

# **Indian Defence Procurement: A Concocted Look Within and Look Without Strategic Formulation**

**Deba R Mohanty\***

The Indian MoD recently released a revised Defence Procurement Procedure, named DPP-2013, outlining essential procedural guidelines for all stakeholders in the Indian defence procurement sector. This is the ninth attempt (seven revisions and two sets of addendum introduced in between 2002 and 2013) in a span of eleven years to review and bring in requisite changes in the complex universe of Indian defence procurement mechanisms. New features / explanations / additions in the DPP-2013 include areas like prioritized categorization with thrust on indigenous products, simplification of procedures for collaborative arrangements between Indian and foreign companies, changes in the scope of maintenance ToTs, streamlining commercial cost assessments and terms at par with international practices, etc. While the Indian MoD claims that these changes along with new guidelines for offsets obligations announced a few months back will bring in much needed flexibility, pace and transparency in defence acquisitions and encourage indigenization efforts, major stakeholders like the Indian and foreign arms companies seem to have greeted the new DPP with cautious optimism.

DPP, offsets, defence production policy (DPrP) and reforms in higher defence organizations, to name a few – all intertwined intricately – do form a part of Indian national defence posture in recent times when the Indian state is in the midst of locating its rightful position in world affairs. Deducted from this assumption, DPP must be seen as a small step toward achieving larger strategic aspirations. Contextualizing national defence in general and defence production and procurement in particular in the last ten-odd years would suggest the following: a) attempts at reforms in higher defence institutional mechanisms like DAC (Defence Acquisition Council), DPB (Defence Procurement Board), DPrB (Defence Production Board), DRDB (Defence R&D Board); b) striving for operational efficiencies through procedural changes (DPP); and c) injecting new ideas like offsets, ToT and collaborative industrial arrangements.

At a time when Indian defence capital expenditure has witnessed a phenomenal growth from USD 2.4 billion in 2002 to USD 17 billion in 2012 and likely to grow further at least 15 percent per annum for the next ten years, bulk of which are likely to be spent on acquisitions, it is but obvious that procedural arrangements like DPP must be efficient enough to facilitate such transactions without much difficulties. Coupled with changes made in the larger framework of Indian defence production sector like introducing new production policy emphasizing on indigenous production, offsets obligations, transfer of technology and foreign direct investment, it is obvious that DPP has not only come a long way, but is likely to evolve further in coming times.

A study of DPP would bring in at least four major issues for further deliberations. First, from a largely autarkic system, defence procurement arrangements in

India promise to be more transparent, efficient and accountable. This transition is likely to produce more confusion in the short run, which is exactly what is being witnessed in the last few years. However, a cursory glance at the DPP would suggest that efforts to fine tune procedures have brought in some clarity, although the effort is still on to address all issues. Second, revisions in DPP are also impinged by institutional arrangements in the larger higher defence organization. Third, introduction of new arrangements like offsets obligations is still in an early stage of evolution as can be evident from current experiences. And last but not the least, a clear preferential arrangement toward encouraging indigenous and collaborative methods of procurement seems to be embedded in the DPP.

DPP has three problem areas for the stakeholders, especially for the vendors. First, it is full of vaguely worded definitions and arrangements, which invariably confuse both Indian and foreign vendors. Such confusions are especially evident in offsets obligations, ToT, indigenization and categorization sections. Second, it has still not been able to either reduce the number of stages of evaluation or timelines for adherence, which lead to frequent time delays. Third, it doe not do justice to desirable vendors' representation in each stage of acquisition process, thus leaving the vendors in dark often times.

What lessons do the foreign vendors need to learn from the existing chaotic Indian defence sector? Four pointers are placed here for further consideration. First, Indian defence market is likely to grow faster in coming times, which invariably would give foreign vendors enough incentive to be in India. Second, complex procurement procedural arrangements would muddle through for quite some time into future. This would require both Indian and foreign vendors to remain patient for a long-term stake in the Indian market. Third, a seemingly preferential treatment toward Indian industries may not be as discouraging for the foreign vendors as it seems on the surface. Given the fact that neither Indian state-owned nor private vendors are in a position to meet even minimum requirements of armed forces, there would always be a large scope for foreign vendors to offer their products and services. This would be especially visible in high-tech defence acquisitions. Fourth, unclear definitions in offsets obligations, ToT and foreign investments would necessitate further clarifications in coming times. Foreign vendors need to be watchful and sensitive to incoming changes periodically.

Indian defence sector poses enormous amount of challenges as well as opportunities for vendors. Next few years would not be less challenging for all stakeholders as the sector would struggle to refine itself further. Vendors that have a long term interest in the Indian defence sector are likely to succeed in the Indian market.

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**Deba R Mohanty heads Indicia Research and Advisory.**