scale Demonstration).
- f) Accord of Acceptance of Necessity (AoN).
- g) Solicitation of Commercial Offer.
- h) Phase II - Demonstration and selection of final winners.

Note. For projects of technologically complex nature or where larger participation is envisaged, the SHQs may opt for an additional Phase. In such cases, Phase II may be introduced as Limited-scale Demonstration to shortlist potential DAs for Phase III (Full-scale Demonstration).

Open Competition (Contents of Competition Document)

- a) Problem Statement.
- b) Vision Statement - specifying final / desired output.
- c) Broad specifications – laying out essential and desirable parameters. Higher specifications for a particular attribute(s) may also be included and incentivised, with approval of the concerned PSO. Document must clearly list out the Incentivisation Model, wherever applicable.
- d) Planned Phases of the competition, such as Submission Phase, Presentation Phase, Limited Scale Demonstration Phase, Full scale Demonstration Phase etc. Each Phase is to list out detailed requirements/objectives.

Open Competition

- e) Suggested Timelines for each activity.
- f) Mechanism and share of funding for the prototype development for various phases. No funding will be provided for Phase I.
- g) Eligibility Criteria.
- h) Issues to be covered in the initial technical Submission and presentation by the participants.
- j) Details of Evaluation Criteria for assessment at each Phase.
- j) Composition of Committee of Experts

Open Competition

- k) Acceptability of Multiple Technological Solutions, if any.
- l) Terms and Conditions including legal aspects.

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Open Competition - Terms and Conditions for Participation

- ✓ Only Indian citizens/ entities/ educational institutions/ registered organizations/ companies are allowed to participate.
- ✓ All participants need to register.
- ✓ A write-up elaborating the proposed solution along with supporting media (video/ presentation) is a mandatory for joining the selection process.
- ✓ The expenditure on travel, boarding and lodging rests on individual teams.
- ✓ The Organisers/SHQ reserves the exclusive right to select for negotiation all, some, one or none of the proposals received in response to their solicitation, and to make awards without discussions with any participants.

Open Competition - Terms and Conditions for Participation

- ✓ In case there is more than one winner, the prize amount would be divided amongst the joint winners. Each participant/ team would be reimbursed towards their development cost as specified in the Competition Document for each phase.
- ✓ Selection of winning team and award of prize to winning team will be subject to their acceptance of co-production order.
- ✓ Participants shall not publish any research paper without prior permission and vetting from the Service HQ, resulting from the proposed effort as the same is likely to disclose the performance characteristics of military systems or manufacturing technologies that are unique, critical to defense and have bearing on security of the state.

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Open Competition - Terms and Conditions for Participation

- ✓ The decision of CFA based on the recommendation of the Committee of Experts for selecting the winner and on the selection of participant for co-production order will be final and binding. It will not be subject to any dispute.
- ✓ The winning prototype may be given a procurement contract, co-production agreement or other transaction, depending on the requirements.

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Funding.

- ✓ Funding for the prototype development would be provided both for the Interim Demonstration Phase (where applicable) and the Final Demonstration Phase.
- ✓ Funding could be done through two modes; either as a grant or as reimbursement.
- ✓ The amount and mode of funding will be decided by the CFA beforehand and approved during the AoN stage, as well as included in the Competition Document.
- ✓ If grants are being given beforehand, an undertaking would be signed by the participant that a detailed expenditure statement would be submitted for assessment.
- ✓ If reimbursement is preferred, then those teams performing beyond the laid down benchmark during the Demonstration Phase(s), would be considered for reimbursement. This would cover the expenses of the cost incurred during the Demonstration Phases.

Aspects Common to 'Make-III' and all 'Innovation' Categories

- PFT for each Project
- Intellectual Property Rights
- Time Overrun
- Multiple Technology Solutions and Splitting of Quantities
- **Buyer Nominated Equipment/Buyer Furnished Equipment (BNE/BFE)**. SHQs will have the option to procure or incorporate products that have matured through the aforesaid innovative processes as BNE/BFE in future procurement cases, where applicable. **These would not be considered as Single Vendor Cases.**
- The Pre-Contract Integrity Pact (PCIP), listed as detailed at Chapter II of DPP 2016, shall apply mutatis mutandis, to 'Buy (Indian - IDDM)' phase of 'Make-II/III' projects.

Analysis

Chapter III

Procedure for Procurement Under 'Make' and 'Innovation' Categories

New or Revised Salient Features