

# Make-II Procedure: A Driver for Realising Indigenous Defence Industrial Capability

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**Abstract:** Defence acquisition is determined by the Defence Procurement Procedure which lays out the modalities, policy & procedures for undertaking acquisition of equipment. Make-II procedure as part of this acquisition policy has come about as a game changer and promises to reduce India's import dependence and propagate an ecosystem of indigenous defence industry which'll ensure strategic self reliance for India. Indian defence sector continues to be heavily import dependent. There are numerous initiatives which the Government has taken in the past few years that hold the promise to convert India from an import dependent nation to a nation with an indigenous defence industry that can be an important cog in the global supply chain. The article discusses the evolution of and benefits that Make-II procedure brings to the Indian defence ecosystem.

**Keywords:** Acquisition, Defence, DPP-2016, ecosystem, indigenous, Make-II, self reliance

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## A CASE FOR MAKE-IN-INDIA

1. India's quest for a place at the global high table continues to be a work in progress. Into the 71<sup>st</sup> year as a modern independent nation, India's full potential is still far from realisation. In comparison, its northern neighbour has over the past few decades already set itself on a path of blistering economic development that has seen it bringing out the largest number of people out of poverty in a timeframe never seen in the history of humankind. The Chinese miracle has been driven by an unprecedented manufacturing boom, a natural next step for most developing agrarian economies. And naturally, this economic rise has carried China's military rise in tandem. India had been taking incremental steps in this direction and in 2014 it introduced the Make-in-India initiative, which marks a major milestone in India's quest for development. Defence & aerospace sector has been identified as one of the core sectors of the Make-in-India initiative.

2. **Reforms: Gathering Pace.** As part of the Make-in-India initiative, the Government has over the past two years introduced a series of reforms such as increasing the FDI limit to 49%, and delegating issue of defence licences to DPIIT. India is also a member of the Wassenaar Arrangement now, a provision that'll facilitate additional

outflows of defence sector products & services<sup>1</sup>. Another milestone initiative has been the introduction of a revised Defence Procurement Procedure-2016 (DPP-2016)<sup>2</sup> which has introduced a new category for equipment 'Buy (Indian - IDDM),' (Indigenously Designed, Developed and Manufactured), with the highest priority, so as to enable development of an indigenous ecosystem. Only once the source of procurement cannot be justified under this category, can the procurement move to other categories. Besides, Strategic Partnership (SP) Policy defined in Chapter VII of DPP-2016 aims to adopt a top down approach and engage with the system integrators through a long term covenant. It encourages foreign OEMs to move their production to India and has provisions to accord suitable weightages/ multipliers to encourage this. Though initially restricted to only four segments (fighter aircraft, helicopters, submarines and armoured vehicles/main battle tanks), additional segments will be included as the initiative moves ahead and experience is gained. SP Model thus, is likely to spawn a self propagating ecosystem of defence

<sup>1</sup> "Dawn of a New Era in the Indian Defence Industry | Forbes India Blog." Forbes India, Forbes India, [www.forbesindia.com/blog/life/dawn-of-a-new-era-in-the-indian-defence-industry/](http://www.forbesindia.com/blog/life/dawn-of-a-new-era-in-the-indian-defence-industry/).

<sup>2</sup> "Ministry Of DEFENCE." Defence Procurement Procedure | Ministry of Defence, [mod.gov.in/defence-procurement-procedure](http://mod.gov.in/defence-procurement-procedure).

manufacturing by the private sector in India. Numerous initiatives in the space of defence offsets have also been undertaken. The number of avenues where a foreign OEM could invest have been liberalised, besides leaving the option to choose the Indian partner to the foreign OEM itself.

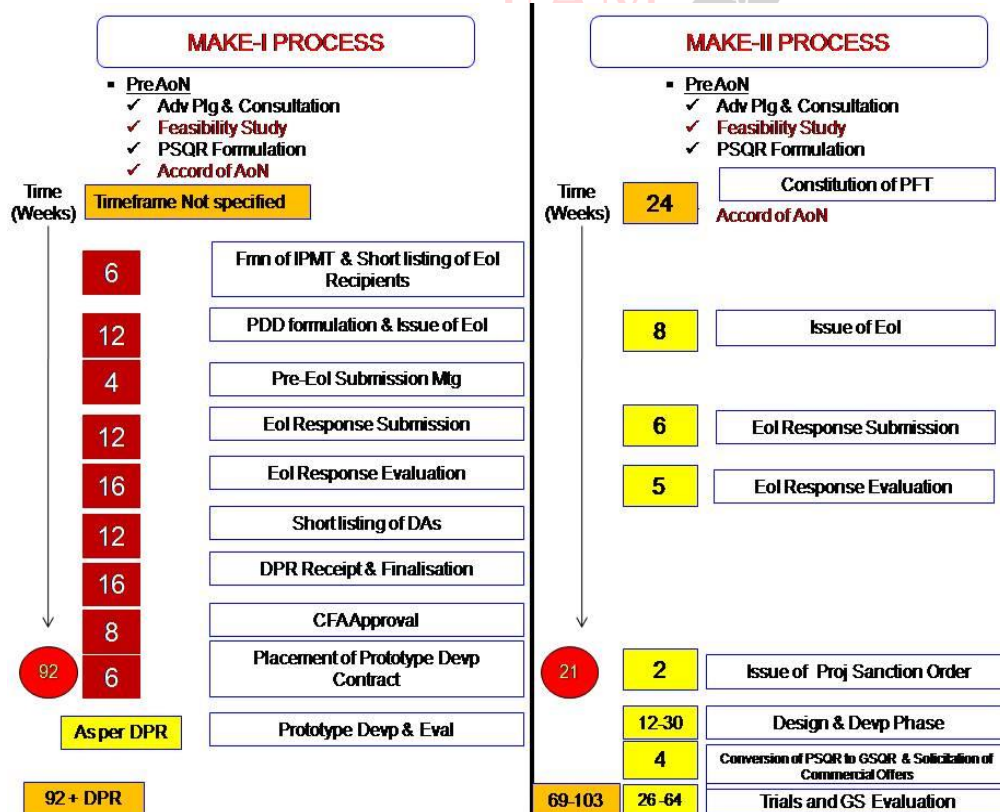
## MAKE – THE SPEARHEAD OF MAKE-IN-INDIA

3. **MAKE Procedure.** The biggest take away from the revised DPP-2016 has been the revision of the 'MAKE' procedure and the introduction of a new category called Make-II. The MAKE procedure classifies the projects under two categories as MAKE-I and MAKE-II, with the former being government funded and the latter self funded by the private industry. The 'MAKE-II' category adopts a bottom up approach wherein it concentrates on small manufacturers, MSMEs and other such like enterprises to enable their entry into the defence space by offering opportunities in the design, development & production of technologically simpler products that may fulfill recurring demands of the Services. The MAKE procedure also incentivises MSMEs so and under the 'MAKE-I' category, projects for which the cost of development is up to Rs 10 crores and total production order is likely to be below Rs 50 Cr will be reserved for MSMEs. Similarly, the limits under the under MAKE-II category are Rs 3 crores for development and Rs 50 Cr total production order. While under the older MAKE procedure which existed since 2006, Indian Army pursued only four projects, the revision of the MAKE procedure in the DPP released in 2016 has already seen the India Army identify 27 such projects in the years 2016 to 2018. A list of these projects is available on the MoD website

(www.makeinindia.defence.gov.in/MakeProjects). Of these new projects the majority may get classified as MAKE-II projects, thereby aiding many newer players to enter the defence manufacturing space.

### 4. **MAKE-II Sub Category of MAKE Procedure.**

Incidentally, the MAKE procedure, as it existed in DPP-2016 was defined for only the MAKE-I category. All the while since April 2016 there existed an assumption that a common procedure applied to both MAKE-I and MAKE-II. This in some sense proved to be the undoing for MAKE-II. The defined procedure was elaborate with requirements to prepare a Detailed Project Report (DPR), longer timelines and provisions to select only up to two Development Agencies (DAs). While this is a suitable route to adopt for development of major platforms which require funding of the development process by the government, it made little sense for MAKE-II projects which were to be self funded by the industry with the primary objective of quick realisation of projects on the cusp of readiness or import substitution. It made eminent sense to minimise government funding in case private industry was ready to self-fund prototype development. To address industry concerns of a complicated and lengthy common MAKE procedure and realising the potential of MAKE-II to spur indigenous development, the MoD in Jan 2018 announced a major simplification of the procedure for the MAKE-II category of projects, with the aim to reduce procedural delays & bureaucratic interventions. This action has resulted in creating a greatly simplified MAKE-II procedure. A comparison of the resultant MAKE-I and MAKE-II procedures is given below:-



5. Some of the salient features of the now simplified MAKE-II procedure are as under<sup>3</sup>:-

- (a) The new procedure involves prototype development of equipment/ system/ platform or their upgrades or their sub-systems/ subassembly/ assemblies/ components, primarily for import substitution/ innovative solutions.
- (b) Concept of selection of two Development Agencies has been done away with.
- (c) All the vendors meeting the minimum qualification criterion are allowed to participate in the process.
- (d) Provisions for suo-moto proposals from Individuals / industry, particularly for innovative solutions, introduced.
- (e) There is minimal documentation requirement at various stages.
- (f) Concept of Project Facilitation Teams (PFT) introduced to facilitate the Development Agencies.
- (g) Eligibility criteria (Profitability, Minimum period of registration of company, Minimum Credit rating requirement etc) relaxed for participants.
- (h) Reduced timelines for various stages of processes.
- (j) Relaxed eligibility criteria for start-ups.
- (k) Provisions for cost negotiations for cases involving large quantities and where multiple technological solutions are acceptable.
- (l) Validity of AoN has been reduced from one year to six months.

### **SIMPLIFIED MAKE-II: AN ANALYSIS**

6. **Aids Self Reliance.** Simplification of the MAKE-II process reduces procedural friction and increases the probability of faster project fructification. This project fructification is also likely to manifest in an earlier timeframe, thereby aiding the national objective of creating self reliance through private industry participation.

7. **Widening Competition Through Process Remodelling.** A detailed look at the changes introduced brings out the real transformation of the procedure to the fore. Riding on the spirit of self funding by the industry, the new procedure has taken out most of the government intervention in the 'development' process.

After a project has been listed on the MoD website, and a Project Facilitation Team formed at the SHQ, an EoI alone would serve to allot the project to a developer. The EoI itself has been hugely simplified, with no complex evaluation criteria, but only a basic commercial 'gate' defined, crossing which would lead to award of a 'Project Sanction Order' to the DA. The restriction on the numbers of DAs too has been removed and now the development can be offered to as many DAs who respond successfully to the EoI. These are indeed major changes that would create more inclusivity and competition.

8. **Suo-Moto Proposals.** Another landmark shift has been the provision of allowing suo-moto proposals from the industry. When seen in the larger frame, this step would go a long way in tapping into the huge talent pool that the country holds. It opens up vistas for the universities, institutions, industry, start-ups and individuals, all alike, to participate in defence R&D and manufacturing. For the start-ups specifically, the eligibility criteria have been further relaxed. The simplified procedure also makes it mandatory for the government to place a procurement order in case the development has been successful. This provision will provide relief to the industry by demonstrating the government's commitment to the entire process of indigenisation.

9. **MSME Sector: Driver for MAKE Process.** Another aspect of the MAKE initiative which needs emphasis is its very spirit. While it aims at prototype development of equipment/system/ platform primarily for import substitution/innovative solutions, its strength lies in the prospect of building a wide spread defence ecosystem encompassing development partners and specialized vendors and suppliers, mostly from the MSME sector. It would therefore only be prudent that this strength of the MSMEs is co-opted in our endeavours towards developing a military industrial complex. There is great eagerness in the MSME sector today to push 'MAKE' projects in parallel with implementation of the SP model for the big boys. As things stand today, MAKE process seems to be enjoying the lead.

10. **Time Reduction.** The reduction of timeframe to place an order on the DA for prototype development from 92 weeks to 21 weeks is a major reform. Besides, the time available for the DA to develop the prototype has been reduced to a mere 12-30 weeks as opposed to a timeframe to be decided by the DPR in the earlier process, which in all likelihood would extend into months. These changes would ensure that MAKE-II projects move with speed while addressing private industry concerns on extended delays.

### **CONCLUSION**

11. As India continues on the path of economic development apace, it is only natural that the private sector



becomes an active participant in meeting the security requirements of the country through indigenisation of defence technologies. A vast talent pool working on cutting edge technologies exists within the country. The private industry especially in sectors such as auto components and IT, has carved a niche for itself within the world order. Drawing a parallel with China wherein it adopted a policy of 'yujun yumin' (locating military potential in civilian capabilities)<sup>4</sup>, India too is well poised to take advantage of its private sector's strengths to transform into a military industrial powerhouse. For this, indigenisation has to take roots through creation of capacity in the private sector on a long term basis. MAKE-II procedure after its simplification in Jan 2018 is a major leap forward in this regard and endeavours to develop a modern, reliable and robust defence-industrial base. It would not be an understatement to say that MAKE procedure is probably the singular most important policy step that holds the promise to change the contours of the defence manufacturing landscape in the country. While a lot has been achieved in terms of self reliance through efforts by the DPSUs and the private players over the past so many decades, a lot more needs to be done, and done quickly in view of the emerging strategic challenges in our region and also across the globe.

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