

Defence Acquisition Process: Issues Pertaining to the Department of Defence Production

*Raj Kumar Singh**

The issues of the Department of Defence Production pertain to the development of indigenous production capability in the sphere of defence. This is very important both from strategic requirements point of view, as also how we look at ourselves

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as a country, how we look at our future and where we want to be seen in the community of nations. It is also important from the point of view of strategic independence. That is why indigenous defence production base is important to us and that is why this accent on indigenous manufacture of defence equipment. We spend a lot of money on acquiring weapon systems, platforms and equipment. It is intended that money should go into creating jobs in our own country. Every procurement has a multiplier effect and every rupee spent here has a down stream effect. This is the reason for supporting indigenous production.

The second aspect is about how we look at the role of public and private sector in this endeavour. In government we look at this entirely as a capability driven process. Our accent is on indigenous production if we want to make a particular equipment/platform. We want industries which can make such equipment/platform, either by themselves or by forming consortia with other industries and R&D institutions. We do not have any ideology in so far as public and private sector is concerned in this mission of developing the defence industrial base. Let me clarify that we will maintain a public sector; it is not that we are going to kill-off our public sector capability. We will maintain a public sector because it is important to us from the long term point of view as it will enable us to

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* **Raj Kumar Singh** is Secretary, Defence Production with Ministry of Defence. He delivered this speech at the National Seminar on Defence Acquisition, held at the Institute for Defence Studies and Analyses (IDSA), New Delhi on 26 April 2010.

have a certain capability in the public sector in so far as defence is concerned. But that is it. In so far as development of the defence industrial production base is concerned, it is not that public sector has any preferential role to play in that. It is the capability which is most important. If "X" can make the product, "X" will get that order and, if "Y" can make it, "Y" will get that order. Our focus is very clear on this issue. We have been encouraging partnerships as well by telling the industry and its representatives accordingly.

We have also been addressing the issue of level playing field vis-à-vis the public sector. We feel that as far as the level playing field is concerned there are two aspects. One aspect is the transfer of technology and the other is regarding taxes and duties. On taxes and duties, CII and FICCI have already been requested to forward papers outlining the taxes and duties which they feel are discriminatory, and how they want that to be amended so that we can discuss it with Ministry of Finance. Papers from CII and FICCI are still awaited. On the transfer of technology there are two ways of going about it. One is that the government pays for it. If the Government pays for it, it will be difficult to give it to a private company. We have got a separate mechanism that is 'Buy and Make (Indian)', where the private sector can get into technology tie-ups with foreign companies and then offer the product to the defence forces.

We have a Defence Production Policy under consideration, which seeks to put in place a logic somewhat different from what exists today in acquisition. According to the logic sought to be put in place; when any equipment is sought to be acquired, the first question to be addressed will be whether it is available in India. If not, then can it be made in India? Only if the answers to these questions are negative, shall we go abroad and buy. This is how we look at the changes in the defence acquisition process.

Now we come to the aspect of 'delays in acquisition process'. Delays in acquisition process have been causing worry for sometime now, but, I would like to point out that we are doing better today than what we were doing in the past. The procedures

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are constantly under review. We are continuously improving our procedures and processes. It is not that we surrender funds every year. Last year, we did not surrender funds. Sometimes the utilisation of money is also dependent on the overall money available in the kitty; and we have to look at every thing in consultation with Finance Ministry. We have to decide on the utilization of the budget upto a particular extent and that is what was done last year. However, ultimately we had to go back to Ministry of Finance to express our inability to restrict our utilisation of the budget to the extent

advised. Ministry of Finance of course made available that additional money to us. If you are looking at utilisation vis-à-vis the budget estimates and you are not privy to the consultation that goes on between the Ministry of Finance and the Ministry of Defence, then you are likely to get a false impression that the money was surrendered because it could not be utilised. Actually, there is a continuous process of consultation with Ministry of Finance because they have to look at the overall kitty and they keep talking to us. In effect, last year we spent more than Ministry of Finance wanted us to spend.

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Indeed, it will be worth having a stronger defence acquisition organisation and more unified or integrated defence acquisition organisation to speed up matters. There are some aspects which, however, will need to be looked at closely. One aspect is regarding finalisation of Qualitative Requirements (QR). On this, there is a need to have the advice of the user service with the concurrence of their respective service chiefs for all major acquisitions. Now, if you have an integrated acquisition system, how do we get that, this is an issue which needs to be discussed. At the conclusion of the trials we would desire the feed back of the user services. How do we reconcile this requirement – these are issues which we need to be discussed in detail.

Accountability is another important aspect which we are looking at. There are given time lines but the time lines aggregate a number of functions. These functions need to be segregated and we should have time lines for specific functions. CNCs take time, but there is a definite need to lay down fixed time limits for conduct of CNCs. We need to see how we can empower our CNC mechanisms to be more efficient. We do feel that the CNC mechanisms need some empowering on the legal side.

Offsets are currently not being monitored as they should be, that is what we feel. We have had discussions in the Ministry of Defence on this and we look forward to strengthening the offset monitoring mechanism. We want to make

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the offsets meaningful. We have taken note of need for leveraging offsets for technology. We will keep that in mind, we will have further discussions with all the stakeholders. We have debated this in the department on which there are different views. We will have further discussions, but we do feel that there is a merit in taking technology as offset since many countries practice it.

We have also been trying to look at efficiency of the DPSUs and the ordnance factories. In our mission to build up our self-reliance in the field of defence

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requirements, the private sector will have to play a major role. It is not something that public sector alone can do. However, bench marking of profits has to be taken note of as suggested. 