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Make In India is at the heart of Defexpo 2016

The DPP 2016 unveiled at Defexpo 2016 splits the existing 'Make' category of projects into Make I and Make II, the first to be mostly funded by govt and the latter by industry

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Defence minister Manohar Parrikar said Indian companies have started believing in defence production. Photo: PTI

Goa: The government will finance 90% of the cost of producing defence equipment by the private sector under a new sub-category introduced on Monday.

The Defence Procurement Procedure 2016 (DPP-2016) unveiled at Defexpo 2016 in Goa splits the existing "Make" category of projects into Make I and Make II, the first to be mostly funded by the government and the latter by the industry.

"Projects under Make I sub category will involve government funding of 90%, released in a phased manner, and based on the progress of the scheme, as per terms agreed between ministry of defence and the vendor," the new DPP document said.

Make II projects would be funded by the industry. "Projects under Make II category will involve prototype development of equipment or system or platform or their upgrades, or their sub-systems or sub-assembly or assemblies or components with a focus on import substitution, for which no government funding will be provided for prototype development purposes," the document said.

The Make in India initiative launched by Prime Minister Narendra Modi in September 2014 aims to promote the manufacturing sector, and increase the contribution of manufacturing output to 25% of the gross domestic product or GDP.

The defence sector is prominent among the 25 sectors of industry covered under the initiative.

The provision of Make category of capital acquisition is a key pillar for realizing the vision behind the Make in India initiative.

Therefore, the new DPP 2016 released on Monday was structured to provide the necessary leverage to make adequate investments, build the required capabilities, and match up to the contemporary and futuristic requirements of the Indian armed forces.

Will the new DPP be a game changer?

"DPP is not going to be the game changer. The mindset is going to be the game changer," defence minister Manohar Parrikar said in an interview to *Mint*.

The minister said Indian companies have started believing in defence production.

"The government is proactive in promoting Make in India. Startup India can be a big contributor in the defence sector," Parrikar said. "With the new DPP, we have ensured that

transparency is greater and clearances are faster," he said, inviting the industry to participate in the sector in a big way.

"This Defence Expo (Defexpo 2016) will display to the world what India can do. The participation at Defence Expo has been beyond our expectations," he added.

The minister said there is too much of unnecessary secrecy in defence procurement.

Many aspects of the DPP were already cleared by the Defence Acquisition Council or DAC in February. This included a new category to acquire weapons—IDDM (Indigenously Designed, Developed and Manufactured).

The DAC has said that IDDM will be the first preferred category under the new DPP, which will guide how India buys its arms and equipment for its armed forces.

The new DPP also allows the DAC to take a "fast-track" route to acquire weapons, something which was limited to only the armed forces till now.

"There is an impression that a fast track can only be done in the event of a war but this is not the case," Parrikar said.

The DPP document said defence procurement involves long gestation periods, and delay in procurement will impact the preparedness of defence forces, besides resulting in opportunity cost.

The needs of the armed forces being a non-negotiable and an uncompromising aspect, flexibility in the procurement process is required, which has also been provisioned for, it said.

"Thus, the DPP favours swift decision making, provides for suitable timelines and delegates powers to the appropriate authorities to ensure an efficient and effective implementation of the procurement process, by all stakeholders concerned," the document said.

The so-called "fast-track" procedures may also be applied in cases where undue/unforeseen delay due to reasons beyond the control of the acquisition set-up, is seen to be adversely impacting the capacity and preparedness of the regular and special forces, the document said.

"Now, the fear factor of doing business with defence is gone, said Ashok Atluri, managing

director, Zen Technologies Ltd.

“Even the fear of retraction on flimsy grounds is a thing of the past. There is a newfound confidence that industry players now have and it is resulting in aggressive investments in future projects and technologies,” Atluri said.

Defence export permission that used to take six months now happen in five days, he added.

“Things are very different now. What was a pernicious vicious cycle—caused mainly due to no preference for indigenously designed products, delayed procurements and cancelled RFPs (request for proposals)—is changing to a turbo-charged virtuous cycle with reduced procurement cycle and preference for indigenously designed and manufactured products. If this direction continues, in 10 years, in addition to shedding dependence on imports, India will become a hub of defence exports,” Atluri said.

For more than 15 years, India has tried to engage the private sector in defence production. But domestic defence manufacturing is still dominated by the defence public sector undertakings and the Ordnance Factories Board, which together have command 80-90% share.

The local manufacture of defence equipment is at the heart of the Make in India programme too, but the country continues to import nearly 60% of its defence equipment.

Of late, however, Indian companies have shown interest in the defence equipment business and have applied for industrial licences from the ministry of commerce to locally manufacture military equipment, including airplanes and warships.

Companies such as Bharat Forge Ltd, Reliance Industries Ltd, the Tata Group, Larsen and Toubro Ltd, the Godrej Group and the Mahindra Group are entrenched in the business and are looking for more opportunities.

Anil Ambani’s Reliance Group and Adani Group’s Adani Defence Systems and Technologies Ltd are the latest to enter the race.

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Topics: **Defexpo 2016** **defence procurement policy 2016** **Make in India**