

13 February 2014

# India's Defense Sector Still Plagued by Corruption

Despite attempted reforms, India's defense procurement system remains tainted by corruption and wrongdoing. Today, Deba Mohanty explains why New Delhi has failed to solve a problem that puts the country's military modernization efforts at risk.

By Deba R Mohanty for ISN

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India's defense procurement sector continues to be rocked by instances of corruption and wrongdoing that have the potential to compromise the country's military modernization program. Worse still, such irregularities may yet have a bearing on domestic politics ahead of May's presidential elections.

## Current controversies

At least three major scandals - two of them related to purchases by ordnance factories and one to the Indian Air Force (IAF) - have led to the blacklisting of nine companies in the past eight years. Currently, the Central Bureau of Investigation (CBI) is investigating more than twenty cases of corruption and undue influence. India's Ministry of Defence (MoD) has also blacklisted four major international companies - Rheinmetall Air Defence (RAD), Singapore Technologies Kinetics Ltd. (STK), Israel Military Industries Ltd. (IMI) and Corporation Defence Russia (CDR) - and the former chief of the Ordnance Factory Board (OFB) was arrested and jailed in 2010 for wrongdoing.

More recently, the MoD cancelled the purchase of 12 AW 101 helicopters worth \$570 million as a result of the violation of an Integrity Pact by Finmeccanica subsidiary Augusta Westland International (UK) Limited. The violation resulted in investigations by the CBI into the activities of 11 individuals, including top executives of Augusta and Finmeccanica, the former Chief of the IAF, as well as four additional companies (two foreign and two). Opposition parties have also used the violation to pressure the Indian defense minister A K Antony into making a *suo moto* statement on the issue, which he is likely to make in the current session of Parliament, if he is allowed to.

However, New Delhi's response to the AW 101 contract has thus far been confusing. First, while the 'chopper scam' is under investigation by the CBI, questions have been raised over the wisdom of the Indian Foreign Policy Promotion Board (FIPB)'s - the agency that approves foreign investments in India - decision to give the nod to a joint venture between Augusta Westland and Tata Sons known as Indian Rotorcraft Limited. The company will assemble single engine helicopters and cater to the domestic as well as global markets. In light of recent developments, the MoD is far from comfortable with this decision.

Conversely, the Indian Defence Acquisition Council (DAC) - the body which approves all defense acquisition proposals - has put the proposed purchase of 98 Black Shark heavy weight torpedoes for the ongoing Scorpene submarine project on ice. These are manufactured by Whitehead Alenia Sistemi Subacquel, which also happens to be a subsidiary of Finmeccanica. Adding to the confusion is the current status of the tender for 127 mm guns for Indian Navy warships. BAe Systems has reportedly left the tendering process, leaving Oto Melara - another Finmeccanica subsidiary - as the single bidder.

Finally, India's protracted Medium Multi-Role Combat Aircraft (MMRCA) competition remains a thorn in New Delhi's side. While A K Antony continues to argue that a final decision on the acquisition of 126 fighter aircraft has been delayed due to time-consuming negotiations on life cycle cost calculations and offset arrangements, insiders blame the slowness on lengthy investigations into various complaints lodged by senior Indian politicians. These include Yashwant Sinha, the head of the powerful Parliamentary Standing Committee on Finance, who has even written a letter to the Defence Minister, urging him to reconsider the MMRCA contract.

### **Nothing new**

However, corruption associated with defense purchases has plagued Indian military acquisitions for decades. The Bofors scandal of the late 1980s, for example, is a case in point. In order to win a contract to supply India with field guns, the Swedish industrial giant allegedly gave kickbacks to then-Prime Minister Rajiv Gandhi and members of his government. This not only resulted in the fall of Gandhi's Indian National Congress government, its negative impact on the Indian artillery modernization continues to haunt the country's Army. As a result, at least four rounds of artillery purchase tenders have either been cancelled or re-tendered in the last ten years, leading to serious problems in terms of availability and supply. Accordingly, investigations into the AW 101 contract may also have serious implications for India's military modernization program, especially if Finmeccanica and its subsidiaries are blacklisted as a result of CBI investigations, even though both cases are different.

So why has New Delhi failed to bring corrupt practices that hurt the country's military development - and, indeed, its defense industry - under control? Such problems can be traced back to what may be termed as the 'systemic complexities' found within the administrative organs of the state, most notably the MoD. These 'complexities' have allowed the MoD and its Integrated Headquarters to function in a closed and relatively autonomous manner for generations. Indeed, such practices continue to this day despite the introduction of a series of reforms to the higher defense management sector over the past decade or so.

In addition, the Indian Defence Procurement Procedure (DPP) remains a complex process that often invites trouble. Currently, the DPP consists of a 12 step procurement process, starting with a request for information (RFI) and concluding with the signing of a contract and post-contract management. While the MoD is ultimately responsible for awarding the contract, there are still too many multi-disciplinary oversight committees that blur the accountability factor. Vaguely worded procedural requirements and ill-defined or insufficiently explained provisions, like 'offsets', 'pre-contract integrity pact', 'transfer of technology' (to name but a few), also make tender processes complicated.

Indeed, such provisions are quite often tweaked to suit the needs of vendors. For instance, the DPP also has a section entitled 'political and strategic considerations'. This gives the MoD the power to choose a weapons system from a particular state and/or supplier that also offers other political and strategic dividends. So while negotiations and processes associated with the MMRCA contract might have followed rules and regulations, such 'dividends' cannot be ruled out. Finally, preliminary

investigations and legal procedures associated with tender processes can run for years, if not decades. Little wonder then that the DPP has been revised nine times in the past 12 years, but still fails to address issues of transparency and accountability in a meaningful manner.

## **Flattering to deceive**

It should be noted that it took nearly two decades for the CBI to file a closure report on the Bofors scandal, an outcome that only reinforces that vendors and end-users both end up losing if arms deals of this magnitude go wrong. It also took nearly a decade for it to file a similar report on the role of South Africa's Denel in an ordnance factory scam. In this respect, A K Antony's continued determination in recent years to blacklist contractors, cancel contracts and even punish individuals is to be commended. India most certainly needs robust armed forces modernization and a transparent defense procurement system to realize its key objectives. However, the complexity and apparent opacity of the DPP - not to mention decisions taken by organs like the FIPB - suggest that New Delhi's push for transparency will fall short of expectations for the foreseeable future.

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For additional reading on this topic please see:

[Indian Strategic-Military Transformation](#)

[INS Vikramaditya - Deployment Options for India](#)

[Internal Security Trends in 2013 and a Prognosis](#)

[Incentives Matter: Military Procurement Problems in India, Malaysia, and the United States](#)

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## **Publisher**

[International Relations and Security Network \(ISN\)](#)

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