

# IDSA

## Issue Brief

# 'Make in India' in Defence Sector: An Overview of the Dhirendra Singh Committee Report

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## Summary

In a significant departure, the Ministry of Defence (MoD) has made public the report of the 10-member Experts Committee that was set up in May 2015 to both evolve a policy framework for facilitating 'Make in India' within the purview of the Defence Procurement Procedure (DPP) and streamline the procurement process. More significantly, the report has been put in the public domain even before the government has taken action on its key recommendations, indicating the keenness to solicit views from the wider public on the vital issue of self-reliance, which has so far dogged policy makers despite several policy announcements in the past decade-and-a-half. This Issue Brief examines the key recommendations of the Experts Committee, especially those that pertain to the defence industry.

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### About the Committee and the Structure of the Report

Like many other MoD appointed committees, the Experts Committee included members from all the key stakeholder institutions: the armed forces, various wings of the MoD [Department of Defence Production (DDP), Department of Defence (DoD) and Defence Research and Development Organisation (DRDO)], and the industry. Chaired by Dhirendra Singh, a former Director General (Acquisition) (DG (Acq.)), the Committee had also the benefit of the expertise of another former DG (Acq.) – Satish B. Agnihotri – who has had hands-on experience of DPP-2013, the latest procurement manual in vogue for capital acquisition. As expected, the Committee had interacted with a vast range of stakeholders including industry (both domestic and foreign), various wings of the defence establishment, think tanks (including the Institute for Defence Studies and Analyses) and other relevant stakeholders. To the credit of the Committee, the voluminous 263-page report has been submitted to the government in a record time of three months.

The Report of the Committee is divided into seven chapters, with the last chapter being devoted to "enabling framework and summary of observations and recommendations". The first two chapters – Defence Materiel and Defence Industry – although more of an introductory in nature, nonetheless have a vital bearing on some of the key recommendations made in the subsequent chapters. The next four chapters – Make in India, DPP, Trust and Oversight and Beyond DPP – deal with issues pertaining to procurement and industry. What is significant about the report is its detailed analysis of each problem affecting the defence industry (particularly the private sector) and the procurement system as well as the ease with which the various complex issues have been analysed.

### Key Recommendations

The report contains 43 recommendations. Of these, the Committee identifies 15 recommendations as pertaining directly to 'Make in India' while the remainder relates to DPP. However, given that many of the DPP provisions have a direct

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<sup>1</sup> The report is available in the official website of the Ministry of Defence at <http://www.mod.nic.in/forms/Sublink1.aspx?lid=2228&Id=0>

impact on indigenous arms production, the industry related recommendations (both direct and indirect) are therefore more than what the Committee has identified. Some of the key recommendations that would have an impact on the ‘Make in India’ initiative are:

### ***Strategic Partnership Model***

The signature recommendation of the Experts Committee pertains to various models for the private sector. After taking into account the unique nature of defence equipment and the configuration of the global defence industry, the Committee has arrived at three models for the Indian set up – Strategic Partnership, Developmental Partnership and Competitive Partnership. According to the Committee, the choice of the model should be based on “strategic needs, quality criticality and cost competitiveness.”

Among the three models, Strategic Partnership is somewhat akin to the Raksha Udyog Ratna (RUR) concept. First suggested by the Kelkar Committee, RUR failed to take off apparently due to objections from trade unions affiliated with public sector defence companies and reservations expressed by some industry players on the manner in which the Prabir Sengupta *Committee* had identified a dozen or so companies as RURs. Surprisingly, the Dhirendra Singh Committee has neither referred to the RUR concept of the Kelkar Committee nor to the RURs identified by the Sengupta Committee. Nonetheless, like the RUR concept, the strategic partnership model also visualises selective identification of a few big private players and nurturing them through preferential treatment, which would entail co-opting them for ‘Buy and Make’ and Government-to-Government procurement programmes.

While suggesting the strategic partnership model, the Experts Committee has also identified the following six segments in which Strategic Partners (SP) from the private sector would be identified:

1. Aircraft: fighter, transport and helicopter and their major systems.
2. Warships of stated displacements, and submarines and their major systems.
3. Armoured fighting vehicles and their major systems.
4. Complex weapons which rely on guidance systems to achieve precision hits, which may include anti-ship, air defence, air-to-air, air-to-surface, anti-submarine, land attack.
5. Command, control, communication and computers, intelligence, surveillance, target acquisition and reconnaissance.
6. Critical materials (titanium alloys, aluminium alloys, carbon composites, nickel/cobalt alloys etc.).

It may be noted that while identifying the different segments, the committee has categorically suggested that just one or two private players would be identified in

each segment, limiting the number of players to almost the same number of players identified through the RUR selection process. In order to prevent ‘conglomerate monopoly’, the Committee has further suggested that only one SP should be permitted in one segment, and once it is chosen in a particular segment it should not be considered directly or indirectly (through cross holdings in another company) in the other segments. This has apparently not gone down well in the industry, especially the bigger ones which aspire to play a larger role in different segments of defence production. The industry’s reservations notwithstanding, the idea of strategic partnership is as relevant as the earlier RUR concept since India cannot afford to have a very large and frequently changing number of players in every segment of major defence platforms. Even in the United States, the biggest defence market in the world, the production of major platforms and weapon systems is consolidated among a few major companies. Having said this, the major challenge for the government now is to select the SP in each segment. Given the earlier experience in the selection of RURs, it would be worth watching how the government proceeds on the SP concept.

### *Industry Friendly Procurement System*

A major focus of the Expert Committee is on streamlining the acquisition process and structure so as to create more opportunities for the local industry. The Committee argues that for ‘Make in India’ to succeed, the procurement system must recognise the unique and strategic nature of defence equipment, which is characterised by high-technology content, stringent quality standard, limited vendor base, low production rate, rapid obsolescence and restricted mobility across borders. In such a scenario, for the local industry to prosper, there is a need to take it into confidence in every possible procurement step, beginning with the planning process. Highlighting the current weakness whereby the local industry does not have information about the type and nature of the long term equipment requirement of the armed forces, the Committee has suggested that the relevant information as contained in various plans and other documents be shared with the industry with the sole objective of enabling the latter to make a concrete decision on investment or technology partnership. In specific terms, the Committee has suggested the revision of the current Technology Perspective Capability Roadmap (TPCR) so as to reflect the type and nature of the equipment required by the armed forces in the next 15 years. At the same time, the Committee has also suggested that schemes amenable to ‘Make’ projects be shared with the industry along with the details of other schemes as contained in the 5-year Services Capital Acquisition Plan (SCAP).

The Committee is of the opinion that for the Indian industry to contribute meaningfully to ‘Make in India’, the procurement system needs to move towards indigenous design, development and production or ‘Make’ projects. In this regard, the Committee while broadly agreeing with the MoD’s revised and simplified ‘Make’ procedure, also makes some specific suggestions to further strengthen it. It rightly argues that since ‘Make’ projects involve a long-gestation period, the decision on such projects must precede that of other categories by at least one plan period (five

year) or more. Such pre-positioning of 'Make' projects would give much needed leeway to the industry and the services to iron out any issue that may arise at the developmental stage without significantly disturbing the planned induction schedule. The eligibility criteria for soliciting expression of interest (Eoi) from the industry should be liberal to include not only the big players but also all the 'innovative and agile industry' including from the Micro Small & Medium Enterprises (MSME) sector. Moreover, the industry executing the 'Make' project should be given tax incentives by way of allowing their developmental cost (of 20 per cent) as being qualified as R&D expenditure.

The Committee is also of the firm opinion that for the local industry to grow, the current approach of the procurement system towards single vendor situations needs a relook. As the Committee rightly observes, single bid situation is an emerging reality, particularly in cases involving 'Buy and Make' and 'Buy and Make (Indian)' projects. Rejecting such proposals for the sake of competition not only delays acquisition, but hampers the interest of the local industry which is now expected to play a much larger role under the 'Make in India' initiative. Aligning with the concept of strategic partnership, the Committee therefore recommends suitable changes in the DPP to reflect the emerging reality.

One of the positive things that has clearly emerged from the Experts Committee report is the increase in the last two years of the share of 'Buy (Indian)' and 'Buy and Make (Indian)' categories (see Table 1). The Committee attributes this to a critical change brought in DPP-2013, which provides a higher preference to these categories over others. To build on the progress, the Committee has further suggested a 'decision flow chart' to be incorporated in the DPP that would guide the procurement authorities to arrive at suitable procurement categories in a more credible way and consistently.

**Table 1. Category-Wise Acceptance of Necessity (AoN)  
(Rs in Crore)**

Year	Buy (Indian)	Buy & Make (Indian)	Make (Indian)	Buy & Make	Buy (Global)	Total
2010-11	60835	16710	15845	19450	40547	153387
2011-12	28561	2032	0	5747	20500	56840
2012-13	18689	385	1004	13460	27114	60652
2013-14	21001	2733	0	3504	371	27609
2014-15	38318	72750	0	0	6759	117827
Total	167404	94610	16849	42161	95293	416317

Commenting on the existing procurement structure, which was set up in pursuance of the implementation of the 2001 report of the Group of Ministers (GoM), the Committee notes that "time is ripe for a second set of reforms." It argues that the existing structure neither has the mandate nor the expertise to further the interest of the local industry, which is expected to play a larger role under the Make

in India initiative. It therefore suggests that a specialised organisation, physically separate from the defence ministry, would go a long way in bridging this vital gap. The Committee also suggests that the functionaries posted in the organisation should have a longer tenure and be well trained for which a detailed curriculum should be prepared by the Headquarters Integrated Defence Staff (HQ IDS).

### *Emphasis on Greater Indigenisation*

The Experts Committee is of view that 'Make in India' should not "become assemble in India with no IPR [intellectual property rights] and design control and thereby perpetuating our dependence on the foreign suppliers." To guard against such a situation, the experts group has emphasised on progressively increasing the indigenisation content, to be ensured not only through DPP-driven procurement but also by entities like DRDO, DPSUs and OFs – the three traditional players in the defence industry set up. With regard to these entities the experts group has specifically suggested that they need to imbibe an indigenisation culture and reflect it in their sourcing of parts, components and raw materials and also the final product. To ensure greater indigenisation through the DPP route, the group has suggested an incremental upward revision of the local content requirement stipulated in various procurement categories in successive DPPs. For DPP-2015, which is in the offing, the Committee has recommended that the ingenious requirement under 'Buy (Indian)' and 'Buy and Make (Indian)' should be increased to 40 per cent and 60 per cent, respectively, from the present 30 per cent and 50 per cent. And for 'Make (Indian)' projects, the indigenisation content should be increased from the present 30 per cent to 40 per cent in DPP-2015.

While suggesting the above mentioned local content thresholds under various procurement categories, the Committee has, however, not lost sight of situations that would demand a different approach. For instance, there could be a situation involving particular air platforms in which the domestic capability is minimal and where the local industry is likely to face difficulties in achieving the stipulated local content. To cater for such a situation, the Committee has given the flexibility to the procurement authorities to lower the local content requirement. At the same time, in systems in which local capability is relatively developed, authorities would have the option of enhancing the indigenisation requirement.

### *Human Resource Development*

Identifying human resource (HR) as a poor focus area in Indian's defence industrialisation process so far, the Committee has made a number of vital recommendations. These include setting up a defence manufacturing sector skill council, initiating a joint MoD-industry sponsored internship programme, a provision to enable skill development through the offset route, setting up of tool rooms around defence industry clusters, and a university programme for military engineering. Although vital for creating a healthy pool of engineers and other technicians, these recommendations may not however prove sufficient to meet the

critical requirements of high end manufacturing and R&D, which require a vast workforce nurtured in various defence technology disciplines. To address the HR issues affecting India's defence R&D establishments in particular, the Rama Rao Committee, which submitted a review report in 2008 on the functioning of the DRDO, had suggested the creation of a dedicated defence technology university on the lines of the ones set up by the departments of atomic energy and space. The Prime Minister had also promised in his Aero India 2015 address to "set up special universities ... to cater to our defence industry, just as we have done in atomic energy and space". Surprisingly, the Experts Committee has neither referred to the prime minister's address nor to the Rama Rao Committee report on this vital aspect of HR development.

### *Conducive Financial Framework*

The Experts Committee has laid much emphasis on creating a conducive financial framework for the local industry, particularly the private sector, to do business in the defence sector. The committee has taken note of the concerns voiced by the private sector on various aspects of taxes, duties, payments terms, exchange rate variation, and cost of capital, which render its products uncompetitive vis-à-vis the products of public sector companies as well as foreign vendors. The Committee has also taken note of the discrimination towards the defence manufacturing sector vis-à-vis other sectors such as power, telecom, refinery, etc., which enjoy a host of tax benefits and other incentives. One of the glaring discriminations meted out to the local entities is in the domain of offsets, according to the Expert Committee. It has observed that the current taxation policy prevents the development of in-house system integration capacity through the offset route as foreign companies do not find it cost-competitive. In its recommendations, the Committee has suggested that deliveries by the Indian Offset Partners (IOP) may be covered under the list of 'declared goods' and also given the 'deemed export' status, which will provide the necessary incentive to foster local capability in the high-end spectrum of defence manufacturing. At the same time, the Committee has also suggested various other incentives to the local industry including the benefits of 300 per cent weighted tax deduction to the Industry's for its contribution towards 'Make' projects.

### *Other Recommendations*

In addition to the above, the Committee has also made a number of other recommendations for the benefits of the local industry. These include provisions:

- To prepare a competency map of local capability and a registry of Indian industry to facilitate decision making.
- To allow foreign companies to discharge offset obligations through subscription to defence specific venture capital funds.
- To consolidate the four defence public sector shipyards (Mazagon Dock Ltd., Garden Reach Shipbuilders and Engineers Ltd., Goa Shipyard Ltd. and Hindustan Shipyard Ltd.) into one corporate entity to take advantage of the single management of a large entity.



- To issue tenders to Indian companies having industrial license (IL) in the relevant domain.
- To allow private sector companies access to public funded R&D infrastructure and testing and proof firing ranges.
- To provide liberalised funding to MSME through the MoD's proposed Technology Development Fund (TDF).
- To develop a robust quality assurance and standardisation system.
- To set up an independent body to ensure single window clearance for defence exports.
- To create a single window mechanism to provide regulatory and other clearances to the industry to do business under the 'Buy (Indian)' and 'Buy and Make (Indian)' projects.

In addition, the Committee has also endorsed the recommendations of past committees with regard to corporatisation of the OFs and setting up of an export arm of the DRDO on the lines of the Antrix Corporation of the Indian Space Research Organisation (ISRO).

Besides, the Committee has recommended the formulation of a 10-year roadmap for the local industry, giving specifically the measurable targets to achieve. The task of formulating the road map is assigned to the DDP. The DDP's role in such a vital task notwithstanding, the outcome of such an exercise is in doubt as there is no high powered institutional mechanism to enforce the objectives of the roadmap. It may be noted that various stakeholders, particularly the R&D agency, manufactures and users, often work in different directions, hampering the interest of the local industry. It may also be noted that bringing all the stakeholders to a common cause has perhaps been the single biggest problem in the defence industrialisation process. A recent example is the Army's June 2015 global request for information (RFI) to acquire what it terms the future ready combat vehicle (FRCV). The Army's efforts have clearly upset the DRDO, which is trying to develop a future main battle tank (FMBT) through in-house design and developmental efforts. The tug of war between these two vital players is the least that the 'Make in India' initiative would like to bother about.

Recognising the absence of an institutional mechanism as a major handicap in India's defence industrial growth, the GoM has suggested the creation of the Defence Minister's Council on Production (DMCP) with its membership drawn not only from the top leadership of the defence establishment but also from other high-end science and technology ministries/departments as well as local industry. The DMCP was visualised to lay the long-term roadmap, and ensure that every possible roadblock for its implementation is removed. However, like the RUR concept of the Kelkar Committee, and the idea of a dedicated technology university of the Rama Rao Committee, the idea of DMCP has not been referred to by the Experts Committee.



### Conclusion: What Next?

While making a host of recommendations, the Dhirendra Singh Committee has been cautious in assessing their impact on the domestic industry. It has therefore set 2027 as the target year by which the elusive goal of 70 per cent self-reliance can be achieved. Incidentally, the target year coincides with the term of the current Long Term Integrated Perspective Plan (LTIPP) 2012-27 of the armed forces. Evidently, if the armed forces are to be inducted with 70 per cent indigenous equipment by 2027, the recommendations of the Committee have to be implemented in right earnest and in the least possible time frame. The government has done the right thing by placing the complete report in the public domain, thereby opening its subsequent actions on each of the Committee's recommendations to public scrutiny. All eyes would now be on the MoD as to how it proceeds with the Committee report. To say the least, a historic opportunity to establish a credible defence industry should not be allowed to wither away.

## About the Authors



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