### AMENDMENTS TO DPP 2016

(Amendments to DPP 2016 issued upto 30.06.2018)

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<td>1.</td>
<td>Note 1 below Para 30 of Part I of Schedule I, Chapter II regarding Secrecy Grading</td>
<td>1(13)/D(Acq)/16</td>
<td>27 Jan 17</td>
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<td>2.</td>
<td>Para 3(d), Appx A, Chapter III : Minimum Long Terms Credit Rating</td>
<td>1(13)/D(Acq)/16-Pt</td>
<td>20 Apr 17</td>
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<td>3.</td>
<td>Chapter VII : Revitalising Defence Industrial Ecosystem through Strategic Partnerships</td>
<td>1(1)/D(Acq)/16(Pt-VI)</td>
<td>31 May 17</td>
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<td>4.</td>
<td>Amendment to Defence Procurement Procedure 2016 : Revision of Bank Guarantee format for Capital Acquisitions:-</td>
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<td>20 Jun 17</td>
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<td>5.</td>
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<td>6.</td>
<td>Amendment to Para 3(a), Appendix F, Chapter II : Pre Contract Stage</td>
<td>1(13)/D(Acq)/16-Pt. II</td>
<td>11 Jan 18</td>
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<td>7.</td>
<td>(a) Chapter III-A : Procedure for ‘Make-II’ sub category for ‘Make’ Procedure.</td>
<td>1(13)/D(Acq)/13-Pt. II</td>
<td>08 May 18</td>
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<td></td>
<td>(b) Amendment in existing Chapter III ‘Make Procedure’.</td>
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### Ministry of Defence
[Acquisition Wing Secretariat]

**Subject:** Amendment to Defence Procurement Procedure (DPP) – 2016.

The following existing para of DPP-2016 is amended as indicated below:-

<table>
<thead>
<tr>
<th>Para No./ Page No. of DPP 2016 Document</th>
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<tr>
<td>Note 1 below Para 30 of Part I of Schedule I, Chapter II of DPP 2016 [Page 104]</td>
<td><strong>Note 1:</strong> Cases involving equipment that need to undergo secrecy grading must incorporate details that the vendors need to provide as part of the technical offer. These details can be sought based on Proforma to be given by the Scientific Analysis Group (SAG) of DRDO.</td>
<td><strong>Note 1:</strong> Cases involving equipment that need to undergo secrecy grading must incorporate details that the vendors need to provide as part of the technical offer. These details can be sought by SHQ based on a Proforma to be given by HQ DRDO.</td>
</tr>
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</table>

2. This amendment shall come into effect immediately.

3. All concerned authorities may kindly note for information and compliance.

![Signature](signature.png)

(Praveen Kumar)
Director (Acq)
Telefax: 23792865

To

CISC  VCOAS  VCNS  VCAS  DG(CG)

All Joint Secretaries/Additional FAs/Finance Managers/Technical Managers/DGWE/ACAS(Plans)/ACNS(P&P) and Directors/Deputy Secretaries in Acq Wing.

MoD ID No.1(13)/D(Acq)/ 16 dated 27.01.2017

*Copy for information to:* PS to RM, PS to RRM, SO to Defence Secretary, PPS to Secretary(DP), SO to Secretary (R&D), SO to SA to RM, PPS to FA(DS), PPS to DG(Acq), PPS to AS(R), PPS to AS(DP), PPS to FA(Acq) & AS, CGDA, Principal IFAs
Ministry of Defence
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<tr>
<td>Para 3(d) to Appendix A to Chapter III [Pg. No. 205]</td>
<td>The entity should have a minimum credit rating equivalent to B++, issued by a recognized Indian credit rating such as CRISIL/ICRA.</td>
<td>The entity should have a minimum Long Term credit rating 'BBB' issued by any Rating Agencies registered with SEBI such as CRISIL/ICRA. In case of MSMEs, the minimum rating should be 'SME-4'.</td>
</tr>
</tbody>
</table>

2. This amendment shall come into effect immediately.

3. All concerned authorities may kindly note for information and compliance.

(Praveen Kumar)
Director (Acq)
Tel: 23792865

To
CISC VCOAS VCNS VCAS DG(CG)
All Joint Secretaries/Addition FAs /Finance Managers/Technical Managers/DGWE/ ACAS(Plans)/ACNS(P&P) and Directors/Deputy Secretaries in Acq Wing.

MoD ID No.1(13)/D(Acq)/16-Pt. dated 20.04.2017

Copy for information to: PS to RM, PS to RRM, SO to Defence Secretary, PPS to Secretary(DP), SO to Secretary (R&D), SO to SA to RM, PPS to FA(DS), PPS to DG(Acq), PPS to AS(R), PPS to AS(DP), PPS to FA(Acq) & AS, CGDA, Principal IFAs

Copy also to: US, D(IT), Room No.217, ‘B’ Wing, Sena Bhavan for uploading this ID on MoD website immediately for information of all concerned.
CHAPTER VII
REVITALISING DEFENCE INDUSTRIAL ECOSYSTEM THROUGH STRATEGIC PARTNERSHIPS

Preamble

1. The production of major defence platforms and equipment such as aircraft, submarines, helicopters and armoured vehicles in India are currently carried out by Defence Public Sector Undertakings (DPSU) and the Ordnance Factory Board (OFB). Though defence manufacturing has been open to private sector participation for well over a decade, private companies have pointed to the lack of a level playing field compared to DPSUs and Ordnance Factories (OFs), which continue to enjoy a commanding role based on various forms of governmental support over the past decades, including long-term purchase arrangements. There is thus a need to institutionalise a transparent, objective and functional mechanism to encourage broader participation of the private sector, in addition to capacities of DPSUs/OFB, in manufacturing of major defence platforms. Expert Committees set up by Ministry of Defence (MOD) provided a detailed road map for development of defence industrial base through the ‘Strategic Partnership’ route.

2. As with the liberalization of the Indian economy in the 1990s, active involvement of the private sector in the manufacturing of major defence equipment will have a transformational impact. It will serve to enhance competition, increase efficiencies, facilitate faster and more significant absorption of technology, create a tiered industrial ecosystem, ensure development of a wider skill base, trigger innovation, promote participation in global value chains as well as exports. From a strategic perspective, this will help reduce current dependence on imports and gradually ensure greater self-reliance and dependability of supplies essential to meet national security objectives.

3. Defence procurement is entirely government led and functions in a monopsony. The current defence procurement procedures focus on short/medium term contracts. The emphasis on purchase of equipment alone does not promote the creation of a defence industrial eco system. Achieving self-reliance and self-sufficiency calls for assimilation of technology, extensive indigenisation, developing an ecosystem of Tier I, II & III partners and undertaking long term upgrades of the platforms through R&D. This will require the private sector partner selected through
a laid down procedure by the government to make necessary long term investments in manufacturing infrastructure, an eco-system of suppliers, skilled human resources, R&D for modernization and upgrades as well as and other capabilities, besides production of equipment. Such a partnership between the Ministry of Defence and the Indian private entity will be known as **Strategic Partnership**. The overall aim will be to progressively build indigenous capabilities in the private sector to design, develop and manufacture complex weapon systems for the future needs of the Armed Forces. This will be an important step towards meeting broader national objectives, encouraging self-reliance and aligning the defence sector with the ‘Make in India’ initiative of the Government.

4. This Chapter is divided into the following sections:

(a) **Section I.** Introduction to the Strategic Partnership model, Segments for Strategic Partnership and Organisation Structure in the Ministry of Defence.

(b) **Section II.** Procedure for selection of Strategic Partners (SPs).

**SECTION I**

**The Strategic Partnership Model**

5. The Strategic Partnership model is being implemented to enable participation of private Indian firms in Make in India in defence. The SP is expected to play the role of a System Integrator by building an extensive eco-system comprising development partners, specialised vendors and suppliers, in particular, those from the MSME sector.

6. The selection criteria for Strategic Partners (SP) will be based on the inherent capacity and ability of the vendor to emerge as a systems integrator and to set up a vendor network for sourcing. The criteria for selection should be fair, reasonable, non-arbitrary, transparent and rational, and based upon the broad parameters of financial strength, technical capability and capacity/infrastructure. It is acknowledged that in the Indian private sector currently there is limited experience in defence manufacturing and even lesser in respect of final integration of complex
defence systems and sub-systems. Therefore, besides any experience in defence manufacturing, potential SPs will be identified primarily based on their experience and competence in integration of multi-disciplinary functional system of systems, engineering and manufacturing. Further, to ensure that the chosen platform for manufacturing meets all the operational requirements of the Armed Forces and to access advanced and appropriate technologies, the SP will need to enter into relevant tie-ups with foreign Original Equipment Manufacturers (OEM). Accordingly, MOD will shortlist, through an open process based on Staff Qualitative Requirements (SQRs), Technology Transfer needs and indigenisation roadmap, a list of potential OEMs. Government to government support for licensing and transfer of technology as well as provisions for IPR issues shall be worked out. At the same time, to introduce needed competition among potential private sector participants in the process and to ensure that the best interests of government are fully safeguarded, final selection of SPs will be guided by the price quoted by the potential SPs.

**Segments for Strategic Partnership**

7. In the initial phase, strategic partners will be selected in the following segments:

(a) Fighter Aircraft.
(b) Helicopters.
(c) Submarines.
(d) Armoured fighting vehicles (AFV)/Main Battle Tanks (MBT)

8. To ensure that larger number of companies participate in the process of defence manufacturing in the private sector, and the SP maintains focus on a core area of expertise, only one SP will generally be selected per segment. Addition of more segments or further subdivision of the identified segments may be considered by the MOD as deemed necessary.

9. Strategic Partnerships seek to enhance indigenous defence manufacturing capabilities through the private sector over and above the existing production base. Keeping this broad objective in view, MOD may consider the role of DPSUs/OFB at
the appropriate stage(s) keeping in view the order book position, capacity and price competitiveness.

10. Cooperative arrangements including transfer of technology and teaming arrangements between DRDO/OFs/DPSUs with the SP could be envisaged to enable defence related capacities to be developed in the country or for other reasons as decided by MOD.

**Applicant Companies**

11. As the Strategic Partnership model is designed to build indigenous manufacturing capacity in major defence platforms, the Applicant Company and subsequently the Strategic Partner when appointed should be an Indian company (as defined under the Companies Act, 2013), owned and controlled by resident Indian citizens. The management of the Applicant Company should be in Indian hands with majority representation on the board of directors. The chief executive(s) of the Applicant Company shall be resident Indians who are part of the Indian group owning and controlling the Applicant Company or the Strategic Partner. ‘Control’ shall include the right to appoint a majority of the directors or to control the management or policy decisions, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements.

12. Further, a company shall be considered as ‘Owned’ by resident Indian citizens if more than fifty percent (50%) of the capital in it is directly or beneficially owned by resident Indian citizens and/or Indian companies, which are ultimately owned and controlled by resident Indian citizens. This implies that the maximum permitted FDI shall be forty nine percent (49%). No pyramiding of FDI in Indian holding companies or in Indian entities subscribing to shares or securities of the Applicant Company or the Strategic Partner shall be permitted. Indirect foreign investment shall be accounted for in counting the forty-nine percent (49%) FDI. The consolidated characteristics of ownership and provisions governing Applicant Companies are given at Appendix A.

13. Any subsequent change in shareholding pattern/ownership of the SP shall require prior approval of MOD.
Role of Original Equipment Manufacturer (OEM)

14. To manufacture major defence platforms, the SP will require tie-ups with foreign Original Equipment Manufacturers (OEM), to cover manufacturing, transfer of technology (ToT), assistance in training skilled human resources and other support. Such partnerships or tie-ups between SP and OEM may take the form of joint ventures (JV), equity partnerships, technology-sharing, royalty or any other mutually acceptable arrangement between the companies concerned, subject to the ownership conditions indicated in Para 11, 12 and 13 above. The limit for equity participation will not preclude other arrangements for sharing management rights in the JV mutually agreed between the SP and OEM. Changes in the ownership structure of JV/SPV shall require approval of MOD.

15. The OEM will be jointly responsible along with the SP for certification and quality assurance of the platforms supplied to MOD. Rights and obligations in this regard will be subject to detailed contracts to be developed subsequently.

16. To facilitate selection of OEMs, MOD will implement a process of shortlisting of OEMs for each segment simultaneously with the process of identifying SPs. This shortlisting of eligible OEMs will be through an Expression of Interest (EOI).

17. Technical Evaluation will also be carried out strictly adhering to specified timelines. Even if only one OEM submits a proposal in any given segment, the process of technical evaluation will be completed.

18. As part of the EOI, OEMs will provide a formal acceptance of their government(s) that necessary licenses to transfer technology will be granted in case the OEM is selected as a partner for the SP to manufacture the platforms/equipment in India, wherever required, prior to issue of RFP. Such a commitment may also be supported by Inter-Governmental agreements to be signed between India and the country(ies) concerned, at the stage of award of contract.

19. Contract between the SP and OEM will cover provisions for protection of classified information and technology transferred by the OEM. Shortlisted OEMs will provide an undertaking confirming their willingness to cooperate with the SP to manufacture the platform in India, including handholding and support, transfer of technology and indigenisation. OEM will also confirm life-cycle support for the platform along with the SP.
**Organisational Structure at MOD**

20. An appropriate institutional and administrative mechanism for effective implementation of the Strategic Partnerships will be set up within the MOD, with adequate expertise in relevant fields like procurement, contract law and TOT arrangements.

**SECTION II**

**Procedure for Selection of Strategic Partners**

21. The selection process of SP will broadly have following procedure:

(a) Issue of Expression of Interest (EOI) to Indian private companies for selection of Strategic Partners in identified segments seeking details of Minimum Qualification Criteria.

(b) Submission of response to EOI by applicant companies, indicating inter alia choice for segments in which they wish to participate.

(c) Evaluation of the companies based on Minimum Qualification Criteria.

(d) Segment-wise verification of Segment Specific criteria.

(e) Shortlisting of companies who meet the minimum qualification criteria, for issue of segment-wise RFP.

(f) Issue of segment-wise RFPs with DAC approval to short-listed companies based on their options of segment submitted in EOI response.

(g) Submission of techno-commercial offer in response to RFPs by companies, in collaboration with one of the short-listed OEMs or in exceptional cases with two OEMs in segments with diverse platforms.

(h) Opening and evaluation of technical offer of the companies.

(i) Conduct of Field Evaluation Trials (FET) and Staff Evaluation.

(j) Opening of commercial offers of companies that are technically compliant with the RFP, segment wise.
(k) Selection of SP having the lowest bid, segment-wise, with DAC approval.

(l) Commencement of contractual negotiations.

(m) Finalisation and signing of contract.

Expression of Interest (EOI)

22. MOD shall issue an EOI to seek applications from Indian private companies for selection of Strategic Partner in identified segments. EOI shall \textit{inter alia} seek information related to Minimum Qualification Criteria comprising of financial, technical and segment-specific parameters. The EOI shall be given wide publicity both in print and electronic media. A suitable time period shall be given to the industry to respond.

23. The Application should be accompanied by an Affidavit testifying to the truth and accuracy of the information supplied. The financial information shall be accompanied by unqualified report from the statutory auditor appointed under Section 139 of the Companies Act, 2013 or corresponding sections under the previous Companies Act, about the correctness and accuracy of the financial information submitted. For any materially false statement, the Applicant Company shall be disqualified.

Evaluation of Response to EOI

24. Based on the response to EOI the companies would be evaluated for minimum qualifying criteria comprising technical, financial and segment specific aspects. Indicative qualifying criteria for various segments is placed at \textit{Appendix B}.

25. Evaluation may \textit{inter-alia} include on-site verification. All companies compliant with minimum qualifying criteria shall be short-listed for issue of RFP in the relevant segment.

26. In the event of the Applicant Company not having segment specific experience, flexibility is provided to the Applicant Company to rely upon group
company(ies)’s experience in that particular segment. The segment group company(ies) however will not be appointed as the Strategic Partner, as only its experience will be considered for evaluation. The specific segment group company(ies) whose experience and expertise is considered shall execute a deed of adherence and confirmation cum undertaking providing the MOD and the Strategic Partner an irrevocable right to access, enter upon and use the facilities of the segment group company for the duration of the Strategic Partnership, subject to applicable laws. An agreement evidencing this right in a form prescribed by MOD should be submitted along with the application. The restrictions on FDI as prescribed for the Applicant Company as a Strategic Partner will also be applicable to the segment group company.

Shortlisting of OEMs

27. The process of shortlisting of OEMs will be done simultaneously with the process of identifying potential SPs. Shortlisting of OEM will involve the following processes:

(a) Issue of RFI to potential OEMs.
(b) Formulation of SQRs. The SQRs will cover aspects of the platform as well as weapons required, wherever feasible.
(c) Based on SQRs and information already available/collected, an EOI will be issued to OEMs in each segment.
(d) EOI shall define the technologies to be acquired including the details of the weapons and associated sensors along with the range and depth of transfer of technology (ToT) to achieve the stipulated level of indigenisation and development of industrial eco-system in India.
(e) OEMs shall provide response to the EOI within two months.
(f) Based on the responses TEC will be carried out. Besides compliance to SQRs, TEC will also check compliance to issues listed at Para 27.
(g) OEMs that meet TEC requirements will be shortlisted for each segment, with the approval of DAC.
(h) Even if only one OEM is shortlisted, the process will be taken forward.

28. As ToT is one of the main factors in selection of OEM, the quantum and scope of Technology being offered for transfer by the OEM will be a primary
consideration in the selection procedure, besides compliance to SQRs. Towards this, the shortlisting of OEM will inter-alia take into consideration the following factors:

(a) Range, depth and scope of technology transfer offered in identified areas.
(b) Extent of indigenous content proposed.
(c) Extent of eco-system of Indian vendors/manufacturers proposed.
(d) Measures to support SP in establishing system for integration of platforms.
(e) Plans to train skilled manpower.
(f) Extent of future R & D planned in India.

**Issue of RFP**

29. Based on the AON approved by DAC, segment-wise RFPs shall be issued to the short-listed Indian companies. RFP shall broadly seek following details:

(a) Technical details of the equipment.
(b) Commercial offer for the identified platform and 10-years Performance Based Logistics (PBL)/other maintenance arrangements specified.
(c) Mandatory requirements related to indigenisation roadmap, Transfer of Technology, creation of R&D capabilities and skilling provisions etc.

30. The list of short-listed OEMs shall also be annexed to the RFP, so that the short-listed Indian companies can freely engage with such OEMs and finalise their techno-commercial offer in agreement with any of these OEMs. One Indian company can engage with any or all OEMs, but can finally submit only one offer in agreement with any one of the OEMs. As an exception, in segments with diverse platforms such as Helicopters, potential SPs may submit response with more than OEM to have best technology solution.

31. A minimum number of platforms, not exceeding 10-15% of the number of units being procured, may be manufactured in the OEMs premises for the purposes of training and skill development of the SP’s manpower.
**Response to RFP**

32. Response to RFP shall be in two parts, a technical offer and a commercial offer. The technical offer shall include details of the equipment, company’s willingness to meet mandatory requirements related to indigenisation roadmap, transfer of technology, creation of R&D capabilities and skilling provisions etc. The commercial offer shall include the price of the platform along with maintenance related costs as required in RFP.

**Evaluation of Response to RFP**

33. Technical offer, which contains details of the equipment, company’s adherence to certain mandatory requirements related to indigenisation, technology transfer, creation of R&D capabilities and skilling etc. shall be opened first.

34. Field Evaluation Trials (FET) are to be conducted, except where the equipment has been evaluated earlier or where FET is not applicable (such as submarines), in which case the requirement of FET could be waived. Further, to expedite FET, evaluation trials could be carried out at the vendor premises as necessary.

35. Based on results of FET, Staff Evaluation will be carried out and platforms that meet minimum SQRs and ToT requirements will be shortlisted.

36. After evaluation of the technical aspects, and completion of FET, the commercial offers of the companies that are compliant with the technical aspects shall be opened and the company having lowest bid shall be designated as SP in that segment.

37. The order of selection of SPs, segment-wise, and implementation of Strategic Partnerships shall be decided by MOD.

**Contractual Aspects**

38. MOD shall constitute a Contract Negotiation Committee to conduct negotiations with the selected SP and sign a contract for deliverables. OEM may participate in these negotiations if needed.
39. Contract for supply of the platform will be signed between MOD and the SP, and with OEM if necessary. In case a JV/SPV is formed by the OEM and SP, a tripartite contract between MOD, SP and the JV/SPV will be considered, provided this does not dilute responsibilities of the SP individually, jointly and severally for implementation of contractual delivery timelines, quality and other criteria.

**Indigenisation Roadmap**

40. The selected SP in each segment will be required to present a roadmap for future development including PBL, upgrades, etc. as indicated below:-

(a) **Indigenisation Content Requirements:** The SP shall commit to a plan to indigenise, in terms of value of production, manufacturing of the platform over a set period for each platform as defined in each RFP.

(b) **Eco-system of Domestic Manufacturers:** SP shall develop tiered industries in each segment by entering into teaming agreements and development partnerships with other industries, including micro, small and medium enterprises (MSMEs), DPSUs, OFs, other PSUs, DRDO and foreign companies that are part of the global supply chain in the relevant sector, so that an eco-system of domestic manufacturers in the Indian defence sector is developed, including for spares and capacities for repair and maintenance of the platform. SP is required to submit an action plan to MOD in this regard, the implementation of which will be monitored by MOD.

(c) **R & D Roadmap:** The Strategic Partner shall formulate a research and development roadmap to achieve self-reliance within the country in respect of the Segment. The road-map is to be mutually finalised along with the MOD.

**Test and Evaluation Facilities.**

41. MOD will make available existing test and evaluation facilities to the SP. The terms of such access as well as cost or fees for the same shall be mutually decided.
**Periodic Assessment**

42. MOD shall have a right to periodically assess level of technology absorption carried out by the SP and development of a domestic ecosystem for manufacturing. MOD may carry out this assessment either itself or by appointing subject matter experts.

**Audit**

43. Besides examination of periodic audited reports, MOD shall have the right to conduct special audits of all certifications and costs relevant to the Segment at all or any stages (tiers) of manufacturing/production/assembly.

**Termination**

44. MOD shall have the right to terminate the Acquisition Contract in the following cases:

(a) If there is material breach of the Acquisition Contract or an integrity related provision by the SP or the JV/SPV.

(b) If the SP or the JV/SPV loses 50% (fifty percent) of net worth as submitted in its application (for appointment as strategic partner) or is unable to pay its dues.

(c) If the SP or the JV/SPV is adjudged insolvent, commences a voluntary winding-up, is subject to the appointment of a receiver, administrative receiver, official liquidator, trustee or a similar person over its assets or undertaking or any part thereof.

(d) Any other contractually relevant issue.

**Subsequent Acquisitions**

45. To achieve self-reliance within the country, subsequent acquisitions in the identified segments/platforms should ideally be carried out from Indian companies under Buy (IDDM), Buy (Indian), Buy and Make (Indian) and Make categories of acquisition under DPP. This can be accomplished only when Indian companies make considerable, long term investments in capacity creation and capability
development including infrastructure, tiered ecosystem of vendors, skilled human resources, futuristic R&D etc.

46. To incentivize and motivate Indian companies to achieve these objectives, the process for evaluation of bids for subsequent acquisitions in the identified segments/platforms may provide adequate weightage for the following factors pertaining to their experience and track record in the respective segment:

(a) Investments by Indian companies to construct and improve segment specific infrastructure like workshops and production lines as well as availability of skilled manpower.

(b) The nature of R&D investments made by the companies including test and evaluation facilities and infrastructure.

(c) Development and acquisition of relevant technologies and execution of advanced and state of the art manufacturing processes.

(d) The extent of the ecosystem created such as the number of vendors developed and the value of orders placed on these vendors.

47. Further, in order to encourage spiral development of technologies and systems, the above factors may be given adequate weightage in deciding upon development partners for projects, including those of DRDO, as well as those under Make procedure of DPP.

48. The above factors may also be given adequate weightage in deciding upon Indian partners for enhancing the production capacities/establishing workshare with DPSUs/OFs in future.

**Conclusion**

49. Fostering a constructive partnership with Indian private defence industry is considered not just a sound economic option but a strategic imperative to minimise dependence on imports and infuse self-sufficiency in defence manufacturing. Larger and sustained production volumes of a system will lead to optimisation of cost, improved production efficiency and ability to absorb higher end technologies, besides creating an extensive eco-system of defence related industries in the country so that defence manufacturing emerges as a key driver in India’s economic growth and development.

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OWNERSHIP STRUCTURE

1. Ownership Structure and Form: The applicant must be a public company as defined under the Companies Act, 2013 ("Applicant Company"). The objective of the Strategic Partnership model is to build capabilities in India to manufacture defence equipment. In certain extreme circumstances of conflict like war, the GoI would have the right to acquire control over the intellectual property used and facilities developed pursuant to the Strategic Partnership.

2. The Applicant Company and subsequently the Strategic Partner when appointed should be an Indian company owned and controlled by resident Indian citizens. The management of the Applicant Company should be in Indian hands with majority representation on the board of directors. The chief executive(s) of the Applicant Company shall be resident Indians who are part of the Indian group owning and controlling the Applicant Company or the Strategic Partner.

3. The calculation of foreign investment in the Applicant Company shall include:
   
   (a) The paid up equity share capital held by the foreign company either by itself through its subsidiary companies or nominees in the Applicant Company;

   (b) The paid up equity share capital held by other foreign investors in the Applicant Company; and

   (c) The quantum represented by that proportion of the paid-up equity share capital to the total issued equity share capital held or controlled by persons mentioned in (a) or (b) above in an Indian company or a limited liability partnership which is a shareholder in the Applicant Company ("Indian Entity"). It is pertinent to note that, for the calculation of foreign equity in the Indian Entity equity held by Foreign Portfolio Investors ("FPI(s)") (category I and II only) and Indian mutual funds will not be included.¹

4. Further, a company is considered as ‘Owned’ by resident Indian citizens if more than fifty percent (50%) of the capital in it is directly or beneficially owned by resident Indian citizens and / or Indian companies, which are ultimately owned and

¹For example, in the event Company A, having twenty five percent (25%) FDI (and no other foreign investment), holds fifty percent (50%) of the Applicant Company, presuming the Applicant Company has no other foreign investment, it shall be construed to have twelve point five percent (12.5%) of foreign investment.
controlled by resident Indian citizens. **This implies that the maximum permitted FDI shall be forty nine percent (49%).** No pyramiding of FDI in Indian holding companies or in Indian entities subscribing to shares or securities of the Applicant Company or the Strategic Partner shall be permitted. Indirect foreign investment shall be accounted for in counting the forty-nine percent (49%) FDI.

5. ‘**Control**’ shall include the right to appoint majority of the directors or to control the management or policy decisions including by virtue of their shareholding or management rights or shareholders agreements or voting agreements.

6. The application should be supported by an Affidavit testifying to the truth and accuracy of the information supplied.

7. The financial information shall be accompanied by unqualified report from the statutory auditor appointed under Section 139 of the Companies Act, 2013 or corresponding sections under previous Companies Act, about the correctness and accuracy of the financial information submitted. For any materially false statement, the Applicant Company shall be disqualified.

8. The Strategic Partner shall be permitted to incorporate subsidiary companies in the nature of SPV or use existing subsidiaries as SPVs in respect of specific projects or contracts awarded by the MoD when procurement contracts are required. No other assignment of the contract or project shall be permitted. The status and contract with the Strategic Partner is not assignable. Final integration of system of systems shall be carried out by the Strategic Partner or its SPV in India. SPV shall be wholly owned by the Strategic Partner and the shareholding of such a Strategic Partner in the SPV should be locked in for the term of the Strategic Partnership. The only permitted exception to this condition is that in case of company(ies) or entity(ies) providing technology for a project or a contract so requires such company(ies) or entity(ies) shall together be allowed a maximum of forty nine percent (49%) in the SPV without loss of control or ownership of the SPV by the Strategic Partners. The making of the SPV and the terms of the joint venture shall be scrutinised by the MoD to ensure that the SPV and/ or the Strategic Partner are Indian owned and majority controlled by resident Indian citizens as defined in **Paras 3, 4 and 5 above.** Such SPVs should be set up in compliance with the policies and guidelines issued from time to time by the Department of Industrial Policy and Promotion, Ministry of Commerce and Industry. However, the overall responsibility of performance as owed to the MoD shall always be that of the Strategic Partner. Strategic Partner and SPV(s) would be jointly and severally liable. SPV’s joint and several liability (ies) with the Strategic Partner shall be prorated to the extent of its work share, as agreed at the time of approval of the SPV by the MoD.

****
MINIMUM QUALIFYING CRITERIA

1. **Technical Gate.** Demonstrated capability of integration of “System of Systems”, which refers to any system with multiple technologies of major systems like aircrafts, ships, chemical plants, power plants, automobiles etc as specified in the EOI.

2. **Financial Gate.** Following aspects inter-alia would be considered, as specified in the EOI/RFP.
   - (a) Consolidated Turnover.
   - (b) Networth.
   - (c) Rating.

3. **Other Conditions.** Promoters and directors of the Applicant Company and the Segment Group Company should not be wilful defaulters to the banking system as on the date of this application.

### Segment Specific Criteria

4. **Submarines.**

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<tbody>
<tr>
<td>(a)</td>
<td>Availability of at least one suitable Dry dock or Building bay with ship lift/ floating dock for submarine of 3000T displacement and length of 90m.</td>
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<tr>
<td>(b)</td>
<td>Availability of at least two slots for water frontage/wet basin/outfitting berths/outfitting bays for submarine of 3000T displacement and length of 90m.</td>
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<tr>
<td>(c)</td>
<td>Should have successfully delivered a Warship/Ship as lead or prime contractor in the past five years.</td>
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5. **Fighter Aircraft/Helicopters.**

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<tr>
<td>(a)</td>
<td>Availability of hangar and land space exclusively for production, assembly</td>
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<td>and testing of Aircraft/Helicopters</td>
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<tr>
<td>(b)</td>
<td>Experience in production of Aircraft/Helicopters/ systems and</td>
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<td>components thereof</td>
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<td>(c)</td>
<td>Availability of special machining/processing facilities for</td>
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<td>composites for Aircraft/Helicopters</td>
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6. **Armoured Fighting Vehicles (AFV)/ Main Battle Tank (MBT).**

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<tr>
<td>(a)</td>
<td>Mobility track, Test driving track and adequate land bank available</td>
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<td>(b)</td>
<td>Simulation and Modelling capabilities for complex systems</td>
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<td>(c)</td>
<td>Integration of complex automotive and/or armament systems</td>
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<td>(d)</td>
<td>Processing facilities for metals and composites including</td>
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<td>forging, casting, machining and forming/moulding</td>
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**Ministry of Defence**  
[Acquisition Wing Secretariat]

**Subject:** Amendment to Defence Procurement Procedure (DPP) 2016-Revision of Bank Guarantee formats for Capital Acquisitions.

As per the provisions of Defence Procurement Procedure (DPP) 2016, the following Bank Guarantees are required to be furnished by the Seller to the Buyer for Defence Capital Acquisition cases:

(i) Bank Guarantee for Advance  
(ii) Performance cum Warranty Bank Guarantee (PWBG)  
(iii) Integrity Pact Bank Guarantee (IPBG)  
(iv) Additional Bank Guarantee for Essential Parameters-B cases.

2. In order to reinforce the right of Ministry of Defence as Buyer and protect its interests in the event of invocation of Guarantee on account of breach of contractual provisions (refer para 1 & 2 of BG formats for Advance, paras 2 & 4 of Performance cum Warranty and paras 2 & 3 of Essential Parameters B cases) and also to cater for progressive reduction of the value of Bank Guarantee against stage payments released by the Buyer for shipment/services made by the Seller, as required under DPP provisions on presentation of payment documents to the banks it has been decided to revise the abovementioned four Bank Guarantee formats in the DPP 2016.

3. Consequent upon approval of Raksha Mantri, the revised formats of the following four Bank Guarantees are circulated for information and necessary action.

(i) Bank Guarantee for Advance -Annexure-I  
(ii) Performance cum Warranty Bank Guarantee (PWBG)-Annexure-II  
(iii) Integrity Pact Bank Guarantee (IPBG)-Annexure-III  
(iv) Additional Bank Guarantee for Essential Parameters-B cases-Annexure-IV.

4. The above Bank Guarantee formats shall come into effect immediately.

Encl. As above

---

(Praveen Kumar)  
Director(Acq)  
Telefax:23792865

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MoD ID No.4(50)/D(Acq)/08 dated 20.06.2017

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Cont’d...2
Copy to:
(i) Director, RM office
(ii) PS to RRM
(iii) SO to Defence Secretary
(iv) PPS to Secretary(DP)
(v) PPS to Secretary(R&D)
(vi) PPS to FA(DS)
(vii) PS to DG(Acq)

Copy also to:
(i) Director, NIC, MoD
(ii) US, IT, MoD

with the request to get the above revision uploaded on the MoD website www.mod.nic.in immediately.
BANK GUARANTEE FORMAT FOR ADVANCE

To

The  
Ministry of  
Government of India  
__________________________ (complete postal address of the beneficiary)

1. "Whereas President of India represented by the __________ Ministry of Government of India (hereinafter referred to as Buyer) have entered into a contract No. __________ (No. of contract), dated __________ (Date of Contract) with M/s __________ (Name of Seller) (referred to as Seller) and whereas according to the said Contract the Buyer has undertaken to make an advance payment of Rs. __________ being payment of __________% of the total value of Rs. __________ of the said Contract, against issuance of an advance guarantee by a bank."

2. We ________________ (indicate the name of the bank) do hereby undertake to pay the amounts due and payable under this guarantee without any demur, merely on a demand from the Buyer intimating that the Seller is in breach of the contractual obligations stipulated in the said Contract. Any such demand made on the bank shall be conclusive as regards the amount due and payable by the Bank under this guarantee. However, our total liability under this guarantee shall be restricted to an amount not exceeding Rs. __________.

3. We undertake to pay to the Buyer any money so demanded notwithstanding any dispute or disputes raised by the Seller in any suit or proceeding pending before any Court or Tribunal relating thereto our liability under this present being absolute and unequivocal. The payment so made by us under this bond shall be valid discharge of our liability for payment there under and the Seller shall have no claim against us for making such payment.

4. We, further agree that the guarantee herein contained shall remain in full force and effect during the period that would be taken for the performance of the said Contract and that it shall continue to be enforceable till all the dues of the Buyer under or by virtue of the said Contract have been fully paid and its claims satisfied or discharged or till __________ office / Department / Ministry of certifies that the terms and conditions of the said Contract have been fully and properly carried out by the said Seller and accordingly discharges this guarantee.

5. We, further agree with the Buyer that the Buyer shall have the fullest liberty without our consent and without affecting in any manner our obligations hereunder to vary any of the terms and conditions of the said Contract or to extend time of performance by the said Seller from time to time or to postpone for any time or from time to time any of the powers exercisable by the Buyer against the said Seller and to forbear or enforce any of the terms and conditions relating to the said Contract and we shall not be relieved from our liability by reason of any such variation, or extension being granted to the said Seller or for any forbearance, act or omission on the part of the Buyer or indulgence by the Buyer to the said Seller or by any such matter or thing whatsoever which under law relating to sureties would, but for this provision, have effect of so relieving us.
6. The amount of this guarantee will be progressively reduced by (percentage of advance) ___________ of total value of each part shipment/services against the stage payment released by the Buyer for that shipment/services made by the Seller and presentation to us of the payment documents.

7. This guarantee will not be discharged due to the change in the constitution of the bank or the Buyer/Seller.

8. We, undertake not to revoke this guarantee during the currency except with the previous consent of the Buyer in writing.

9. Notwithstanding anything contained herein above:-

(a) Our liability under this Guarantee shall not exceed Rupees_______ (in words)______________

(b) This Bank Guarantee shall remain valid until______________ (hereinafter the expiry date of this guarantee) the Bank Guarantee will cease to be valid after ________________ irrespective whether the Original Guarantee is returned to us or not.

(c) We are liable to pay guaranteed amount or any part thereof under this Bank Guarantee only and only if you serve upon us a written demand or a claim in writing on or before ________________ (Expiry Date).

Dated the __________ day of_______ (month and year)

Place:

Signed and delivered by ________________ (Name of the bank)

Through its authorised signatory

(Signature with seal)
ANNEXURE-II

BANK GUARANTEE FORMAT FOR PERFORMANCE-CUM-WARRANTY BOND

To

The Ministry of
Government of India
__________________________ (complete postal address of the beneficiary)

Dear Sir,

1. Whereas President of India represented by the ___________ Ministry of ________, Government of India (hereinafter referred to as BUYER) have entered into a contract No. __________________________ dated __________________________ (hereinafter referred to as the said contract) with M/s. __________________________ (hereinafter referred to as the SELLER) for supply of goods as per contract to the said BUYER and whereas the SELLER has undertaken to produce a bank guarantee amounting to Rs. __________________________ which is 10% of the contract value in aggregate which will cover 5% of total contract value each for Performance and Warranty, to secure its obligations towards Performance-cum-Warranty to the Buyers.

2. We, the ___________ bank hereby expressly, irrevocably and unreservedly undertake the guarantee as principal obligors on behalf of the SELLER that, in the event that the BUYER declares to us that the amount claimed is due by way of loss or damage caused to or would be caused or suffered by the BUYER by reason of breach/failure to perform by the said SELLER of any of the terms and conditions in the contract related to Performance and Warranty clauses, we will pay, on demand and without demur, all and any sum up to (5% of total Contract value) __________________________ Rupees only at any one instance and 10% of total contract value in aggregate (Rupees ______ only) under this Guarantee. Your written demand shall be conclusive evidence to us that such repayment is due under the terms of the said contract. We shall not be entitled to ask you to establish your claim or claims under this guarantee but will pay the same forthwith without any protest or demur. We undertake to effect payment upon receipt of such written demand.

3. We shall not be discharged or released from the undertaking and guarantee by any arrangements, variations made between you and the SELLER, indulgence to the SELLER by you, or by any alterations in the obligations of the SELLER or by any forbearance whether as to payment, time performance or otherwise.

4. We further agree that any such demand made by the Buyer on the Bank shall be conclusive, binding, absolute and unequivocal notwithstanding any difference or dispute or controversy that may exist or arise between you and the Seller or any other person.

5. In no case shall the amount of this guarantee be increased.

6. This Performance-cum-Warranty guarantee shall remain valid for a period until three months beyond the warranty period as specified in the contract i.e. upto ________.
7. Subject to the terms of this Bank Guarantee, the issuing bank hereby irrevocably authorizes the beneficiary to draw the amount of upto Rs._____ (5% of total contract value) for breach/failure to perform by the Seller of any of the terms and conditions of the contract related to performance clauses provided that upon invocation and payment of each such claimed amount, issuing bank undertakes to reinstate the amount drawn without any requirement for notice, amendment or other formality, so that, subject to the other terms and conditions hereof, at all times prior to the Expiration Date, Rs._____ ("Guaranteed Amount" i.e. 5% of the total contract value) shall be available for drawing by the Beneficiary hereunder to meet the obligations of the said guarantee for the Warranty clauses. Notwithstanding anything mentioned herein above, the total drawings under the Guarantee by the BUYER shall not exceed 10% of the total contract value (Rs.____ only). Partial drawings and multiple drawings under this Bank Guarantee are allowed within the above stated cumulative amount subject to each such drawing not exceeding 5% of the total contract value (Rs.____ only) (Mention BG amount).

8. This guarantee shall be continuing guarantee and shall not be discharged by any change in the constitution of the Bank or in the constitution of M/s__________. We undertake not to revoke this guarantee during the currency except with previous consent of BUYER in writing.

9. Notwithstanding anything contained herein above:

(a) Our liability under this Guarantee shall not exceed Rs._____. (Rupees __________ only (in words)

(b) This Bank Guarantee shall remain valid until 3 months from the date of expiry of warranty period of the contract, i.e. upto _______ (mention the date) which is 3 months after expiry of the warranty period and the BG shall cease to be valid after _______________ irrespective whether the Original Guarantee is returned to us or not.

(c) We are liable to pay guaranteed amount or any part thereof under this Bank Guarantee only and only if you serve upon us a written demand or a claim in writing on or before _______________ (Expiry Date)

Dated the_______ day of______ (month and year)

Place :

Signed and delivered by ___________ (name of the bank)

Through its authorised signatory
(Signature with seal)
ANNEXURE-III

FORMAT OF INTEGRITY PACT BANK GUARANTEE (IPBG)

To,

The ___________,
Ministry of ___________,
Government of India,
_____________ (complete postal address of the beneficiary)

1. In consideration of President of India represented by Joint Secretary and Acquisition Manager/ Major General or equivalent, Service Hqrs./Coast Guard, Ministry of Defence, Government of India (hereinafter referred to as the Buyer and/or the first party) having agreed to accept a sum of Rs. __________ (Rupees __________) from M/s __________ of __________ (hereinafter referred to as Bidder and/or the Second party) in the form of Bank Guarantee towards Integrity Pact for the Request For Proposal for procurement of __________ we __________ (Name of the Bank), (hereinafter referred to as the Bank), do hereby undertake to pay to the Buyer on demand within 5 (five) working days-without any demur and without seeking any reasons whatsoever, an amount not exceeding Rs. __________ (Rupees __________) and the guarantee will remain valid upto three years from the date of its issue i.e. __________ (Issue date). The Integrity Pact Bank Guarantee shall be extended from time to time as required by the Buyer and agreed by the Bidder to the Bank.

2. We undertake not to revoke this guarantee during this period except with the previous consent of the Buyer in writing and we further agree that our liability under the Guarantee shall not be discharged by any variation in the term of the commercial offer.

3. No interest shall be payable by the Buyer to the Bidder(s) on the guarantee for the period of its currency.

4. Notwithstanding anything contained herein above:-

(a) Our liability under this Guarantee shall not exceed Rs __________ (Rupees __________ only) (in words).

(b) This Bank Guarantee shall remain valid until __________ (hereinafter the expiry date of this guarantee). The Bank Guarantee will cease to be valid after __________ irrespective whether the Original Guarantee is returned to us or not.

(c) We are liable to pay guaranteed amount or any part thereof under this Bank Guarantee only and only if you serve upon us a written demand or a claim in writing on or before __________ (Expiry Date)

Dated the __________ day of __________ (month and year)

Place:

Signed and delivered by __________ (Name of Bank).

Through its authorized signatory
(Signature with seal)
FORMAT FOR ADDITIONAL BANK GUARANTEE FOR ESSENTIAL PARAMETERS-B CASES

To

The ___________,
Ministry ___________,
Government of India,
_____________ (complete postal address of the beneficiary)

1. Whereas President of India represented by the ___________ Ministry of ___________, Government of India (hereinafter referred to as BUYER) have entered into a contract No ___________ dated ___________ (hereinafter referred to as the said contract) with M/s ___________ (hereinafter referred to as SELLER) for supply of goods as per contract to the said BUYER and whereas the SELLER has undertaken to produce a bank guarantee for (%) of total contract value amounting to Rs. ___________ to secure its obligations towards meeting the Essential Parameters B to the BUYER.

2. We, the ___________ bank hereby expressly, irrevocably and unreservedly undertake and the guarantee as principal obligors on behalf of the SELLER that, in the event that the BUYER declares to us that the amount claimed is due by way of loss or damage caused to or would be caused or suffered by the BUYER by reason of breach/failure to perform by the said SELLER of any of the terms and conditions in the contract related to meeting the Essential Parameters B, we will pay you, on demand and without demur, all and any sum up to a maximum of Rupees ___________ only. Your written demand shall be conclusive evidence to us that such repayment is due under the terms of the said contract. We shall not be entitled to ask you to establish your claim or claims under this guarantee but will pay the same forthwith without any protest or demur. We undertake to effect payment upon receipt of such written demand.

3. We shall not be discharged or released from the undertaking and guarantee by any arrangements, variations made between you and the SELLER, indulgence to the SELLER by you, or by any alterations in the obligations of the SELLER or by any forbearance whether as to payment, time performance or otherwise.

4. We further agree that any such demand made by the Buyer on the Bank shall be conclusive, binding, absolute and unequivocal notwithstanding any difference or dispute or controversy that may exist or arise between you and the Seller or any other person.

5. In no case shall the amount of this guarantee be increased.

6. This Guarantee shall remain valid until ___________ as specified in the contract.

7. This guarantee shall be continuing guarantee and shall not be discharged by any change in the constitution of the Bank or in the constitution of M/s ___________. We undertake not to revoke this guarantee during the currency except with previous consent of BUYER in writing.
8. Notwithstanding anything contained herein above:-

(a) Our liability under this Guarantee shall not exceed Rupees _____________ (in words) ______________.

(b) This Bank Guarantee shall remain valid until _______________ (hereinafter the expiry date of this guarantee). The Bank Guarantee will cease to be valid after _______________ irrespective whether the Original Guarantee is returned to us or not.

(c) We are liable to pay guaranteed amount or any part thereof under this Bank Guarantee only and only if you serve upon us a written demand or a claim in writing on or before _______________ (Expiry Date).

Dated the _______________ day of _______________ (month and year)

Place:

Signed and delivered by _______________ (Name of Bank).

Through its authorized signatory

(Signature with seal)
Subject: Amendment to Defence Procurement Procedure (DPP) 2016.

With the approval of the Defence Acquisition Council (DAC), it has been decided to insert Article 16 in Chapter VI Standard Contract Document, DPP-2016, as under:-

**ARTICLE 16**

"The Seller commits to ensure minimum _____% Indigenous Content (IC) on cost basis of the total contract value in case of Buy (Indian-IDDM) and Buy (Indian) cases or a minimum _____% of IC on cost basis of the Make portion of the contract in case of Buy & Make (Indian) & Buy & Make cases (as applicable). Vendor to adhere to the indigenisation plan as appended to this Contract. Apart from the overall IC as mentioned above, the same percentage of IC will also be maintained in (a) Basic Cost of Equipment; (b) Cost of Manufacturer Recommended List of Spares (MRLS); and (c) Cost of Special Maintenance Tool (SMT) & Special Test Equipment (STE) taken together at all stages. The Seller also commits to comply with all provisions of Appendix*________ to this contract document, in this regard."

(*Appendix A to Chapter I of DPP 16)

2. The above amendment in DPP-2016 comes into effect immediately.

3. All concerned authorities may kindly note for information and compliance.

(Praveen Kumar)
Director(Acq)
Telefax: 23792865
Subject: Amendment to Defence Procurement Procedure (DPP) 2016.

With the approval of the Defence Acquisition Council (DAC), it has been decided to amend Para 3 (a) of Appendix F of Chapter II of DPP 2016 (Page 89), as under:-

**Para 3 (a)**

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<td>(a) <strong>Pre-Contract Stage:</strong> Case is to be processed by SHQ. Consent is to be given by DG(Acq) for schemes granted AoN by DPB/DAC and VCOAS/VCNS/DCAS/CISC/DG ICG for schemes granted AoN by SCAPCHC (i.e. for all schemes under delegated powers). However, in all single vendor cases consent will be obtained from DAC.</td>
<td>(a) <strong>Pre-Contract Stage:</strong> Case is to be processed by SHQ. Consent is to be given by DG(Acq) for schemes granted AoN by DPB/DAC and VCOAS/VCNS/DCAS/CISC/DG ICG for schemes granted AoN by SCAPCHC (i.e. for all schemes under delegated powers).</td>
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2. The above amendment in DPP-2016 comes into effect immediately. Cases already decided pursuant to the DAC decision dated 08.07.2017 need not be relooked.

3. All concerned authorities may kindly note for information and compliance.

\[Signature\]
(V.K. Adhana)
Director(Acq)

**Telefax:** 23792865

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MoD ID No.1(13)/D(Acq)/16-Pt. II dated 11.01.2018

**Copy to:**
(i) Director, RM Office
(ii) PS to RRM
(iii) SO to Defence Secretary
(iv) PPS to Secretary(DP)
(v) PPS to Secretary(R&D)
(vi) PPS to FA(DS)
(vii) PS to DG(Acq)

**Copy also to:** US, D(II), Room No.217, ‘B’ Wing, Sena Bhavan for uploading this ID on MoD website immediately.
Ministry of Defence
[Acquisition Wing Secretariat]

Subject: Amendment to Defence Procurement Procedure (DPP) 2016.

Defence Procurement Procedure (DPP)-2016 came into effect from 01st April, 2016. Subsequently, Chapter-VII of DPP 2016 titled as “Revitalising Defence Industrial Ecosystem through Strategic Partnerships” was promulgated vide MoD ID No.1(1)/D(Acq)/16(Pt-VI) dated 31.05.2017.

2. Besides, consequent upon consideration and approval of DAC, the following amendments to DPP-2016 are hereby notified:

   A. Chapter III-A: Procedure for 'Make-II' sub-category of 'Make' Procedure:  
      **Appendix-A.**

   B. Amendments in existing Chapter-III 'Make' Procedure:  
      **Appendix-B.**

3. The above amendments in DPP-2016 come into effect immediately.

Encl. As above

(V. K. Adhana)
Director (Acq)

Telefax: 23792865

MoD ID No. 1(13)/D(Acq)/13-Pt.II dated 08.05.2018

**Copy to:**
(i) Director, RM Office
(ii) PS to RRM
(iii) SO to Defence Secretary
(iv) PPS to Secretary(DP)
(v) PPS to Secretary(R&D)
(vi) PPS to FA(DS)
(vii) PS to DG(Acq)

**Copy also to:** U8, D(IT), Room No.217, ‘B’ Wing, Sena Bhavan for uploading this ID on MoD website immediately.
CHAPTER III-A: 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 sub-category, 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, 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 ₹3 Crores, will be earmarked for MSMEs. However, if no MSME expresses interest for a Make-II program of less than ₹3 Crores, 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 para 7 of Chapter-III will also oversee the projects categorised 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 ₹150 Crore will deem to be automatically included in AAP, after accord of AoN. However, the Make-II project having AoN value more than ₹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.

**Categorisation & Accord of AoN:**

19. 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 - 16. Cases up to ₹150 Crores 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 ₹150 Crores 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 ₹150 Crores to ₹300 Crores to the DPB and refer cases beyond ₹300 Crores 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:-
1. Estimated time period.
2. Estimated development cost.
3. Likely production cost.
4. Quantity of order, preferably covering the requirement of five years, post the successful development of prototype.
5. Acceptability of Multiple Technological Solutions, if any
6. Single vendor situation for cases where an innovative solution has been offered by an individual or a firm.

20. The AoN shall be sought based on the cost of subsequent procurement under 'Buy (Indian – IDDM).'

Validity of AoN:
21. 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:
22. PFT shall publish ‘EoI’ on MoD/DDP Website inviting Company (ies) to participate into 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:
23. 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).
24. Project shall be progressed ahead even if only one EoI respondent is found meeting the eligibility criteria.
25. 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).
26. PFT will issue Project Sanction Order with Nil financial implications.

Time Overrun:
27. 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:
28. 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.

29. 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:
30. A commercial Request for Proposal (RFP) for ‘Buy (Indian-IDDM)’ 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.

31. The quantities in the ‘Buy (Indian-IDDM)’ phase cannot be reduced from the quantities indicated in EoI issued for the prototype development phase.

User Trials:
32. 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.

33. 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
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:**

34. 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.

35. 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)**

36. 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 ₹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.

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

38. 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.

39. The Pre-Contract Integrity Pact (PCIP), listed as detailed in paragraph 92 (Chapter II of DPP), shall apply mutatis mutandis, to ‘Buy (Indian – IDDDM)’ phase of ‘Make’ project.

**Multiple technological solutions:**

40. 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.

41. 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):

42. 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:

43. 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:

44. 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.

45. 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.

46. 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.

47. Typical expected timelines for undertaking ‘Make-II’ Projects are contained in Annexure-II.

48. 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 Evaluation Criteria for shortlisting of Development Agencies

1. For start-ups recognized by Department of Industrial Policy & Promotion (DIPP), Financial, Technical and Commercial criteria shall be spelt out separately in the EoI. In respect of other vendors, the entities satisfying all of the following criteria shall be considered as an eligible ‘Indian Vendor’ for issue 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. Other Financial, Technical and Commercial criteria will be spelt out by concerned SHQ based on the project requirement.

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

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>Activity</th>
<th>Time in weeks from collegiate discussions ($T_o$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Approval of proposals as POTENTIAL 'Make-II' projects by Collegiate to be headed by Secretary (DP) and uploading on MoD/DDP website</td>
<td>$T_o$</td>
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<tr>
<td>2.</td>
<td>Completion of Feasibility study</td>
<td>8</td>
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<tr>
<td>3.</td>
<td>Preparation of PSQRs</td>
<td>4</td>
</tr>
<tr>
<td>4.</td>
<td>Preparation of SoC + Constitution of PFT</td>
<td>4</td>
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<tr>
<td>5.</td>
<td>Categorisation and Accord of AoN</td>
<td>8</td>
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<tr>
<td>6.</td>
<td>Issue of EoI</td>
<td>8</td>
</tr>
<tr>
<td>7.</td>
<td>EoI Response submission</td>
<td>6</td>
</tr>
<tr>
<td>8.</td>
<td>EoI response evaluation</td>
<td>5</td>
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<tr>
<td>9.</td>
<td>Issue of Project Sanction Order</td>
<td>2</td>
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<tr>
<td>10.</td>
<td>Design &amp; development of prototype</td>
<td>12-30</td>
</tr>
<tr>
<td>11.</td>
<td>Conversion of PSQRs to SQRs/ Solicitation of Commercial offer</td>
<td>4</td>
</tr>
<tr>
<td>12.</td>
<td>User trials &amp; Staff evaluation</td>
<td>8-26</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>Total</strong></td>
<td><strong>69-105 weeks</strong></td>
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## Amendments required in present ‘Make’ procedure at Chapter-III of DPP-2016

<table>
<thead>
<tr>
<th>S. No</th>
<th>Existing para No. of Chap-III, DPP-2016</th>
<th>The amendment to Chapter-III</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Para, 1,2,3,4,5,6(i)</td>
<td>No change required</td>
</tr>
<tr>
<td>2.</td>
<td><strong>May be replaced by:</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1. Projects under Make-II category will involve prototype development of equipment/system/platform or their upgrades or their sub-systems/sub-assembly/assemblies/components, 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.</td>
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<tr>
<td>3.</td>
<td>7 Replace ‘Make’ Projects by ‘Make-I’ projects</td>
<td></td>
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<tr>
<td>4.</td>
<td>9 Change in Heading as ‘Make-I’</td>
<td></td>
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<td>5.</td>
<td>10-11 Replace ‘Make’ Projects by ‘Make-I’ projects</td>
<td></td>
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<tr>
<td>6.</td>
<td>12 Para 12.2 may be deleted.</td>
<td></td>
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<tr>
<td>7.</td>
<td>13 No change</td>
<td></td>
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<tr>
<td>8.</td>
<td><strong>Existing para</strong> : HQ IDS will compile a list of “Make-II” sub category projects and host it on the MoD website. Status of the projects in this list should be updated periodically or immediately as and when changes occur.</td>
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<td></td>
<td><strong>Revised Para</strong> : Potential projects identified by SHQ, shall be deliberated by a Collegiate Committee headed by Secretary (DP) with members from SHQs, DDP, DoD, DRDO, MoD Fin IIFA and will be ‘Approved in Principle’ for hosting on MoD / DDP's Website. List of potential ‘Make-I’ projects along with Project briefs, Questionnaire for Industry and Project Manager Details shall be uploaded on MoD / DDP website inviting the willingness of Industry to participate in the aforesaid potential ‘Make-I’ projects.</td>
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<td>9.</td>
<td>15-37 No change except replace ‘Make’ Projects by ‘Make-I’ projects.</td>
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<tr>
<td>10.</td>
<td>38 May be deleted.</td>
<td></td>
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<td>11.</td>
<td>39-44 No change except replace ‘Make’ Projects by ‘Make-I’ projects.</td>
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<tr>
<td>12.</td>
<td>45,46 &amp; 47 May be deleted.</td>
<td></td>
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<tr>
<td>13.</td>
<td>48 Delete ‘and Make-II’ from 2nd line.</td>
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<tr>
<td>14.</td>
<td>49-59 No change except replace ‘Make’ Projects by ‘Make-I’ projects.</td>
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<td>15.</td>
<td>May be deleted.</td>
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