

CHAPTER III –A: DEFENCE PROCUREMENT PROCEDURE FOR ‘MAKE-II’ SUB-CATEGORY OF ‘MAKE’ PROCEDURE

Background:

1. The ‘Make’ procedure for indigenous design, development and manufacture of defence equipment/ weapon systems, was simplified in 2016 and promulgated as Chapter–III of DPP-2016. A new sub-category ‘Make-II (Industry Funded)’ was introduced under this procedure with primarily focus upon development of equipment/system/platform or their upgrades or their sub-systems/sub-assembly/assemblies/components with focus on import substitution. In this subcategory, no Government funding is envisaged for prototype development purposes but has assurance of orders on successful development and trials of the prototype. However, there was no separate, exclusive procedure outlined for ‘Make-II’ sub-category.
2. A need was felt to have a separate, simplified procedure for sub-category ‘Make-II’ as it does not envisage any funding by the Government for development of prototype.
3. The ‘Make-II’ procedure, outlined in this chapter, seeks to address the objectives of wider participation of Indian industry, impetus for MSME/start-ups sector, simplified implementation, and timely induction of equipment into Indian Armed Forces.
4. Indian vendors as detailed in Annexure-I to this chapter, are eligible for participation for capital acquisition cases being progressed under ‘Make-II’ sub category of ‘Make’ Projects.
5. Successful development under this scheme would result in acquisition, from successful Development Agency/Agencies (DA/DAs), through the ‘Buy (Indian – IDDM)’ category with indigenous design and development, and a minimum of 40% IC, by inviting commercial bid which is to be submitted prior to Commencement of User Trials. Thereafter, the procedures detailed in Chapter II of DPP will be followed except for the procedure outlined in subsequent paras.
6. Projects under Make-II category will involve prototype development of equipment/system/platform or their upgrades or their sub-systems/sub-assembly/assemblies/components/**materials**, primarily for import substitution/innovative solutions, for which no Government funding will be provided for prototype development purposes. Cases where innovative solutions have been offered, shall be accepted and progressed, even if there is only a single individual or a firm involved.
7. Projects under the Make-II sub-category, with estimated cost of prototype development phase

not exceeding Rs. 3 Crore and cost of subsequent procurement not exceeding Rs. 50 Crore/year based on delivery schedule at the time of seeking AoN, will be earmarked for MSMEs. If no MSME expresses interest for a Make-II program earmarked for them, the same may be opened up for all.

Make - Project Management Unit (PMU):

8. 'Make-PMU' established for Make projects as per provisions given at para7 of Chapter-III will also oversee the projects categorized as Make-II. The head of 'Make – PMU' may hire domain experts/consultants such as finance, legal and technology, from public and private sectors. Expenses for hiring the services of experts/consultants shall be borne by the SHQ concerned.

Development and Procurement Process under 'Make-II' Category:

9. The development & procurement process under Make-II sub-category would involve the following functions: -

- i. Advance Planning & Consultations, and Feasibility Study
- ii. Formulation of Preliminary Staff Qualitative Requirements (PSQR)
- iii. Constitution of Project Facilitation Team (PFT)
- iv. Categorisation and Accord of Acceptance of Necessity (AoN)
- v. Issue of Expression of Interest (EoI)
- vi. Evaluation of EoI responses
- vii. Award of Project Sanction Order
- viii. Design and Development of Prototype
- ix. Conversion of PSQRs into SQRs
- x. Solicitation of Commercial Offer
- xi. User Trials by SHQ
- xii. Staff Evaluation
- xiii. Commercial negotiations by Contract Negotiation Committee (CNC)
- xiv. Award of Contract

Advance Planning and Consultations:

10. On the basis of Long Term Integrated Perspective Plan (LTIPP) or otherwise (including projects suggested by industry or individual), SHQ will initiate internal discussions for all the projects enlisted in LTIPP/suggested by Industry or individual as potential 'Make-II' projects.

11. SHQ will initiate collegiate discussions with various stakeholders such as DRDO, HQIDS, DDP, DoD, Indian Industry etc, as required. Such potential projects shall be deliberated by a Collegiate Committee headed by Secretary (DP) with members from SHQs, DDP, DoD, DRDO,

HQIDS, MoD (Fin)/IFA and will be 'Approved in Principle (AIP)' for hosting on MoD /DDP's Website. DRDO is free to tie-up with industry to participate in such projects within established timelines. No projects would be retracted due to technology being developed by DRDO after accord of 'Acceptance in principle' by collegiate headed by Secretary (DP).

12. List of potential 'Make-II' projects along with Project briefs, Questionnaire for Industry and Project Manager Details shall be uploaded on MoD / DDP website inviting their willingness of Industry to participate in the aforesaid potential 'Make-II' projects.

Annual Acquisition Plan (AAP) – Make-II:

13. The Make-II project having AoN value less than Rs 150 Crore will deem to be automatically included in AAP, after accord of AoN. However, the Make-II project having AoN value more than Rs 150 Crore, shall be included in Annual Acquisition Plan (AAP) prepared for Make Projects as outlined at para 13 of Chapter III of DPP-2016.

Feasibility Studies:

14. SHQ shall carry out the Feasibility study with the involvement of all important stakeholders such as HQ IDS, DRDO and DDP, Advisor (Cost) and MoD (Finance)/IFA as required and look into the following aspects:

- i. A preliminary assessment of capability of Indian industry to undertake design and development of the requisite equipment/system/platform or their upgrades and subsequently supply the quantities envisaged for procurement during the 'Buy (Indian-IDDM)' phase and timelines.
- ii. Estimated time period for development.
- iii. Estimated Cost of prototype development phase and for subsequent procurement phase under 'Buy (Indian-IDDM)' category.
- iv. Any other aspect considered important.

15. SHQs may, if required, engage Standing Consultancy firms to provide assistance in Feasibility Study, Industry outreach programmes, preparation of EoI and evaluation of EoI etc. Expenses for engaging Standing Consultancy firm will be borne by SHQ.

Preliminary Services Qualitative Requirements (PSQRs):

16. Based on the feasibility study, the SHQ concerned would formulate the PSQRs, specifying essential and desirable parameters. These PSQRs shall form part of the Statement of Case (SoC) while seeking AoN for 'Make-II' projects.

Constitution of Project Facilitation Team(PFT):

17. SHQ will constitute a PFT under Head of 'Make-PMU' or suitable officer belonging to the 'Make-PMU' prior to fielding Statement of Case (SoC) before the Categorization Committees. PFT will consist of representatives from SHQ, DDP, DGQA/DGAQA/DGNAL, MoD(Finance)/IFA as required and other experts if considered necessary. PFT will function under overall control & directions of Chairman of Make-PMU of respective SHQ.

18. The PFT, through Principal Staff Officer (PSO) of the concerned SHQ shall submit six-monthly progress report to the Defence Production Board (DPrB). The DPrB shall provide policy guidance as may be required in 'Make-II' cases. The PFT's responsibilities shall inter-alia, include the following important functions:

- i. Preparing EoI, obtaining approval in SHQ and issue of EOI.
- ii. Receipt & evaluation of EOI responses.
- iii. Preparation of draft Project Sanction Order, obtaining requisite approvals and issue of Project Sanction Order.
- iv. Monitoring and reporting of aspects relating to prototype development including generation of Intellectual Property.
- v. Any other responsibilities as entrusted by the SHQ/Ministry.

Procedure for Low Value Projects (Para 19 to Para 23)

19. **Proposals meeting the following criteria will be considered as 'Low Value Projects' under Make-II procedure:**

- a. **Technical specifications of the equipment/item and Last Purchase Price (LPP) are known.**
- b. **The estimated cost of prototype development phase not exceeding Rs. 3 Crore and cost of subsequent procurement not exceeding Rs. 50 Crore/year based on delivery schedule at the time of seeking AoN.**

20. **After accord of AIP, SHQ will prepare detailed Questionnaire within 2 weeks and upload the same on the MoD website, seeking necessary inputs required for preparing feasibility study report within a period of four weeks.**

21. **Feasibility report shall be completed within two weeks from last date for submission of detailed response to Questionnaire.**

22. **Feasibility report finalized by Project Facilitation Team (PFT) will be construed as concurrence by all stakeholders. PFT will prepare the SoC based on Feasibility report and field the proposal to relevant AoN according authority without circulating the SoC as otherwise required as per Para 16 to 19, Chapter II of DPP –2016.**

23. **The projects other than Low value projects, particularly involving import substitution, where SQRs & LPP are known, will be progressed for obtaining ‘Accord of AoN’ by circulating the SoC as per Para 16-19, of Ch-II of DPP-2016 without undergoing Questionnaire/ Feasibility stage process as prescribed at 12 & 14 of this Chapter.**

Categorisation & Accord of AoN:

24. SHQ shall prepare the Statement of Case (SoC) and will refer the cases to SCAPCC/SCAPCHC as per Para 16 to 19, Chapter II of DPP-2016. Cases upto Rs 150 Crore will be referred to SCAPCC. After evaluating the recommendations of the SHQs/initiating departments, the SCAPCC will recommend the SoC for accord of AoN to SCAPCHC. For cases beyond Rs. 150 Crore the SHQs/initiating departments will refer cases to the SCAPCHC, which will carry out the task of categorisation, based on the recommendations of SHQs/initiating departments and refer the cases between Rs.150 Crore to Rs. 300 Crore to the DPB and refer cases beyond Rs. 300 Crore to DAC for accord of AoN. PSQRs and Draft EoI shall be enclosed with SoC. Following would be highlighted by the SHQ in the SoC seeking AoN:-

- i. Estimated time period.
- ii. Estimated development cost.
- iii. Likely production cost.
- iv. Quantity of order, preferably covering the requirement of five years, post the successful development of prototype.
- v. Acceptability of Multiple Technological Solutions, if any
- vi. Single vendor situation for cases where an innovative solution has been offered by an individual or a firm.

25. **“While according AoN, it will be ensured that design and development of the system is indigenous. The AoN shall be sought based on the cost of subsequent procurement under ‘Buy (Indian – IDDM)’.”**

Validity of AoN:

26. AoN for ‘Make-II’ category projects will be valid for six months. For cases where EoI is not issued within six months from accord of AoN, SHQ will revalidate AoN with due justification for not processing the case on time after obtaining approval of CISC/VCOAS/VCNS/DCAS/DG(ICG).

For cases where the original EoI has been issued within six months from accord of AoN and later retracted for any reason, the AoN would continue to remain valid, as long as the original decision and categorisation (sub-category) remain unchanged and the subsequent EoI is issued within three months from the date of retraction of original EoI.

Issue of EoI:

27. PFT shall publish 'EoI' on MoD/DDP Website inviting Company (ies) to participate in to the 'Make-II' project. In addition, EoI shall also be issued to all companies which have shown interest to participate in the project during Feasibility Study. The EoI will contain the following:

- i. PSQRs
- ii. Scope of the project including number of Prototypes required.
- iii. Time frames and critical activities.
- iv. Milestones.
- v. List of trials/items/facilities/consumables that will be provided free of cost and also specify 'number of times' such free trials will be allowed.
- vi. Quantities in 'Buy (Indian-IDDM)' phase preferably covering requirements of five years.
- vii. Acceptability of Multiple Technological Solutions, if any
- viii. Details of Evaluation Criteria for assessment of EOI.

Evaluation of EoI responses:

28. Responses to EoI shall be evaluated as per criteria given in EoI and shall be approved by CISC/VCOAS/VCNS/DCAS/DG(ICG). All the shortlisted companies will be called Development Agencies (DAs).

29. Project shall be progressed ahead even if only one EoI respondent is found meeting the eligibility criteria.

30. Sanction for prototype development as detailed in EoI responses, with 'Nil' financial implications for MoD, would be obtained by the PFT from CISC/VCOAS/VCNS/DCAS/DG(ICG).

31. PFT will issue Project Sanction Order with Nil financial implications

Time Overrun:

32. The approval of extension of timelines for any 'Make-II' project may be accorded by CISC/VCOAS/VCNS/DCAS/DG(ICG), based on the recommendations of Head-PMU. In case of only single vendor having offered the prototype within timelines stipulated in the Project Sanction Order, not more than two time extensions will be accorded and thereafter the case is to be progressed as resultant Single Vendor Case (SVC).

Design and Development of Prototype for Make-II Sub-category:

33. PFT are to act as the primary interface between the SHQ and the industry during the design and development stage under Make-II subcategory projects and are to facilitate the following: -

- i. Finalization of trial methodology.
- ii. Provision of requisite professional inputs/documentation to industry.
- iii. Providing clarifications related to functional or operational aspects of the equipment under development, as may be sought by the DAs from time to time, during the design and development of prototype.
- iv. Provision of trial range/test facilities/consumables, etc., as mentioned in the EoI.
- v. Conversion of PSQRs to SQRs, prior to commencement of Users trials.
- vi. Issue of Commercial Offer in consultation with SHQ.
- vii. Coordinating user trials with the SHQs, based on the trial methodology. SHQ will formulate the Trial Directive and constitute the Trial Team. The Trial Directive must specify the fundamental points that need to be addressed for validating the 'essential' parameters.

34. After the prototype has been developed, the PFT would carry out user trial readiness review of the prototype before offering it for user trials.

Solicitation of Commercial offers:

35. A commercial Request for Proposal (RFP) for 'Buy (Indian-IDDMM)' phase, duly vetted by Acquisition Wing/ concerned SHQ, will be issued to all Development Agencies for submission of their commercial offer prior to commencement of User trials.

36. The quantities in the 'Buy (Indian-IDDMM)' phase cannot be reduced from the quantities indicated in EoI issued for the prototype development phase.

User Trials:

37. User trials would be carried out by the SHQ in close consultation with PFT to validate the performance of the system against the parameters/ specifications approved after the development of prototype. SHQ will formulate the trial directives and constitute the Trial Team. The 'trial directive' must specify the fundamental points that need to be addressed for validating the 'essential' parameters.

38. The SQRs of the equipment would therefore be a part of the trial directives, and only the essential parameters as detailed in the SQRs will be tested. The validation of the support system and maintainability trials, integral to and complimenting the trial programme of the defence equipment/upgrades/product/system should be held simultaneously, wherever feasible. Representatives of DRDO, QA agency may also be part of the field evaluation, based on requirement.

The user can recommend modification to the system for ease of handling and its maintainability. At this stage, no changes should be suggested which require re-designing of the system/sub-system or technology upgrade. Such suggestions would only be considered and implemented in subsequent phases of development.

Staff Evaluation:

39. The procedure of carrying out the Staff Evaluation, approval and acceptance of Staff Evaluation report for procurement under 'Buy (Indian-IDDM)' category of acquisition, is as detailed in procedure for Make-I sub-category.

40. Projects, where prototype of only a single firm/individual clears the trials shall be progressed as resultant single vendor.

Commercial Negotiations by Contract Negotiation Committee (CNC)

41. The AoN cost will be calculated on the basis of last purchase price of the imported item being substituted. The CNC will carry out all processes from opening of commercial bids till conclusion of contract. Negotiations in case of multivendor projects having procurement cost less than Rs 150 crore shall be carried out only in special circumstances with reasons to be recorded. However, CNC will carry out negotiations for all single vendor cases, other than resultant single vendor, irrespective of value of the project. The products which are being developed under 'Make-II' as an import substitute and their prices are known, No benchmarking & no negotiation will be carried out, even in single vendor cases, if the offered price is lower than AoN cost by 20% or more. However, in such cases, the CFA will satisfy himself/herself that the price of the selected offer is reasonable with respect to the AON cost and consistent with the quality required.

42. After CNC, the procedure for procurement would thereafter be same as for 'Buy (Indian-IDDM)' category from the successful DA/DAs, in accordance with Chapter-II of DPP-2016.

43. Consequent to approval of the CFA, the procurement contract(s) would be signed by the Acquisition Manager/Director (Procurement) concerned in the Acquisition Wing or by officer authorized by PSO concerned in SHQ for the cases falling within their delegated powers. The draft contract(s) would be prepared as per the Standard Contract Document at Chapter VI of DPP.

44. The Pre-Contract Integrity Pact (PCIP), listed as detailed in paragraph 92 (Chapter II of DPP), shall apply mutatis mutandis, to 'Buy (Indian – IDDM)' phase of 'Make' project. **Depending upon the sensitivity/secretcy of the information related to the project, participating Vendors may be**

asked to sign a Non-Disclosure Agreement (NDA) at the time of sharing the QRs/ other sensitive information for certain projects as deemed necessary by SHQs.

Multiple technological solutions:

45. In cases involving large quantities and where multiple technological solutions are acceptable, on approval of SCAPCHC/DPB/DAC, an option may be provided in the EoI during the 'Make' phase and subsequently in the Commercial RFP for the 'Buy (Indian – IDDM)' phase for procurement of specified quantities (in the ratio of 70:30) from other vendors (referred to as L2 herein) who have successfully developed the prototype/product, on the condition that this second vendor accepts the price and terms & conditions quoted by the L1 vendor.

46. In case, multiple technological solutions are not acceptable, the successful other vendors will be issued a certificate by the DDP indicating that the product has been successfully trial evaluated, to facilitate other vendors to explore other markets and remain in the production of the product.

Intellectual Property Rights (IPRs):

47. DA shall retain title or ownership and all other rights in intellectual property generated during the development of project. However, the Government shall have March-in rights under which the Government can require the contractor to grant, or may itself grant license for, inter alia, the following reasons: -

- i. Where health and safety requirements so require the Government to act in public interest;
- ii. For National Security Reasons;
- iii. To meet requirements for public use not reasonably satisfied by the contractor;
- iv. For failure of the contractor to substantially manufacture the products embodying the subject invention in India; or
- v. For failure of the contractor to comply with any of the requirements laid down under these guidelines.

Project Management, Review and Monitoring:

48. The progress of the 'Make-II' project would be monitored by the PFT under overall guidance of respective PMU as defined in EoI responses. The Government may engage services of independent consultants/experts for assessing the physical and/or financial progress of the Make project. PFT, through respective 'Make-PMU' will also periodically apprise the progress of the project to PSO concerned at SHQ or to DPrB through PSO concerned at SHQ, as the case may be.

Foreclosure:

49. No Foreclosure of the Project will be done after issue of Project Sanction Order, other than for reasons of default/ non-adherence to Project Sanction Order by Vendors.

50. All deviations on matters concerned with 'Make-II' cases not covered under this chapter, as well as all cases of deviations, shall require prior approval of the DPrB.

51. Any DA developing an item under 'Make-I' procedure, if desires, would be allowed to migrate to Make-II procedure, after due consultations and if it is found to be in the interest of the project and if no payment/reimbursement has been made to the DA against the development cost.

52. Typical expected timelines for undertaking 'Make-II' Projects are contained in Annexure-II.

Based on the complexity of the equipment, AoN according authority may approve extended timelines at the time of according AoN.

53. Any clarification or difficulty arising during execution of prototype development phase, shall be referred to Secretary (Defence Production) who may refer it to DPrB, for final decision, if required.

Indicative Criteria for Evaluation of EoI for shortlisting of Development Agencies

1. All the entities satisfying all of the following criteria shall be considered as an eligible 'Indian Vendor' for **evaluation** of EoI by PFT: -
 - i. Public limited company, private limited company, partnership firms, limited liability partnership, one Person Company, sole proprietorship registered as per applicable Indian laws. In addition, such entity shall also possess or be in the process of acquiring a license/development of products if the product under project requires license as per DIPP's licencing policy.
 - ii. The entity has to be owned and controlled by resident Indian citizens; entity with excess of 49% foreign investment will not be eligible to take part in Make category of acquisition.
 - iii. **For projects having cost of development phase \leq Rs. 3 Cr and cost of procurement phase \leq Rs. 50 Cr/year based on delivery schedule at the time of seeking AoN, there will be no commercial and financial criteria.**
 - iv. **For all cases having cost of prototype development phase $>$ Rs. 3 Cr and/or procurement cost $>$ Rs. 50 Cr/ year based on delivery schedule at the time of seeking AoN, the entity should have: -**
 - a. **Average annual turnover of the applicant company for the last three financial years ending 31st March of the previous financial year, should not be less than 5% of the estimated cost of the project.**
 - b. **Net worth of the entities ending 31st March of the previous financial year should be "Positive".**
 - v. **Other Technical criteria will be spelt out by concerned SHQ based on the project requirement.**
2. The 'Start-up' recognized by Department for Promotion of Industry and Internal Trade (DPIIT) from time to time, shall be eligible to participate under 'Make-II' procedure.

Note: Guidelines for penalties in business dealings with entities as promulgated by Government from time to time, will be applicable on procurement process & bidders.

Tentative Time lines for Make-II Projects

Sr. No	Activity	Time in weeks from collegiate discussions (T_o)
1.	Approval of proposals as POTENTIAL 'Make-II' projects by Collegiate to be headed by Secretary (DP) and uploading on MoD/DDP website	T _o
2.	Completion of Feasibility study	8
3.	Preparation of PSQRs	4
4.	Preparation of SoC + Constitution of PFT	4
5.	Categorisation and Accord of AoN	8
6.	Issue of EoI	8
7.	EoI Response submission	6
8.	EoI response evaluation	5
9.	Issue of Project Sanction Order	2
10.	Design & development of prototype	12-30
11.	Conversion of PSQRs to SQRs/ Solicitation of Commercial offer	4
12.	User trials & Staff evaluation	8-26
	Total	69-105 weeks
