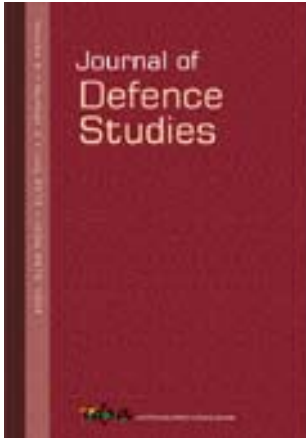


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Revenue Procurement in the India Army

Challenges and the Way Ahead

*Venu Gopal**

India's defence forces have to be continually prepared with modernised assets and a well-planned and executed supply-chain network. This calls for a well-evolved logistics infrastructure. To achieve this, a close study of the extant procurement procedure, the process of allocation of the budget, and the lacunae therein, is necessary. This article ponders on the challenges or peculiarities faced during the revenue procurement process for the Indian Army. Defence procurement, unlike procurement or other departments, involves a deliberate and complex procedure. It has to include constant reforms and flexibility integrating not just feedback from end-users and the approving authorities, but also the ever-changing defence perception. An integrated and synergized approach under a firm monitoring force performing within a strict time frame in a transparent manner, will definitely help in delivering the right goods affirming our operational preparedness and efficiency.

INTRODUCTION

A strong defence is the surest way to peace.... Weakness invites war.¹

Truly said since deterrence against aggression—its primary role—is no longer the only responsibility or duty of the armed forces. As its secondary role, from combat to disaster management, from providing supplies and succour to evacuation, from defending to peace-keeping—all sorts of services come under the purview of the armed forces. India has been a strong regional power and is visibly emerging as a pan-regional superpower.

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The nation is looked upon as a provider and, hence, rightfully aspires to be a permanent member of the United Nations Security Council.

Keeping in mind the plethora of demands to meet the varied challenges put up by a difficult neighbourhood, India's strategic assertion has to be supported by capable and well-equipped armed forces. The defence forces have to be prepared continually, with modernized assets, state-of-the-art capability, and a well planned and executed military supply-chain network. This calls for well-evolved logistical infrastructure which can capitalize on indigenous as well as the latest technological advances, maximize operational effectiveness, and also increase flexibility and adaptability.

It goes without saying that logistics is an expensive exercise that needs serious and whole-hearted support when it comes to allocation of funds. The capital and revenue requirements of the armed forces hang heavy on the defence budget, which is already sizeably limited. A nation's economic strength, its deposit of resources, competing demand from other sectors, the sheer size of the defence budget, and its impact on other sections of national needs, etc., are some of the issues that raise the question as to how much a country can afford for its defence. This article studies the extant procurement procedure, the lacunae therein, and suggests possible ways to close the gaps.

It will focus on the following three sections with a view to understand, firstly, the process of allocation of the Defence Budget; secondly, the Revenue Procurement System as existing in the Army; and, thirdly, to recommend measures to overcome the shortfall in the defence revenue procurement system as existing in the Indian Army currently, with a view to increase its operational as well as administrative efficiency.

DEFENCE BUDGET ECONOMIC CONSIDERATIONS

The logistics requirements of the defence forces are a costly affair. It is these requirements that decide how much has to be allocated towards the defence allocations, not only for sustaining the military but also to cater to their modernization and future force projections. The role of the Indian Army is no longer restricted to dealing with its immediate neighbourhood, but has reached a regional and, perhaps, even a global level. It cuts a wider swath to protect its energy security, economic interests, territorial integrity, and other national interests. In our environment, the 'bottom-line' is that an important aspect of efficient material support for the military has to be

cost-effective and must relate not only to economically viable routes, but also to the growth and progress of the nation.

As reported by various oversight agencies, such as the Comptroller and Auditor General of India (CAG) and the Parliamentary Standing Committee on Defence, there are glaring capability voids in defence preparedness which need urgent attention of the defence establishment. The question to be answered is whether this gap/void can be covered by the existing defence allocation. After all, the modernization of the forces is not a one-time affair and has, therefore, to be tackled with a long-term perspective.

PROJECTION/ALLOCATION OF FUNDS FOR THE SERVICES

The financial planning directorates of the three services and the organizations of Research and Development (R&D) and Director General Ordnance Factories (DGOF) carry out the estimation of budget, initially based on the inputs they obtain from the lower units/formations/establishments. The 'running' or 'operational' expenditure of the three services and other departments/wings are provided by the Government under Demand for Grants No. 22 to 26, commonly referred as the Defence Budget. The Revenue Expenditure Demand for Grant No. 22 also includes expenditure on Pay and Allowance, Transportation and Revenue Stores (like ordnance stores, supply by ordnance factories, ration, petrol, oil and lubricants, spares, etc.). Subsequently, the projections of the services financial planning directorates and departments are examined by the respective integrated finance within the Ministry of Defence (MoD), after which the complete defence projection is examined and assessed by the budget division of the MoD. The final estimation carried out by the budget division is projected to the Ministry of Finance (MoF)—this is commonly referred to as the Defence Budget—for allocation/approval of the Defence Secretary and the Raksha Mantri.

Table 1 shows the demand-wise position of allocation in the Budget Estimates (BE) and Revised Estimates (RE) for the year 2008–09 and Budget Estimates of 2009–10.²

Table 2 shows the broad categories of revenue and capital budget during the Financial Years 2008–09 and 2009–10.³

Table 2 indicates that the net revenue for 2008–09 increased by Rs 16,007 crore over the projected requirement/estimate, i.e., from an estimate of Rs 57,593 crore the allotment in real terms was Rs 73,600 crore (net increase of Rs 16,007 crore). However, the point to be noted

Table I Position of Allocation*(Rupees in crores)*

<i>Sl. No.</i>	<i>Demand</i>	<i>BE 2008-09</i>	<i>RE 2008-09</i>	<i>BE 2009-10</i>
1.	Army (Revenue expenditure of Army, NCC and DGQA)	37678.25	49877.91	60270.83
2.	Navy (Revenue expenditure of Navy and Joint Staff)	7503.05	8116.05	8404.11
3.	Air Force (Revenue expenditure of Air Force)	11288.86	12633.25	14911.10
4.	Defence Ordnance Factories (Revenue expenditure of Ordnance Factories)	1109.99	2825.75	2496.95
5.	Research & Development (Revenue expenditure of R &D)	3413.59	3874.78	4787.67
6.	Capital Outlay on Defence Services (Capital expenditure of all services/ departments)	48007.00	41000.00	54824.00
	Total (Gross)	109000.74	118327.74	145694.66
	Receipt/Recoveries	3400.74	3727.74	3991.66
	Total (Net)	105600.00	114600.00	141703.00

Table 2 Categories Revenue and Capital Allocation

<i>Revenue</i>	<i>BE 08-09</i>	<i>RE 08-09</i>	<i>BE 09-10</i>	<i>BE 08-09</i>	<i>RE 08-09</i>	<i>BE 09-10</i>
Pay & allowances	26588	41196	52876	46.16 (25.18)	55.97 (35.95)	60.86 (37.31)
Stores & equipment	19940	20489	21479	34.62 (18.88)	27.84 (17.88)	24.72 (15.16)
Transportation	2190	2160	2400	3.80 (2.07)	2.93 (1.88)	2.76 (1.69)
Misc. charges	3047	3227	3423	5.29 (2.89)	4.38 (2.82)	3.94 (2.42)
Revenue works	5829	6529	6701	10.12 (5.52)	8.87 (5.70)	7.71 (4.73)
Total Revenue	57593	73600	86879	100 (54.45)	100 (64.22)	100 (61.31)
Capital	48007	41000	54824	100 (45.46)	100 (35.78)	100 (38.69)
Total defence	105600	114600	141703			

here is that the increase in the revenue head was mainly to cater for the additional requirements because of Pay and Allowances of departments/ services post implementation of the recommendation of the Sixth Central

Pay Commission recommendations and due to hike in prices of petroleum products.

Revenue Estimates for the Financial Year 2009–10 reflects a total allotment of 61.31 per cent towards revenue requirements of the services as compared to 38.69 per cent against capital requirements. This has been a cause of concern in various economic debates/research circles—such as those in the Institute for Defence Studies and Analyses, Centre for Land Warfare Studies, etc.—as it is felt that the allocation towards revenue and capital procurements should be equal in distribution. This, as of now, seems to be a distant dream and is likely to take considerable time to see the light of day.

Further scrutiny of the details of Revenue and Capital allocation for the financial year 2009–10 reveals that out of the total budgetary allocation of Rs 1,41,703 crore, the Revenue budget share was Rs 86,879 crore as against the actual expenditure of Rs 73,006 crore in the financial year 2008–09, a growth of 18.04 per cent. However, the growth against capital budget allocation was a mere 4.20 per cent as compared to the financial year 2008–09. The overall Defence Budget growth was to the tune of 34.19 per cent over the Budget Estimate of the Financial Year 2008–09 and 23.6 per cent over the Revised Estimate for the Financial Year 2008–09.

THE GROWTH OF DEFENCE EXPENDITURE

In the absence of a clear framework for evaluating the affordability of defence spending, many analysts tend to view the same from the perspective of a country's share of defence in Gross Domestic Product (GDP) over a period of time, or by comparing these shares with those of other countries. However, this method of relative measurement suffers from ambiguities. This is because it does not take into consideration a country's specific security concerns, its economic requirements in totality, and the availability of resources to fulfil existing as well as future needs. In the global context, the affordability of military spending of some of the world's major military spenders⁴ varies not only in degrees but also from time to time. While the variation in the degree of affordability indicates the changing security scenarios and threats that are perceived differently by different countries, the fluctuation in affordability over time points to the fact that what may be affordable at one point of time, may not be so at another time. The macro economy, which guides major spending heads of government, could be a factor in controlling defence spending.

Table 3 Defence Expenditure Data

<i>Year</i>	<i>Def. Expr. as % of Central Govt Expr.</i>	<i>Def. Expr. as % of GDP</i>
1988-89	17.81	3.16
1989-90	15.52	2.97
1990-91	14.65	2.71
1991-92	14.67	2.50
1992-93	14.34	2.34
1993-94	15.40	2.52
1994-95	14.46	2.29
1995-96	15.06	2.25
1996-97	14.68	2.14
1997-98	15.20	2.31
1998-99	14.28	2.28
1999-2000	15.79	2.41
2000-2001	15.24	2.36
2001-2002	14.97	2.38
2002-2003	13.44	2.27
2003-2004	12.74	2.18
2004-2005	15.24	2.41
2005-2006	15.91	2.25
2006-2007	14.64	2.07
2007-2008	12.86	1.94
2008-2009	12.72	2.15
2009-2010	13.88	2.42

Table 3 shows defence expenditure as a percentage of the total Central Government expenditure as well as GDP.⁵

The given data indicates the growth of defence expenditure *vis-à-vis* economic parameters indicating that the expenditure was highest in the Financial Year 1988–89 at 17.81 per cent and 3.16 per cent of the GDP. Thereafter, the expenditure gradually has shown a downward turn and for the financial year 2009–10, it stood at 13.88 per cent and 2.42 per cent of the GDP. It is well below the desired level of 3 per cent of the GDP, as considered by the Government to effect major modernization changes required by the defence services, both against capital and revenue procurement.

A comparative study of the defence expenditure incurred by different countries in terms of the GDP is given in Table 4.⁶

When asked for the comments on the declining trend of GDP *vis-à-vis* defence preparedness of the country to face challenges on various fronts, the Ministry stated in its written reply:⁷

Table 4 Comparative Data Defence Expenditure

Sl. No.	Country	% of GDP	
		Year 2009-10	Year 2010-11
1.	India	2.8	2.12
2.	US	4.9	4.7
3.	UK	2.8	2.5
4.	France	1.7	1.6
5.	China	1.4	1.3
6.	Russia	3.1	2.8
7.	Germany	1.3	1.2
8.	Japan	1.0	1.0
9.	Saudi Arabia	11.0	10.4
10.	Pakistan	3.2	3.2

The co-relation of Defence expenditure with GDP is just an indexation. Other than that, it has no bearing on defence preparedness or ability to safeguard the interest of the country. It is also not a fact that the GDP share of defence expenditure is only going down. The GDP share of Defence expenditure has, in fact, been fluctuating between a low of 2.07 per cent in 2006–07 and a high of 2.42 per cent in 2009–10. Only in 2007–08, Defence expenditure was 1.94 per cent of the GDP. Despite this fluctuation, the allocation for defence in absolute terms has been growing steadily, registering an increase of 185 per cent between 2000–01 (Rs 49, 622 crores) and 2009–10 (BE) (Rs 1, 41,703 crores). Thus, there is a consistent and regular increase in the budgetary allocation, commensurate with the requirement of the defence services and the ability of the government to meet it.

DEFENCE SPENDING, PROJECTIONS AND ALLOCATION: THE RESOURCES GAP

India's defence spending at current rates⁸ has increased substantially over the years, from nearly Rs 1,200 crore in 1980–81 to Rs 1.14,600 crore in 2008–09. In the last one decade, it has increased by an average of nearly 10.99 per cent per year. Figure 1 depicts India's defence spending since 1980–81 to 2008–09.

Notwithstanding the growth in defence spending, the defence outlays do not necessarily match the demands of the defence establishments. For instance, between 2003–04 to 2007–08 the unmet demands of the services/departments varied between Rs 5,880 crore and Rs 26,150 crore, which is nearly 6.27 per cent of the projected demands. The shortfall

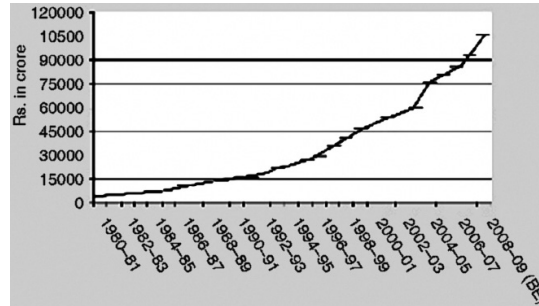


Figure 1 India's Defence Spending, 1980–81 to 2008–09⁹

in the Revenue ranges between 4 per cent and 13 per cent, and that on the capital side varies from as low as 6.9 per cent to over 49 per cent (see Table 5).

Table 5 indicates lesser percentage of 'shortfalls' in revenue allocation as compared to that of capital allocation shows that while the former is more or less fixed, the latter is relatively flexible. At the same time, the 'shortfalls', both in absolute and percentage terms, indicate that all the demands made by the defence sector are not fully in conformity with the resources available with the Government. This may lead to voids in the capacity/capability of the defence forces, which in turn would affect operational efficiency in terms of serviceability of existing equipment and will have a negative effect on the modernization process being undertaken for the defence forces.

Table 5 Projections, Budgetary Allocations and Shortfalls in the Defence Budget

Year	Projections made by Services / Dept	Budget Allocation as per ceiling made by MoF	Shortfall	% of Shortfall	% of Revenue Shortfall	% of Capital Shortfall
2003-04	89374.16	65300	24074.16	26.9	8.0	49.1
2004-05	103150.7	77000	26150.7	25.4	13.3	36.8
2005-06	94567.89	83000	11567.89	12.2	3.6	22.1
2006-07	94880.09	89000	5880.09	6.2	-	-
2007-08	103940.47	96000	7940.47	7.6	8.2	6.9
2008-09	109844	98862	10982	9.9	-	-
2009-10	141878	131153	10725	7.5	-	-
2010-11	158963	135948	23015	14.47	-	-

Source: Compiled and extrapolated from the Reports of the Standing Committee on Defence Demands for Grants (relevant years).

EFFICACY OF THE REVENUE PROCUREMENT PROCEDURE

Revenue procurement entails procurement of already sanctioned assets in service including renewals and replacements. In addition, it involves procurement of maintenance requirements of the field Army in terms of equipment, spares, general stores, and clothing. The process of procurement hinges on accuracy of provision review (requirement determination), speed in processing of financial sanctions, indenting and placement of orders, and efficient contract management. Hence, dedicated indulgence of various functionaries at depots, service headquarters, Director General of Quality Assurance (DGQA), Integrated Financial Advisor (IFA), MoD and MoD (Finance), as the case may be, assumes great importance.

Though fairly well-established procedures for provision and procurement exist, in the form of the *Defence Procurement Manual 2009* (DPM-2009) for revenue procurement, yet over a period they have developed deviations, especially in terms of *authority* and *accountability* at various levels. The procedures have to be fine-tuned to the changing requirements of the Army, the developments in the industrial and economic environment of the country, and the exponential increase in requirements due to the proliferation of inventory. The procedures have to be constantly modified and re-modified. As the organization evolves, revenue procurement has to be restructured or reconnected with the same. Thus, dynamism in evolving and changing according to the contemporary scenario, in the procurement process, which is ever so important, has to be maintained.

The Army has suffered owing to delays in processing of cases and under-utilization of the sanctioned budgets. This drift towards delayed procurement has been observed and keenly studied at service headquarters. It has been understood that there is a need for procedures to be redesigned and reorganized, as in any field, with a view to ensure availability of equipment and stores to the Army in a smooth free flowing manner, and in the shortest possible time.

PROCEDURE FOR PROVISION AND PROCUREMENT

This section analyses the present revenue provision and procurement procedure and organization, with a view to identify choke points and problem areas, and recommends the corrective measures required in order to ensure optimum availability of equipment and stores on time. It also advises optimal utilization of budget allocations, thereby ensuring operational efficiency.

Figure 2 is a flow chart for procedure on provision and procurement of stores being followed in the Army as per DPM-2009.

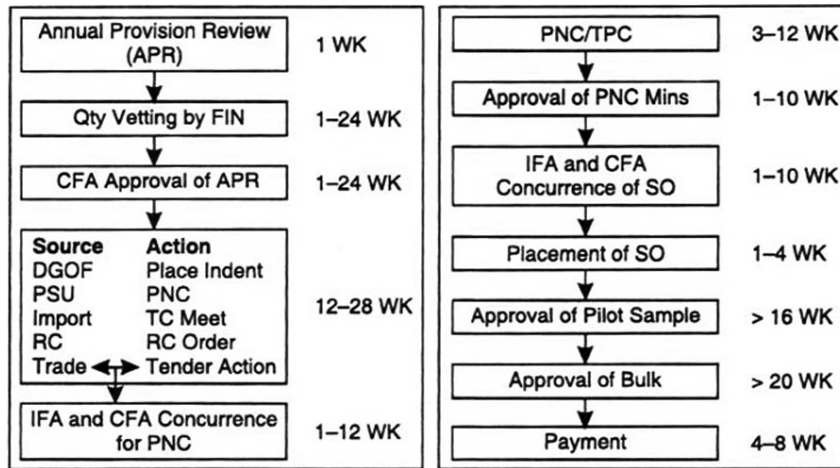


Figure 2 Revenue Procurement Procedure

Note: The complete procurement process ideally should take anything between 18 to 24 weeks from the stage of necessity to the placement of supply order, as per the timelines laid out in DPM-2009.

Experience, however, has shown that the time taken for provision and procurement activities extends well beyond the ideal timeline of 12 months to 24 months. This statement is further substantiated by looking at the outcome of the case study undertaken in the year 2009–10, to ascertain actual time taken for the process of provisioning and procurement at Central Ordnance Depots (COD), Army Headquarters (Ordnance Directorate) and for cases which were to be dealt with at MoD/MoD (Finance) level (see Table 6).

Thus, as seen from the above case study, the process for ascertaining the requirement (provisioning) and the activity of procuring the requirements, was the fastest and most efficient at Central Ordnance Depot level. It was felt that the processing speed was best at lower levels due to fewer numbers of bottlenecks or interferences, external or internal, for the processing of the revenue procurement cases. This is also a major contributor to the reality that the Army is starved of its authorized entitlements, resulting in ineffectiveness in the services provided and, thus, affecting the operational preparedness of the force.

Table 6 Case Study Ascertaining Timelines

	<i>COD / COD I&BC</i>	<i>AHQ / IFA</i>	<i>MoD / MoD FIN</i>
APR	1	1	1
Qty Vetting/AON	1	8	12
CFA Approval	1	4	12
DGQA Vetting of Indent	4	4	4
Prep of TE	1	2	2
Issue of and Tender Opening	7	10	12
PNC	4	10	12
Placement of SO	1	4	10
Total	20	43	65
Submission and Approval of Sample (Min PD)	15	16	16
Submission and Approval of Bulk (Min PD)	20	20	20
Total	55	79	101

Note: The data has been collected and collated by the author from inputs derived from the Ordnance Directorate Service Headquarters.

PECULIARITIES AND CHALLENGES IN REVENUE PROCUREMENT

The reduced allocation of revenue requirements for the Army against the projected requirement is an area of concern as it has a direct effect on the serviceability of the 'In-service' equipment and the operational preparedness of the Army as a whole. This is because capital acquisition and modernization of defence gets due priority without according equally due diligence being shown to revenue procurement, which is the primary source of sustenance of the equipment, thus, paving the way to slippages. Therefore, it results in the creation of cumulative deficiencies over the years.

The peculiarities or challenges faced during the process of revenue procurement can be qualified under the following heads:

Acquisition, Lifecycle Management and Costs

The life-cycle management and costs of equipment in use with the Army can be well depicted by the use of the Reverse Iceberg Model (see Figure 3).

It is quite evident from the figure that the initial cost of purchasing the main equipment constitutes a mere 20–30 per cent of the total cost of purchase. The balance 70–80 per cent is required for effective sustenance

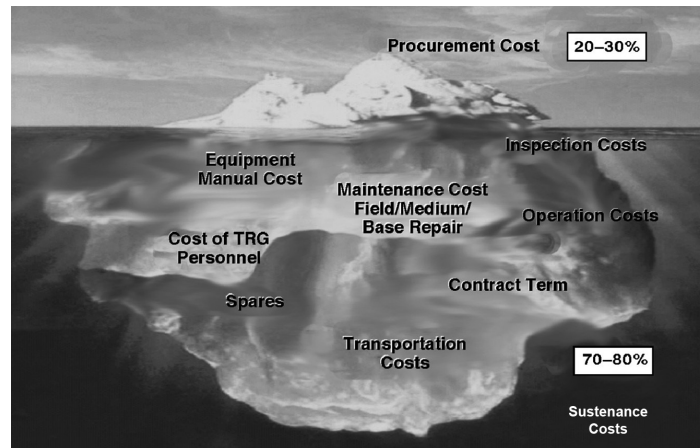


Figure 3 Reverse Iceberg Model

of the equipment, by way of expenditure required for spares, workforce, training, inspection, etc., for the equipment held.

Large Inventories with Multi-level Stocking Echelons

The range and depth of the inventory held with the stocking echelons are not only huge but are also stocked in ordnance depots across the length and breadth of the country to ensure availability of stores. This is because most of these store requirements for the Army are specific or unique in nature. Generally, these stores are not available in the local civil market, as these are meant exclusively for use in the services. This aspect is important, as any dilution in allocation of the revenue budget will have a negative impact on the equipment serviceability of the Army.

Large Numbers of Equipment Bought without Adequate Equipment Service Package

The problem of procurement without adequate spares support has been an area of concern for the material managers as these have a direct bearing on the operational efficacy of the equipment during its service period. A case study undertaken in the year 2005 clearly quantifies this. In this case study, it was revealed that procurement of radars, through the Foreign Military Sales (FMS) route without adequate spares back up in the original contract resulted in a situation where the availability of these radars had come down drastically from 12 (originally purchased) to around six radars (reduction of approximately 50 per cent for operational use).

Long Gestation Period of Procurement

Though DPM-2009 has a well laid out time frame to be adhered by all stakeholders, but the de facto time for processing of procurement cases takes on an average two or three years. The delay results in the depletion of operational availability of important equipment, e.g., tanks, radars, artillery guns, etc. This trend, if not arrested, will lead to a situation where spares and services are not available for a considerable period, thereby depleting the reserves, causing panic or crises. Thus, it will affect the overall force level available with the Army for operations, if and whenever it is required.

Multiple Verticals for Examination of Procurement Proposal

The process of procurement has to pass through multiple agencies as laid down in DPM-2009 with the primary aim of achieving/ensuring transparency in the process. However, this vertical movement of files poses delays in the system. This is because any observation/observations by any functionary in the vertical results in reverting the case-file back to the originator, thereby causing considerable delay in the processing of the procurement cases.

Inadequate Staffing of MoD and MoD (Finance)

The Master General of Ordnance (MGO) branch on an average processes 300–400 fresh cases for procurement every year, post the provisioning activities. However, after the decentralization of the financial powers in the year 2006 by the Government, out of these 300 cases, only 30–40 cases were forwarded to MoD/MoD (Finance) for processing and approval. These were cases beyond the financial powers of the functionaries at the service headquarters. Such cases take considerable time due to inadequacy of the number of staff members, resulting first in time and cost delays and, later and more importantly, in the non-availability of the legitimate requirements, post provision review of a particular year. This statement is substantiated by the fact that there is only one director-level officer who acts as the nodal point at the MoD. He looks after the entire set of cases of revenue procurement initiated by the MGO's branch. This is considered grossly inadequate to ensure effective and quick decisions and approval. In addition, the Integrated Financial Advisor at MoD (Finance) is also short of staff. This has a cascading effect on the procurement cases as most of the procurement cases are required to be financially ratified by the MoD (Finance) before being transcribed into supply orders.

Specific or Unique Requirements of the Army

The requirements of defence stores are usually specific in nature and rarely have commonalities of views elsewhere (civil market). Therefore, it ends up limiting competition and vendor base for these items, unlike the items that have civil end use and can be procured commercially off-the-shelf from the open civil market.

Quality Imperatives

Defence equipment is required to be used in extreme terrains and, hence, is usually ruggedized. This often results in frequent rejection in inspection/trials, thereby upsetting the complete supply chain mechanism. In addition, stores required by the defence have requirements which need to undergo trial evaluation, which results in time and cost delays. Unrealistic or incomplete quantitative requirements result in considerable delay in procurement. Thus, there is a pressing need to ensure that quantitative requirements are drawn diligently and trials are carried out in a time bound manner.

Limited Vendor Base

The unique nature of items required by the Army (defence specification) results in a limited vendor base. There are only a few who are willing to undertake manufacturing of spares and stores required by the services, paving way for monopoly/cartel formation between the vendors, at times hampering the procurement process. This trend could be negated to a great extent by bringing in an effective as well as efficient policy on public-private partnership in the defence sector by the Government, thereby not only ensuring that requirements of the defence sector are met in totality, but also ensuring the growth of the Indian economy. This will also ensure reduction in reliance on import of defence equipment/spares, which is currently 70 per cent of the total requirement. Though the DGQA evaluates and registers manufacturing firms and promulgates this information through its website, no such agency exists for purchases from dealers, distributors, and local firms. Registration of firms for such purchases is done locally in an ad hoc manner, resulting in dipping of both quality and reliability of goods purchased through these agencies. Thus there is a need for setting up a central agency at HQ IDS for registering firms, dealerships, and distributors desirous of supplying to the defence forces after due evaluation of credentials against set parameters e-registration is also a viable solution that could be resorted

to. Details of such firms promulgated on websites for the benefit of all purchase authorities will pave the way for ensuring quality and efficient procurement, thereby enhancing operational efficiency.

Constraints of Transparency

Defence procurement in the backdrop of secrecy lacks transparency, leading to corrupt practices. This results not only in delay in the availability of the stores, but also causes great loss to the state due to cost and time factors. At times, it even ends up in the scrapping of the complete procurement process. Accountability and responsibility are, hence, the key areas which have to be kept in mind to ensure fast and honest dividends.

Officers' Tenure vs Acquisition Cycle

On an average, a service officer has a staff tenure of two to three years in the service HQ. This includes officers posted in various procurement directorates like the MGO's branch, the Weapons and Equipment Directorate (WE), the Ordnance (ORD) directorate, etc. This, as compared to the average time taken to fructify defence procurement cases—generally between 4–5 years—at times results in delay in the complete procurement process due to perception changes effected by the new incumbent and ends up starting the acquisition cycle all over again. Even the CAG has pointed out that procurement being handled by unspecialized personnel, who are posted for a limited period of two to three years, is not sufficient to really do any justice to the practice. There is a need to ensure continuity of all stakeholders, especially at the working level to ensure effective and clean procurement practices.

Lack of Technical Knowledge

Officers dealing with acquisition often lack technical capability or expertise of the equipment they are to acquire. This absence of technical capability of the officers posted serves to retard any procurement programme. The CAG had emphasized that 'defence acquisition is a cross disciplinary activity requiring expertise in technology, military, finance, quality assurance, market research, contract management, project management, administration and policy making.'¹⁰ Equipment procurement is a vital function which needs to be given due importance in terms of the qualification and capability of the officers entrusted with this important task. Overlooking the fact that any mechanism is as good as the people who operate it, professional competence of the personnel implementing

the procedures was given little importance. The lack of a core, well-qualified, and adequately trained acquisition staff became the weakest link of the acquisition chain and this deficiency was first highlighted in an article that appeared in 2005 in the *Indian Defence Review*.¹¹

Decision Paralysis

Defence procurement is generally a big-ticket transaction, which can easily become the subject of financial scams, both real and perceived. Sensitivity of officers to being accused in a swindle has resulted in a decision paralysis in the Army. Ever since the Bofors scandal, procurement by the MoD has continued to be mired in controversies. Parliamentary Standing Committee, Defence CAG and Central Vigilance Commission (CVC) reports, bundled with Central Bureau of Investigation (CBI) investigations have now regrettably become routinely attached with defence purchases. In such an environment of intense suspicion, 'no decision' becomes the best decision, resulting in no acquisition. There is no easy answer to this. However, if insulation from such pressures and a stress-free environment is maintained with stern vigilance over any malpractices, this problem can be overcome.

Procurement from Ordnance Factories and Defence Public Sector Undertakings

Stores, which are in the production line of Ordnance Factories (OFs) and Defence Public Sector Undertaking (DPSUs) are required to be exclusively procured by them. Approximately 70–80 per cent of the defence requirement is procured from ordnance factories and DPSUs. This is an area of concern as these agencies do not deliver goods as per the laid out schedule, causing huge slippages. This, thereby, results in shortages in the supply chain. The dependency of the services on these organizations is akin to a scenario where the service headquarters are de-facto captive customers and are unable to de-link themselves in order to procure the un-delivered stores from other sources in the civil market. The problem is further compounded by the exorbitant rates charged by both the DPSUs and Ordnance Factories. These are invariably unrealistic and high. The Finance division of the MoD has devised a system, based on the actual cost of production of the last two years, of cost estimates for the year of pricing and the projected cost for the next year. It also provides for the interaction between the OFB, the users, and the MoD's finance division. This will help them to fix an appropriate rate of the product

after due deliberations. However, according to a former Secretary Defence Finance, this system is constrained because of delays in finalizing and reporting the cost estimates at the time of price negotiations. This along with absence of benchmarking against material procurement cost and the productivity gains over the years renders the system of little use.¹²

Although OFs have a wide range of products, they are unable to fulfil the demands of the Army. This forces the Government to directly import from other countries. According to the Stockholm International Peace Research Institute (SIPRI), between 1980 and 2008, India imported artillery and armoured vehicles valued over \$10 billion (at constant 1990 prices). These imports are from various countries such as Israel (towed gun and mortar); Italy (naval guns); Union of Soviet Socialist Republics (USSR)/Russia (naval gun, towed gun, Surface-to-Surface Missile (SSM) launcher, Multiple Rocket Launcher (MRL), Mobile Air Defence (AD) system, tank, Armoured Personnel Carrier (APC), and Infantry Fighting Vehicle (IFV); Sweden (towed gun); Poland (Armoured Recovery Vehicle [ARV]); Slovakia (ARV); South Africa (APC/Internal Security Vehicle [ISV]); and the United Kingdom (Airborne Early Warning [AEW]). Now, the goods delivered by OFs are not only supposed to fulfil the demands of the Army but also to make our defence production self-reliant. However, with regard to the latter, the organization has not been very successful, despite years of producing the same item. For instance, after nearly 25 years after the start of production of T-72 tanks, the OF is still dependent on Russia for certain vital components.¹³

e-Procurement

e-procurement remains limited in usage. This is mainly due to either deficient computer literacy or dearth of techno-savvy staff. There is a need to outsource e-procurement to IT firms such as 'India-One' for all purchase requirements of the Army as it affords efficiency, competition, and transparency in procurement. Once enough experience is gained over a given period, maybe of two to three years, the Army should set up its own e-procurement portal. This, as on date, is lacking and requires immediate attention.

Rate Contract

Director General of Supplies and Disposal (DGS&D) executes rate contract for items of general stores nature as per the requirement of various departments of the Government of India. However, since the requirement

of the Army is specific in nature, DGS&D is unable to cover the entire depth and range of spares/stores required by it. This issue, if addressed appropriately, will yield rich dividends in the complete procurement process and practices, resulting in enhanced availability of stores to the services.

Inspection of Stores by DGQA

The stores contracted by the services are required to be inspected by the DGQA, the in-house inspection agency for the services. In addition, the DGQA is also required to ascertain the production as well as manufacturing capacity of the prospective vendors who have shown interest in the procurement process. This is to ensure that only vendors of repute are given the final order as per the laid down qualitative and quantities parameters, as required by the Army. This process of capacity verification by the DGQA is also a sore point in the system of procurement. The delay or rejection of vendors or firms during their capacity verification causes setbacks. At times, the complicated and time-consuming process results in genuine and reputed vendors/firms being ignored. Making the procedure time-bound, objective, and transparent will ensure only the best deals are accepted.

RECOMMENDATIONS

The recommendations made alongside the chronicled challenges as well as the following suggestions, if implemented, are bound to reap positive results/dividends in the process of revenue procurement.

1. Since modernization of the armed forces is a continuous process, defence allocation should also be seen from a long-term perspective. Only then can our preparedness be one step ahead of our adversaries. There should be a continual study, cross-referring, and comparison of systems. This should be done with the objective of bench-marking, peer learning, and picking up lessons.
2. Constitution of Services Revenue Procurement Coordinated Committee (SRPCC), for Procurement cases under MoD Powers (25–30 cases approximately per year), composition and charter should be as under:
 - (a) *Chairman:* Defence Secretary.
 - (b) *Members:* Special Secretary, Joint Secretary (Ordnance/Navy),

Master General of Ordnance Services, Director General of Ordnance, Additional Finance Advisor, Joint Secretary (Land Systems), Joint Secretary (Ordnance Factories), Additional Director General Procurement (MGO's Branch) and other co-opted members as per requirement.

(c) *Member Secretary*: Deputy Director General Procurement (MGO's Branch).

(d) *Charter*:

- Approve Procurement Plan for the next Financial Year.
- Approve acceptance of necessity of items to be procured post revealing of requirement for floating of the tenders.
- Review progress of revenue procurement cases to ensure all hurdles and bottlenecks are cleared with least possible delay.

(e) Frequency of meeting: Quarterly.

3. Composition of Services Revenue Procurement Sub Committee (SRPSCC), for cases within the powers of service headquarters:

(a) *Chairman*: Master General of Ordnance (MGO).

(b) *Members*: Director General of Ordnance Stores (DGOS), Principal Integrated Financial Advisor (PIFA), all Additional Director General of Ordnance Services and other co-opted members, if required.

(c) Charter of duties and the frequency of meeting is the same as recommended for SRPCC.

4. There should be a separate Integrated Financial Advisor to deal with revenue procurement cases, under the MGO.

5. An additional full time Joint Secretary level officer should be appointed at the MoD to deal exclusively with revenue procurement cases of the Army.

6. The appointment of an Additional Director-level Officer at the MoD will help to look into Revenue cases under the powers of the MoD.

7. The Integrated Financial Advisor (IFA) system has greatly enhanced the transparency and accuracy of procurement. However, until the issue of DPM-2009, duties of the IFA were largely regulated by various policy letters issued by the Government from time to time. In the absence of a well framed and comprehensive policy on the subject, the IFA had apportioned to itself a number of duties that do not strictly fall within its ambit. This practice

continues despite these 'duties' not being reflected in the DPM-2009. Further, the concept of IFA was to be integrated with the functioning of the Competent Financial Authority (CFA). However owing to non-availability of officers, the IFA system is perceived by the CFAs to have evolved as a separate entity sitting in judgement over the actions of the CFA. Having objected to the existing course taken up by the CFA, the IFAs fight shy of rendering advice on alternate courses of action. The IFAs insist on separate case files being forwarded to them for perusal thus entailing loss of precious time. They are rather unwilling to accept responsibility for delays in procurement or incorrect procurement, which should logically be shared by them also since they are the advising and overseeing authority. Thus, the role and functions of IFAs need to be re-defined in consultation with service headquarters.

8. The DGQA and the IFA should be integrated, physically, functionally, and electronically, under the service headquarters (MGO's branch) to achieve synergy, thereby not only ensuring greater availability of stores, but also ensuring transparency in the dealing of defence revenue procurement cases. In addition, the new integrated organization, would include all specializations like contract negotiations, contract management, project management and supervision, vetting of major proposals, decision-making, etc., thus, incorporating 'quality service, technical know-how, finance, quality assurance, and administrative elements under one accountability centre', as highlighted by the CAG's 2007 report to the Parliament. This way the entire procurement procedure will be re-engineered and redundancy minimized, if not decimated.

CONCLUSION

Defence procurement has been consistently subjected to detailed and, more than often, biased scrutiny and in-depth critical study. Intensive brainstorming and diligent efforts have been made to procure the best material required, in the shortest possible period and to get the best value for the finances expended. Streamlining the procurement system is an ongoing process in today's world of ever-changing and advancing technologies. In order to achieve enhanced op-efficiencies, it is then but natural to expect our equipment-readiness and its procurement procedures to keep abreast of the latest and most effective systems. Though the

government and the service headquarters have made efforts to improve the revenue procurement structures and procedures, there is still much scope for reforms. It would be prudent to keep in mind that no policy is worthwhile unless it wins acceptability from the end-users. Op-efficiency of the end-users is the result of the combined efficiency of the machine along with the man behind the machine. The machine is efficacious if there is availability of operating expendables, spares, and service. A well-organized and competent revenue system will go a long way in ensuring potent and productive results.

Defence procurement, unlike procurement of other departments, involves a deliberate and complex procedure that has evolved over a long period. This is done keeping in mind the safety and security of the nation and the threat perceptions, extant as well as new ones; therefore, the ever-changing defence scenario needs to keep pace. Though a well-framed DPM-2009 is being practised, it is understood that reforms and flexibility have to be integrated with the DPM, based on feedback from the end-users, the approving authorities and on the ever-changing defence perception. The lack of an integrated and synergized approach has to be addressed. Strict adherence to a time-frame under a strong monitoring force will work to the advantage of the system and ensure dauntless and resolute decision-taking. A well-trained and dedicated team of professionals, well versed specifically in procurement tasks will be better able to deliver the goods, especially when performing under an extended tenure. This will ensure much closer participation of the defence forces, right from decision-making to delivery of service. The MoD has to ensure greater collaboration between the defence procurement units and the private sector in order to fulfil the Government's much-reiterated plan to procure 70 per cent of its demands from indigenous sources. The e-procurement initiative should be extended to include all segments, with advice to indenters and vendors to get familiarized with the system at the earliest.

Finely-tuned and dealt with integrity of the highest order, a transparent defence procurement system, though arduous, will definitely provide the necessary fillip to our op-preparedness and efficiency.

NOTES

1. President Gerald R. Ford's address to a joint session of Congress, 12 August 1974. See *Public Papers of the Presidents of the United States: Gerald R. Ford*, 1974, p. 11, available at: <http://quotationsbook.com/quote/45230>.

2. The First Report of the Standing Committee Demand for Grant, New Delhi: Ministry of Defence, 2009–2010.
3. Ibid.
4. According to SIPRI, the US, UK, France, Japan and India rank first, second, third, fifth and tenth, respectively, in the list of countries with the highest military expenditure in 2010. See SIPRI Yearbook 2010, Stockholm: SIPRI, 2010.
5. The First Report of the Standing Committee Demand for Grant, New Delhi: Ministry of Defence, 2009–2010.
6. The First Report of the Standing Committee Demand for Grant, New Delhi: Ministry of Defence, 2009–2010.
7. Ibid.
8. Defence allocation in India, presented in the form of Defence Services Estimates, is broadly divided into two components, i.e., Revenue expenditure and Capital expenditure, and includes expenses of the Armed Forces as well as that of Defence Research and Development and Ordnance Factories. Revenue expenditure includes expenditure on Pay and Allowances, Revenue Stores (like ordnance stores, supplies by Ordnance Factories, rations, petrol, oil and lubricants, spares, etc.), Revenue Works (maintenance of buildings, water and electricity charges, rents and taxes, etc.), and other miscellaneous expenditures. Capital expenditure includes expenditures on Land, Construction Works, Married Accommodation Projects and Capital Acquisitions (aircraft and aero engines, heavy and medium vehicles, other equipment, naval fleet, naval dockyards/ projects, etc.).
9. Figures derived from SIPRI Military Expenditure Database, available at: <http://first.sipri.org/non-first/milex.php>, accessed on 2 February 2012.
10. See <http://business-standard.com/india/news/cagdefence-buys-tehelka-syndrome/285130>, accessed on 15 April 2012.
11. Suman, Mrinal, 'Quality of Acquisition Staff: A Key Factor in Defence Procurements', *Indian Defence Review*, Vol. 20, No. 1, January 2005, pp. 26–29.
12. Behera, Laxman Kumar, 'India's Ordnance Factories: A Performance Analysis', *Journal of Defence Studies*, New Delhi, Vol. 6, No. 2, April 2012, p. 71.
13. Ibid., p. 66.