

Defence Procurement: A Conundrum

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The Indian Army, the second largest Army in the world, with a stated strength of 1.13 million, is a veritable monolith. Managing this monolith, which is deployed in diverse terrain, from simmering deserts, riverine plains, across tropical jungles and the super high altitude of Siachen, is, to say the least, a huge challenge and a life-time pursuit. Given the pathological hostility of some of our immediate neighbours and persistent terror activities, the Indian Army is perpetually in “active service,” in maintaining the security and sovereignty of our nation. The weapons and equipment on the inventory are huge, varied and vintage. With the threat perception and rapid advancement in technologies, the Indian Army is currently engaged in upgrading and modernising its arsenal at a huge cost to the exchequer.

The acquisition of weapons and equipment, whether to replace “in-service” items or to modernise the inventory is a very complex process governed by procedures prescribed in various manuals viz Defence Procurement Procedure (DPP) 2011, Defence Procurement Manual (DPM) 2010, Financial Regulations and numerous policy letters and instructions issued by the Ministry of Defence (MoD) and various Directorates/Branches of Army Headquarters (HQ). To study, understand and master these complex, often conflicting, instructions

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and interpret vague sentences in these manuals requires a prolonged sabbatical!

Defence Budget

The defence budget for Financial Year (FY) 2012-13 was Rs 1,93,407.29 crore and constitutes around 2 percent of the Gross Domestic Product (GDP). Pay and allowances account for 46 percent of the total defence budget. Normally, the share of revenue expenditure is approximately 60 percent while that of capital expenditure is 40 percent. It is axiomatic that the Army gets a lion's share

of 50 percent of the total defence budget, being manpower intensive, followed by the Air Force (25 percent) and Navy (19 percent). Capital expenditure is incurred on modernisation of the armed forces. The Air Force and Navy, being equipment intensive, obviously get a larger share of the capital budget. In FY 2012-13, the Air Force got 38 percent, the Navy 31 percent and the Army 24 percent, yet the latter was unable to expend the allocated amount due to tardy in-house procedures, indecision and poor coordination.

Policy

As an aftermath of the Kargil conflict, where our operational preparedness from the equipment point of view showed acute deficiencies, a new defence procurement structure and system was established in the MoD in 2001, based on the recommendations of the Group of Ministers on Reforming the National Security System. The procedure laid in down in 1992 was reviewed and a revised Defence Procurement Procedure (DPP) was promulgated in 2002 for handling capital acquisitions. This has been refined over the years based on experience and feedback and the latest is

DPP 2011. A separate manual in the form of the Defence Procurement Manual (DPM) governs procedures covering revenue procurements and is very different from the DPP – a fact not known to many functionaries and defence analysts and who yet claim to be “experts” on this complex issue. A bit of confusion, thus, prevails in the environment.

It needs to be clearly understood that defence acquisition comprises purchase of new capital assets for modernisation as also “in-service” assets for “topping up” deficiencies created due to wear and tear or for making up reserves. Capital assets are broadly defined as items which are long-term in nature and have a life span of more than seven years or a value greater than Rs 10 lakh. If these two criteria are not fulfilled, the procurement generally falls in the domain of revenue procurement. However, these are not rigid definitions and are at times interpreted at the convenience of decision-makers and availability of funds under the respective budget heads. The DPP, therefore, handles procurement of new capital assets for “capacity building” while the DPM is a detailed compendium of procedures for revenue procurement and provision of all other goods, services and support activities intended to maintain the operational effectiveness of our armed forces, in short “capacity sustainment”.

One of the major flaws in our defence policy is the overriding emphasis on increasing capital expenditure and reducing revenue expenditure. This, however, is not feasible because expenditure on maintaining a huge standing Army like ours is debited towards revenue expenditure. This simple fact is often disputed by functionaries in Defence Finance who doggedly emphasise increasing the capital expenditure! Another flaw in the defence system is close monitoring of capital acquisitions

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right up to the highest levels and near nil focus on revenue procurements, with the resultant continued “hollowness” in the field Army. Wars are fought and won with well maintained “in-service” equipment and not necessarily with new inductions which are yet to be fully absorbed in the system. In the 1965 War, the very modern M-48 Patton tanks with Pakistan could not make a significant difference in the plains of Punjab against our Sherman and Centurian tanks because the former were not fully absorbed by the Pakistan Army, being new acquisitions. It is again due to lack of focus on revenue expenditure that our frontline tanks ,Infantry Combat Vehicles (ICV), and Army Air Defence (AAD) weapons lack mission reliability due to shortage of

spares and maintenance facilities. Defence planners, therefore, need to comprehend this basic home truth to avoid embarrassment in the event of a future conflict!

Ordnance Factories and Defence Public Sector Units

The history of the establishment of Ordnance Factories (OFs) and Defence Public Sector Units (DPSUs) in India is well documented with the first Gun and Shell Factory being established by the East India Company in 1801 at Cossipore. Today, there are 39+1 OFs and eight DPSUs in India. The OFs were essential during the colonial era to service and support the Imperial Army. In the initial years of Indian independence, when our industrial development was fragile, it made sense to continue to open new OFs, and DPSUs to meet our national security requirements. After

65 years of independence, with the opening up of our economy since the Nineties, and the engineering and manufacturing sectors raring to get into the defence sector, the “holy cow” status of the OFs and DPSUs under the control of the Department of Defence Production (DDP) needs a total revamp, with downsizing and immediate closure of many of the production facilities. These are stated to be “strategic assets” but actually are more of “social service” institutions with a huge and redundant workforce on government salaries and captive defence clients. Despite large infusions of funds over the decades, they have not become cost competitive, efficient or even fully responsive to meet the urgent needs of the defence forces. Even today, defence procurement has a 70 percent import and 30 percent indigenous content. There is a crying need to loosen the stranglehold of the OFs and DPSUs and let the private industry, with the latest technologies and best management practices, gradually take on the load. Some strategic areas like major weapon platforms and strategic ammunition could stay with the OFs and DPSUs and then incrementally be offloaded to the civil defence industry once the latter is fully settled and achieves economies of scale. Should the OFs and DPSUs want to continue in their production activities, they should be pitted against the civil/foreign industry for a fair competition in the Lowest Bidder (L1) regime of the Government of India (GOI) rules.

After the recent bribery scandal about the contract for 12 VVIP Agusta Westland helicopters, valued at Rs 3,546 crore, it is believed that the government is actively contemplating to shed the Nehruvian policy of protecting the DPSUs and wants genuine indigenisation in the defence production sector, involving the private sector, and drastically reducing our dependence on imports (in a recent study by the Stockholm International Peace Research Institute, India was the world’s largest recipient of arms, to the tune of 10 percent of global arms imports for the period 2007-11). The Defence Minister, Shri A K Antony, has clearly

stated that “maximum indigenisation of military hardware is the ultimate answer to avoid controversies and ensure Indian taxpayers’ money is not lost on greedy players in the arms business. It is important the private sector emerges as a major player.” This tectonic change, if implemented, along with a relook at the DPP and defence production policy, can be a “game changer” in the currently murky business of defence procurement and give a much needed fillip towards building a sturdy military–industrial complex in India.

Functional Level Issues

Any modern Army should have its inventory philosophy based on the 30:40:30 concepts viz 30 percent modern equipment, 40 percent in-service equipment and 30 percent vintage /old technology equipment. Efficient systems/ procedures and close monitoring need to be in place to ensure this well tested balance. The MoD and the Army have no such mechanism in place and whatever effort is there to maintain this balance is purely by an adhoc, non-professional and non-accountable approach. For example, the Army had its transport and load carrier in the famous 3-ton class vehicle called Shaktiman which was inducted into service in the mid-Sixties and reasonably should have been discarded by about the mid-Eighties. The Indian Army woke up to the automobile revolution in our country and declared it obsolete only in 2010, even when the production of this vehicle had stopped way back in 1995. Similarly, the Maruti Gypsy and Mahendra and Mahendra jeeps in the 500-kg class were procured in 1997 and are still being procured. India’s automobile revolution appears to have given a go-by to the Indian defence forces. Technology has long outpaced our military and logistics planners in this field and now, for many years, planning is apace to finalise its replacement/successor vehicle which further is likely to get mired in the long drawn bidding, trials, evaluation, complaints , retendering and finalisation and ultimate delivery process.

In the Army, equipment management is a multi-layered process. The Perspective Planning Directorate (PP Dte) is responsible for the future equipment profile with a perspective of 15 to 20 years factoring in the threat perception and technological changes during that period [the Long-Term Integrated Perspective Plan (LTIPP) 2012-17 has been approved by the MoD in 2012]. Line Directorates (Artillery, Mechanised Forces , Infantry, Engineers, etc) keep a tag on the current profile of their respective equipment, suggest future upgrades and acquisition based on international trends, and obsolescence management, the Master General of Ordnance (MGO) Branch, comprising the Ordnance and Electrical and Mechanical Engineering (EME) Directorates, is the nodal agency for the operational readiness of the Indian Army from the equipment point of view and expenditure of the revenue budget for replacement of “in-service” equipment, monitoring of procurement of spares from indigenous and foreign vendors, and periodic maintenance and overhaul of equipment and indigenisation; and, finally, the Deputy Chief of the Army Staff (Policy and Systems)-[DCOAS(P&S)] assisted by the Weapons and Equipment (WE) and Line Directorates, handles new acquisitions and expensive upgrades by utilising the capital budget. It is quite obvious that good coordination is the key to fine-tuning the varied and often conflicting opinions and requirements to have a fully developed Army Requirement for projection to the Integrated Financial Advisers (IFAs) and MoD for the tendering and procurement process to be given a definite shape. Unfortunately, the Principal Staff Officers (PSOs) and Directors General (DGs) are so busy in routine daily activities (including educating themselves in procedures and systems they are not groomed or trained in, or familiar with) that important future requirements and firming of views by a diligent coordinating process is callously neglected. Another breed of PSOs and DGs follows the advice of “no decision” for fear of being hauled up for enquiries, if any, in the future!! In this narrow approach, particularly at the senior level, there are no checks and balances to identify the dangerous in-house lacunae, the

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impact of which is not palpable in the immediate timeframe but will surely impinge on future preparedness and may be discovered many years later by when the present incumbents would have long been superannuated. The Chief of the Army Staff/Vice Chief of the Army Staff (COAS/VCOAS need to periodically and institutionally monitor this vital aspect for the good of the Army and future security of the nation. The Air Force and the Navy are better organised in this monitoring and coordinating process, while the Army continues to be the laggard.

Another issue pertains to the Military Secretary (MS) Branch which selects and posts officers to the Equipment and Procurement Branches. In the Indian Army, ethos, tradition and organisational structure primacy of decision-making rests with officers from the combat arms, popularly known as the General Cadre. These officers have devoted a lifetime to successfully handling complex and difficult operational situations with a great sense of purpose and resolve, often adopting creative methodology to achieve end results. These very same officers are, however, reduced to a near paralytic state and baulk at decision-making due to the sheer complexity of procurement procedures, negative vibes in the organisation, tempered with a sense of “instilled” fear of future accountability and enquiry even on trivial issues. The operational oriented commanders/officers, when posted to procurement branches like the MGO Branch or WE Directorate, though endowed with rich experience and motivation, are pusillanimous in their decision-making as putting written directions on paper is anathema to their culture of issuing verbal directions in the field!! An entrenched vendor lobby, coupled with ignorant/ indecisive officers in the chain of file processing, the vested interest of a few stakeholders and a multi-layered decision-making chain all comprise the bane of defence procurement today.

There is, thus, an urgent need for a systemic change in our outlook and orientation to equipment management. While primacy accorded to an officer's operational acumen is paramount, equipment management – though stated in our training manual as an important command function—is far lower in the priority of our military leaders who find their “comfort zone” in matters operational. They often hide their ignorance by loosely stating that issues

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pertaining to equipment management and maintenance are best left to Ordnance and EME, thereby conveniently absolving themselves of their vital command responsibility!! These two support services, that are supposed to work in cohesion and in an integrated manner but are historically at daggers drawn due to narrow vested interests and turf wars, are doing reasonably satisfactory work of maintaining the military arsenal. Their synergy and output can certainly be enhanced by the active and sustained intervention by the General Cadre officers who have the ultimate onerous command responsibility of taking their men into battle with mission reliable weapons and equipment. It, therefore, needs to be repeatedly hammered into the psyche of our commanders that without efficient and responsive equipment management, no operational plan can succeed. Knowledge of the procurement chain and manuals has to start at an early stage of an officer's career to make him cost and procedure conscious, with a thrust on equipment maintenance and reliability. It is also seen that formation commanders revel in visiting combat arms and units repeatedly but only cursorily see the functioning of support services. Some of these same officers, when posted to the Procurement Directorate at whatever stage in their careers, find themselves severely handicapped,

which impacts their output in decision-making. Field commanders must, therefore, make frequent and detailed visits to ordnance units/depots and EME battalions/ workshops to understand their dynamics and constraints, and involve themselves in overcoming procedural and functional hurdles at that level. This ethos has to change – and must change fast. Military leaders devoid of managerial skills and acumen are destined for disastrous consequences in their line of duty.

The MS Branch must also do its bit and identify and generally channelise officers in the procurement line by repetitive postings in these branches—just as it does for postings to its own and the Military Operations Directorate—to ensure better domain knowledge and a quicker settling down period. Unfortunately, some of our Chiefs themselves are averse to this suggestion on the specious grounds that these officers will become experts and, thus, prone to corrupt practices!! Be that as it may, then there are no grounds for any grouse for an inefficient and tardy procurement set-up which is currently prevalent. No wonder, it is an open secret in the environment that the Army is the laggard in planning and expending already scarce defence funds. It is interesting and educative to note that annually, approximately 14,000 troops from the Indian Army are despatched on prestigious United Nations (UN) missions abroad annually. The UN provides lavish funds to the subscribing countries for equipping these contingents in terms of equipment and clothing. However, in the last few years, these contingents have left for these assignments without their full complement of clothing and equipment due to their Commanding Officers (COs) being ignorant about procurement procedures and, therefore, hesitant to undertake direct procurement for their units. Yet, they complain about the cost and quality of items being procured by the Ordnance Directorate on behalf of ADG Procurement of the MGO's Branch! This entire gamut of UN procurements is trapped in bureaucratic red tapism, starting from funding, unexplained reduced resource allocation to DCOAS (IS&T),

procurement powers with ADG Procurement (who, though vested with these powers, is still not organised for actual procurement) and exercising of his powers by ordnance officers, further made difficult by complex and inflexible DPM procedures and an impractical and non-accountable IFA system! The end result is that the poor soldier is left bewildered at this procurement mess and a little crestfallen since he is denied his legitimate dues.

To ensure transparency, accountability and probity, the DPM was first promulgated in 2005, revised in 2006 and again in 2009 and still further refined as a supplement to DPM 2009! It only highlights that the original composition of the DPM was not comprehensive and many ambiguities existed in its provisions. No manual can cover each and every contingency/situation and it is nobody's case that the DPM is an exception. The key, therefore, lies in the "constructive" interpretation of its provisions by the Competent Financial Authority (CFA) and their IFAs. The long chain of procurement in defence acquisitions was perhaps deliberate to check possible collusion with the vendors as the entire chain cannot be influenced by unscrupulous dealers. However, there is a flip side to it. If due diligence is not exercised by the handling officers (due to sheer ignorance, lackadaisical attitude or vested interests), then a noting, wrongly written, can delay and vitiate the entire procurement process as no senior functionary will overrule this due to fear of being implicated later. This can be overcome by shortening the internal processing within the Army, with only refined notings at the Directors' level to be forwarded up the chain for vetting by the IFA and final approval by the CFA. The IFA set-up is often blamed as a "roadblock" in the chain due to the inadequate manning pattern, lack of domain knowledge, unnecessary rigidity in interpretation of rules, transgressing into the domain of the executive, collusion with vendors and, at times, a misplaced sense of economy! This can easily be rectified by ensuring specialisation through longer tenures (four to five years) in MoD Finance, laying down time-

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bound limits for clearing files, organising mandatory and periodic visits to formations deployed in the field (like the famous case of non-clearance of snow scooters for Siachen till the then Defence Minister George Fernandes sent them packing to Siachen for a first-hand feel of the requirement) and restricting them to financial prudence issues rather than venturing into executive decisions of the numbers to be procured, including holding of reserves required for fighting a successful war against our adversaries. The irony is that such functionaries are not held responsible for delays/denial of urgently required stores to sustain the field Army. At the MoD level, the

same malaise exists: inadequate manning pattern, lack of indepth domain knowledge, at times, vested interests, studied pattern of returning files on flimsy grounds repeatedly (in the mistaken belief that, when questioned later, they can absolve themselves of any blame as ‘due diligence’ has been displayed by them by returning the files!), disinclination or hesitation to overrule the advice of the IFA/Defence Finance, although they are convinced about the genuine requirements of the Field Army as projected and explained by the users/Army. There is also a mistaken impression amongst the bureaucrats that should the forces fail the nation in executing their assigned tasks due to shortages of weapons/ammunition/ equipment and other war-fighting wherewithal, the blame would lie squarely with the respective Services and their Generals, Admirals and Air Marshals, and the financial advisers and bureaucrats in the MoD would be completely absolved despite inordinate delays in their approvals on flimsy grounds/ irrelevant queries at their level during the processing of such cases. It is quite apparent that defence procurements follow an integrated system

and, hence, kudos and responsibility for any misdemeanour/delay/failure must be proportionately shared by each functionary in the processing chain. This would automatically generate a clear sense of accountability in MoD procurements.

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have expanded their cadre, but matching expansion in the MoD has not taken place, thereby creating an imbalance in the volume and speed of files being put up to the ministry and their clearance. For example, revenue procurements for the Army and the Navy are mainly handled by one Joint Secretary (with whom rest the delegated financial powers of the Raksha Mantri upto Rs 200 crore per transaction), a Director and one or two Section Officers. Clearance of files is, therefore, dependent on the speed of notings and their analysis by the Section Officer and his Director. Since the sheer volume of work is impossible to handle at the desired speed by this handful of “babus”, the usual ploy of returning files on flimsy grounds or seeking the comment of the other two Services is adopted! A workable and possibly the best solution is to have weekly joint meetings of all stakeholders where the user Service gives a detailed presentation on the required procurement and queries, and clarifications are sorted out in a collegiate manner in the meeting itself. The minutes of such meetings should obviously be recorded and appended in the procurement file for the record and future reference, if any. This single step will probably reduce procurement processing time by nearly 40 percent.

Capital Acquisitions

Induction of new and modern equipment takes, at best, anything between four to five years, and at worst, an endless wait due to the discovery of scams, kickbacks and the omnipresent agents to swing major deals. It is common knowledge in the corridors of power as to who the major arms dealers are. Obviously, these dealers thrive because of the maze of rules, regulations and lack of transparency and efficient responsiveness to the queries of the defence manufacturers, mainly foreign, and some bravehearts of the Indian defence companies. The clamour and appetite of the Indian defence forces for foreign technology and their products is well known and perhaps is justified due to the stranglehold of the the DRDO, DPSUs and OFs, with a historically tardy delivery system, in both quality and timeliness and that too with full government backing and patronage. The capital expenditure for acquisition of capital assets is beholden to a long-winded twelve-stage procedure laid down in the DPP as under:

- Preparation of Services Qualitative Requirements (SQRs).
- Acceptance of Necessity (AON).
- Solicitation of offers.
- Evaluation of technical offers by the Technical Evaluation Committee (TEC).
- Field evaluation (over different terrain and weather conditions).
- Staff evaluation (which, at times, is agonisingly long).
- Oversight by the Technical Oversight Committee for acquisition above Rs 300 crore.
- Contract negotiations by the Contract Negotiations Committee (CNC) spread over many sessions.
- Approval of the Competent Financial Authority (CFA).
- Award of the contract/supply order.
- Phased Delivery after Pre-Dispatch Inspections (PDI) by the users and quality checks by the Directorate General of Quality Assurance (DGQA).

- Post Contract Management (PCM); often a much neglected activity, being routine and tedious.

The above steps cannot be reduced since they are well sequenced but what can perhaps be done is extreme diligence in preparation of SQRs—may be in active and transparent consultation/interaction with reputed companies, both foreign and Indian, and early freezing of SQRs to provide a level playing field to all aspirants. Technical and field evaluation needs to be speeded up, and perhaps accelerated trials by automation and simulation will be the future norm. It is these agonising delays at each stage which give the Community of Facilitators and Fixers (CFF) a good opportunity to swing deals for their mentors. Quick approvals and time-bound deliveries, with a penalty clause for delays, are to be strictly enforced (the delay since 2008 in refurbishment of our naval carrier, the *Admiral Gorshkov* is a case in point of unacceptable delay and enhanced payment). The tendency at the MoD level to slow down/ stop procurement on unsubstantiated and often motivated complaints by unsuccessful vendors/lobbyists should be avoided. Suitable stiff penalties, if subsequently found correct, could be imposed and legal action taken to send a strong message that “fixing” of deals will no longer be a profitable business apart from the loss of prestige and reputation of the defaulting companies for future contracts. Generally, it is seen that such imports of weapons and systems are not sub-standard in quality and are actually liked and preferred by the forces—like Bofors is a good gun which saved the day in Kargil but it is a bad name in India to support—but the devil is in the pricing which is on the higher side possibly to adjust payments to the agents and facilitators. Therefore, the current stance of the MoD to resort to a blanket ban, and blacklisting of companies (possibly to silence the baying media and the opposition parties) at the cost of availability of weapon systems to the forces for operational readiness, is counter-productive, short-sighted and may not serve the national interests. Certainly, more pragmatic, imaginative and creative ways have to be found to deal with this ingrained

menace of corruption rather than immediate surgery and instant axing of the proposed procurement at the cost of jeopardising national security. Ask any military man and he will wholeheartedly state that he is convinced that the problem lies at the higher levels and not at the functional level where there is no role, scope or presence of middlemen and fixers.

Conclusion

In a way, the Agusta Westland scam currently being probed has had a significant impact on the reforms now being contemplated in the entire business of defence procurement in India. The role and presence of agents and facilitators is once again reiterated and clearly exposed. The prolonged process of defence acquisitions spanning many years (from 2003 to 2009 in the helicopters deal) is an abject lesson on the consequences of delays in decision-making which gave adequate space for the agents to manipulate the system. The flexible approach in changing the SQRs (change of operating ceiling height from 6,000 to 4,500 m) despite initial stiff resistance by the Air Force, highlights inadequate initial thought in firming up the SQRs, and giving an avenue for manipulation to the desperate vendors. It is believed that powerful vested interests and possibly the bulk of beneficiaries lie elsewhere and not with some functionaries at the vulnerable Service HQ level. The most important outcome of this entire episode is the urgent review of the DPP wherein the stranglehold of the DPSUs is being diluted and a new procedure of “buy and make Indian” with an open invitation to Indian private defence industry to participate unhindered is in the process of finalisation. This itself will give a tremendous fillip to the long delayed genuine indigenisation in the field of defence equipment and much needed relief to the beleaguered forces to have a saner and responsive supply chain in terms of spares and maintenance services to ensure a more stable equipment management model. These are interesting and challenging times and collectively all the stakeholders and decision-makers must rise to the occasion.