

## CHAPTER I

### ACQUISITION CATEGORIES, ACQUISITION PLANNING AND INDIGENOUS CONTENT

1. **Aim.** The aim of the DPP is to ensure timely procurement of military equipment, systems and platforms as required by the Armed Forces in terms of performance, capabilities and quality standards, through optimum utilisation of allocated budgetary resources; while enabling the same, DPP will provide for the highest degree of probity, public accountability, transparency, fair competition and level-playing field. In addition, self-reliance in defence equipment production and acquisition will be steadfastly pursued as a focus of the DPP with an ultimate aim to develop India as a global defence manufacturing hub.

2. **Scope.**

(a) The DPP will cover all Capital Acquisitions undertaken by the Ministry of Defence and Service Headquarters (SHQ) both from indigenous sources and ex-import, except for medical equipment. SHQ for the purpose of Capital Acquisition would include HQ Integrated Defence Staff, Integrated HQ of the MoD (Army), Integrated HQ of the MoD (Navy), Integrated HQ of the MoD (Air Force) and the Indian Coast Guard. Defence Research and Development Organisation (DRDO), Ordnance Factory Board (OFB) and Defence Public Sector Undertakings (DPSUs) will, however, continue to follow their own procurement procedure.

(b) In the event of enactment of any new legislation or any change or amendment or enforcement of any Act or Law, rules or regulations of Government of India or body such as CVC, which becomes effective after the date of last amendment to this DPP, the same will automatically be deemed as replacement to the one referred to in this DPP.

#### **Capital Acquisitions**

3. **Definition.** Procurement of goods and services which are booked under the Capital Budget Head will follow the procedure as laid down in the DPP and will be termed as 'Capital Acquisitions'. However, if the SHQ wishes to procure goods and services from the Capital Budget through any other procedure, specific approval of the Defence Acquisition Council (DAC) may be obtained for each such case.

4. Capital Acquisition schemes are broadly classified as, 'Buy', 'Buy and Make', Leasing, 'Design and Development (D & D) and Strategic Partnership Model (SPM). Under the 'Buy' scheme procurements are categorised as 'Buy (Indian - IDDM)', 'Buy (Indian)', Buy (Global - Manufacture in India) and 'Buy (Global)'. Under the 'Buy and Make' scheme, the procurements are categorised as 'Buy and Make (Indian)' and 'Buy and Make'.

5. **Priority of Categorisation.** Procurement of defence equipment under this procedure will be based on the above mentioned categories. The categories, except Leasing, D & D and

SPM, have been prioritised based on their relative importance towards indigenization. However there is no embargo on a vendor qualifying in a higher category to participate in the lower category in case all requirements of the lower category are met. In decreasing order of priority the priority of categories will be as follows:-

- (a) Buy (Indian - IDDM)
- (b) Buy (Indian)
- (c) Buy and Make (Indian)
- (d) Buy and Make
- (e) Buy (Global - Manufacture in India)
- (f) Buy (Global)

6. In addition to the above listed categorisation, the D & D and SPM categorisations, aim at developing long-term indigenous defence capabilities. Depending upon factors such as Indian industry's capability, access to technology, time frame required and available for development, the D & D category of procurement would be pursued in isolation, in sequence or in tandem with any of the six categories under 'Buy' or 'Buy and Make' classifications, with a separate heading under Services Capital Acquisition Plan (SCAP) and Annual Acquisition Plan (AAP).

### **Definition of Acquisition Categories**

7. **Buy (Indian-IDDM)**. 'Buy (Indian-IDDM)' category refers to the procurement of products from an Indian vendor that have been indigenously designed, developed and manufactured with a minimum of 50% Indigenous Content (IC) on cost basis of the total contract value.

7.1 The Request For Information (RFI), incorporating questions to confirm that the equipment has been indigenously designed and developed, shall be formulated by SHQ, in consultation with DRDO/other experts from IIT/IISc and other Government agencies. Post receipt of responses from interested vendors, a Committee convened by SHQ shall examine the responses received from vendors and recommend categorisation as 'Buy (Indian – IDDM). The Committee shall also recommend documentation and other requirements which the vendor shall have to submit with their technical bids.

7.2 These documents and other requirements to be produced by the vendor along with the technical bid shall be specified in the RFP and shall be scrutinised at the TEC stage. Vendors should also furnish an undertaking (format attached at Appendix A) for their claim to indigenous design. The TEC may include a DRDO representative/ other experts from IIT/IISc and other Government agencies to verify vendor claims of indigenous design only. However, on a case to case basis, TEC may carry out on site verification to ascertain any aspect of the vendor's claims on indigenous design and

development.

8. **Buy (Indian)**. 'Buy (Indian)' category refers to the procurement of products from an Indian vendor meeting one of the two conditions: products that have been indigenously designed, developed and manufactured with a minimum of 50% Indigenous Content (IC) on cost basis of the total contract value; Or products, which may not have been designed and developed indigenously, having 60% IC on cost basis of the total contract value.

9. **Buy and Make (Indian)**. 'Buy & Make (Indian)' category refers to an initial procurement of equipment in Fully Formed (FF) state in quantities as considered necessary, from an Indian vendor engaged in a tie-up with a foreign OEM, followed by indigenous production in a phased manner involving Transfer of Technology (ToT) of critical technologies as per specified range, depth and scope from the foreign OEM. Under this category of procurement, a minimum of 50% IC is required on cost basis of the Make portion of the contract. Acquisition under this category can also be carried out without any initial procurement of equipment in FF state.

10. **Buy and Make**. 'Buy & Make' category refers to an initial procurement of equipment in Fully Formed (FF) state from a foreign vendor, in quantities as considered necessary, followed by indigenous production through an Indian Production Agency (PA), in a phased manner involving Transfer of Technology (ToT) of critical technologies as per specified range, depth and scope, to the PA. With a view to maximise indigenous production in each procurement case, the AoN according authority would approve an appropriate ratio of Fully Formed (FF), Completely Knocked Down kits (CKD), Semi Knocked Down kits (SKD) and Indigenous Manufacture (IM) kits; and a minimum percentage of 50% IC on cost basis for the 'Make' portion of acquisitions under 'Buy and Make' category. Acquisition under this category can also be carried out without any initial procurement of equipment in FF state. Foreign vendors will also need to discharge offsets in all Buy & Make cases more than 2000 crores.

11. **Buy (Global - Manufacture in India)**. Buy (Global - Manufacture in India) category refers to an outright purchase of equipment from foreign vendors as approved by the AoN according authority, in quantities as considered necessary, with a minimum of 50% Indigenous Content (IC) on cost basis of the total contract value which can be achieved in the manufacturing of either the entire equipment or spares/assemblies/sub-assemblies/Maintenance, Repair and Overhaul (MRO) facility for the entire life cycle support of the equipment, through its subsidiary in India. Acquisition under this category can also be carried out without any initial procurement of equipment in FF state.

12. **Buy (Global)**. 'Buy (Global)' category refers to outright purchase of equipment from foreign or Indian vendors. In case of procurement through foreign vendors, Government to Government route/Inter Government Agreement may also be adopted, for equipment meeting strategic/long term requirements. An Indian Vendor participating in this category would be required to meet minimum 30% IC, failing which he would be required to discharge offsets as applicable in the case. Foreign vendors will also need to discharge offsets in all Buy (Global) cases more than 2000 crores other than Single Vendor Cases (SVC) being progressed based on IGAs including FMS.

13. **Leasing.** Leasing is introduced as another category for acquisition in addition to the existing 'Buy' and 'Make' acquisition categories as it provides for an innovative technique for financing of equipment. Leasing provides means to possess and operate the asset without owning the asset and is useful to substitute huge initial capital outlays with periodical rental payments. Leasing would be permitted in two sub categories i.e. Lease (Indian), where Lessor is an Indian entity and is the owner of the asset, and Lease (Global). Cases where lease of equipment may be preferred are:-

- (a) Where procurement is not feasible due to time constraint.
- (b) Where the asset/capability is needed for a specific time or would be under utilised if procured.
- (c) Where smaller numbers of assets are needed and administrative /maintenance infrastructure expenditure would be high.
- (d) When service life lease rentals are a better option compared to a one-time acquisition cost.
- (e) To gain experience for operational exploitation of equipment
- (f) Due to operational necessity.

14. **Design and Development (D & D)/Innovation.** Acquisitions covered under the Design and Development (D & D) /Innovation category refer to equipment/system/ sub-system/assembly/sub-assembly, major components, or upgrades thereof, to be designed, developed and manufactured by an Indian vendor/similar D & D projects by DRDO/ processed by the Services through their internal organisations, such as Base Workshop/Dockyards/ Base Repair Depots etc. with or without participation of Private industry, as per procedure and norms detailed in Chapter III of this DPP.

15. **Strategic Partnership Model (SPM).** Acquisitions under the Strategic Partnership model refer to participation of private Indian firms and foreign OEM in Make in India in defence and 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. Strategic Partnerships will seek to enhance indigenous defence manufacturing capabilities through the private sector over and above the existing production base. Detailed norms and procedures of the same are as given in Chapter VII of this DPP.

16. **Definition of Indian Vendor.** Unless specifically provided for in a clause/section/ chapter or elsewhere of the DPP, an Indian Vendor by whatever nomenclature when referred to means - for defence products requiring industrial license, an Indian entity, which could include incorporation/ownership models as per Companies Act, Partnership Firm, Proprietorship and other types of ownership models including Societies as per relevant laws, complying with, besides other regulations in force, the guidelines/licensing requirements stipulated by the Department for Promotion of Industry and Internal Trade (DPIIT) as applicable; and for defence

products not requiring industrial license, an Indian entity registered under the relevant Indian laws and complying with all regulations in force applicable to that industry. Additionally, the following conditions are to be met by the Indian Vendor:-

(a) Ownership by resident Indian Citizen(s). FDI in the Indian entity will be as per sectoral limits prescribed by the Government of India, as amended from time to time. It is pertinent to note that, for the calculation of foreign equity in the Indian Entity equity held by Foreign Portfolio Investors (FPI) (category I and II only) and Indian mutual funds will not be included.

(b) Control, as defined in 'The Companies Act, 2013', of the Indian entity by resident Indian Citizen(s).

17. **Indigenous Content.** For IC referred to in Paras 7 –12(Chapter I) and stipulated in the RFP for Strategic Partnership model cases, the vendor will ensure compliance as detailed in Appendix B to Chapter I. The category wise (less Strategic Partnership model cases) summary of IC will be as under:-

<b><u>Ser No</u></b>	<b><u>Category</u></b>	<b><u>IC</u></b>
(a)	Buy(Indian-IDDM)	Indigenous design and $\geq 50\%$
(b)	Buy (Indian)	In case of indigenous design $\geq 50\%$ otherwise $\geq 60\%$
(c)	Buy and Make (Indian)	$\geq 50\%$ of the 'Make' portion
(d)	Buy and Make	$\geq 50\%$
(e)	Buy (Global - Manufacture in India)	$\geq 50\%$
(f)	Buy (Global)	Foreign Vendor – Nil Indian Vendor $\geq 30\%$

18. The AoN according authority may approve higher or lower threshold of IC than that stipulated for various categories. Detailed justification for the same should be submitted while seeking Acceptance of Necessity (AoN).

19. **Upgrades.** All cases involving upgrade/life extension to an in service weapon system/equipment/assemblies/sub-assemblies/sub-systems will also be covered by this procedure. The categorisation may be carried out depending on scope of the proposal, availability of indigenous technology and the need for seeking critical technologies from foreign vendors.

### **Procurement Planning Process**

20. To address the current and futuristic security needs, the Armed Forces will need to engage in capability development in a prioritised manner based on long term perspective plan from which should flow procurements planned for modernisation of the Services based on Capital Acquisition Plans. Proposals for acquisition of capital assets will cover the long-term, medium-term and short-term perspectives as under:-

- (a) 15 years Long Term Integrated Perspective Plan (LTIPP).
- (b) 5 years Services Capital Acquisition Plan (SCAP).
- (c) 2 years Annual Acquisition Plan (AAP).

21. **Planning Process.** The planning process would evolve from the National Security Strategy/Guidelines (as and when promulgated) and Raksha Mantri's Operational Directive. The following planning process would be adopted to address the current and future needs of the Armed Forces:-

- (a) HQ IDS will prepare a 15-year Long Term Integrated Perspective Plan (LTIPP) in consultation with the SHQs, every (five years), comprising of three five-year plans. This will be prepared before the expiry of the first of the three five-year plans, along with a Technology Perspective and Capability Roadmap (TPCR) reflecting the details of technologies and capabilities that could be made public for use by the industry. The LTIPP will be approved by the DAC prior to promulgation.
- (b) HQ IDS will thereafter prepare the Services Capital Acquisition Plan (SCAP), which will include acquisitions planned for the next five years culled out from the LTIPP, based on prioritised operational requirements. The SCAP will be approved by the DAC prior to promulgation.
- (c) Based on the SCAP, each SHQ shall prepare a two-year roll-on acquisition plan, to be called Annual Acquisition Plan (AAP), before the commencement of each financial year, which shall form the basis for initiation of every acquisition proposal for AoN. The AAP will be approved by the Chief of Defence Staff (CDS) in consultation with SHQ, Acquisition Wing, Department of Defence Production (DDP) and Defence Research and Development Organisation (DRDO) prior to promulgation by the Acquisition Wing.

### **Annual Acquisition Plan (AAP)**

22. The AAP will comprise of three sections; Section A will contain a list of all carry-over acquisition proposals from the previous year and those for which AoN has been accorded during the year, while Section B will include acquisition proposals likely to be initiated for AoN in the forthcoming year. In addition, a separate Section C will list out cases under the 'Design & Development' category.

23. In consonance with schemes likely to be included in AAPs, HQ IDS would work out the annual requirement of funds for capital acquisitions of each service taking into account committed liabilities and anticipated cash outflow likely to be incurred on account of the fresh schemes, during the ensuing financial year. The draft AAP will be submitted by the SHQ to HQ IDS by 31st of December each year, after obtaining comments of the concerned Acquisition Wing. HQ IDS will obtain approval of the DPB latest by 15th of February.

24. Acquisition proposals not included in the AAP may also be initiated by SHQs on account of unforeseen circumstances and will be included in the relevant section of the AAP after grant of AoN.

25. The DPB may also carry out amendments to the AAP, if considered necessary, on account of national security requirements, operational urgencies, budgetary provisions or any other exigency based on recommendations made by SHQ/HQ IDS/Department of Defence/Department of Military Affairs/Defence (Finance).

26. **Miscellaneous Issues.**

(a) **Independent Monitors(IMs).** Complaints arising at any stage of the procurement process could be examined by a panel of nominated Independent Monitors (IMs) based on referral by the Acquisition Wing/any other Department of the MoD or suo moto complaints by the vendors/any other agency. The details of the IMs will be intimated in the Request For Proposal (RFP). The IMs would submit their report to the Defence Secretary. The Standard Operating Procedure (SOP) issued by Central Vigilance Commission (CVC) vide Circular No 02/2017 under No 015/VGL/091 dated 13.01.2017, inter alia, assigns the following role and duties to the IMs:-

(i) For ensuring the desired transparency and objectivity in dealing with the complaints arising out of any tendering process, the matter should be examined by the full panel of IMs jointly as far as possible, who would look into the records, conduct an investigation and submit their joint recommendations to the Management.

(ii) IMs should examine the process integrity; they are not expected to concern themselves with fixing of responsibility of officers. Complaints alleging malafide on the part of any officer of the organisation should be looked into by the CVO of the concerned organisation.

(iii) The role of IMs is advisory, would not be legally binding and it is restricted to resolving issues raised by an intending bidder regarding any aspect of the tender which allegedly restricts competition or bias towards some bidders.

(b) **Subject Matter Experts.** Subject Matter Experts from the fields of academia, legal, finance or industry associations may be approached at various stages of the procurement cycle. Details of all such interactions will be highlighted in the respective minutes/reports as applicable at that particular stage of procurement.

(c) **Institutionalised Training of Personnel.** In order to increase efficiency of all entities involved in the procurement cycle, key personnel of SHQs and various departments of MoD, including MoD(Finance) will be imparted training with regards to the nuances of all procurement processes at training institutions in the country and abroad. Subsequently formalised training on the subject will be planned as part of the curriculum of Indian National Defence University (INDU). Industry associations should also conduct training of their personnel on the nuances of the Acquisition process and the DPP from time to time.

(d) **Incorporation of Artificial Intelligence(AI).** AI is a rapidly growing field of technology with potentially significant implications for national security. HQ IDS will examine the possibility of inclusion of AI in various platforms/systems and apprise the SHQ of the same from time to time.

(e) **Military Materials.** Indigenous availability of high-end Military Materials and Special Alloys is an important facet of self reliance in defence sector. Guidelines for promotion of use of materials already available in the country and development/ manufacture of materials for future needs are as follows: -

(a) **Ongoing Projects.** In order to promote the use of Military Materials known to be available in the country, acquisition projects, other than 'Buy Global' projects, for platforms and major equipment, with substantial material component are to be examined by SHQs at RFI stage, to ascertain the feasibility of using indigenous materials. In case of 'Buy and Make' category, if the material is not being manufactured in the country, ToT for manufacture of materials may be sought.

(b) **Development for Future Needs.** As an ongoing process to achieve phased development/ manufacture of materials within the country for use in future projects, DPSU/ PSU platform manufacturers, R&D establishments and SHQ are to carry out environment scan and identify various materials that can be developed in the country by various methods including, but not limited to the following: -

(i) Phased development of materials by platform manufacturers and R&D establishments.

(ii) Inclusion of ToT for manufacture and validation of materials in licensed manufacture projects.

(iii) Seeking and prioritising/ promoting ToTs for military materials against Offsets.

(iv) Taking up Make I/ II/ Technology Development Fund (TDF) projects for development of materials.

(f) **Indigenous Software.** In order to leverage the highly developed indigenous software expertise existing in the country, it is pertinent that maximum equipment should function with indigenous software driving the desired applications while the backend software i.e. Operating Systems continues to be OEM defined. The RFI process should clearly identify availability of indigenous software for running applications on the equipment/system and should be included in Buy (Indian – IDDM) and Buy (Indian) cases mandatorily or as Enhanced Performance Parameters (EPP).

(g) **Aero-engines and FAB.** Aero engines and FAB (facilities manufacturing silicon wafers) manufacture need to be taken up as projects of National Importance. Aero engines and FAB manufactured in India will mandatorily be procured for applicable



defence equipment as Buyer's Nominated Equipment/ sub assemblies. These procurements will not be considered as Single Vendor Cases.

### **Applicability of DPP**

27. Defence Procurement Procedure 2020 would be in supersession of Defence Procurement Procedure 2016 and will come into effect from 1st April 2020. This DPP would remain in force till 31 March 2025. DPP 2020 will be applicable to all AoNs granted after the date it comes into effect. The cases for which AoNs have been granted under earlier versions of DPP, but RFPs have not been issued up to 1st April 2020, will be processed under the new DPP 2020. Applicability to ongoing cases will be promulgated by the Acquisition Wing based on recommendations of the SHQ. In case the SHQ concerned wants to migrate any such case under DPP-2020, approval of the applicable AoN approving authority needs to be sought. In case of clarifications with regards to clauses and provisions of the DPP as also their applicability, the same would be examined by the Acquisition Wing and guidelines issued accordingly.

28. **Amendments to DPP 2020.** Acquisition Wing will also be authorised to issue amendments required to remove difficulties arising within one year of promulgation of this DPP. The DAC will be informed of all amendments carried out by the Acquisition Wing after one year. Any amendments to the DPP 2020, thereafter, will be approved by the DAC, post recommendations of the DPB, based on proposals initiated by the Acquisition Wing. All guidelines referred to in the DPP will, however, be amended based on the approval of the guidelines approving authority. Amendments to various templates, formats, flowcharts etc. included in the DPP may be amended by the Acquisition Wing as required.

**Appendix A to Chapter I**  
(Refers to Para 6.2 of Chapter I)

**UNDERTAKING TO COMPLY WITH INDIGENOUS DESIGN**

We, \_\_\_\_\_ (“Name of Vendor”), do hereby certify, undertake and confirm that:

1. The Design of \_\_\_\_\_ (“Named Product”), as claimed by us in response to the RFP No is owned partly or wholly by us/by an Indian entity.

2. Further, we confirm that the Design of the Named Product, as claimed by us, has not been licensed from a foreign third party except for standard software licences such as, but not limited to OS / Database / \_\_\_\_\_ (Strikeout / Specify as applicable).

3. The ownership of the Design, as claimed by us, enables us to manufacture, realise, sell, provide Through Life Support, modify and upgrade the Named Product without any encumbrances, except as specified below: (If any form of encumbrances exist on the product or any of its subsystems these should be elaborated here)

\_\_\_\_\_

\_\_\_\_\_

4. We further claim that we own the following IP Rights in relation to the design of the Named Product: (Specify any Patents, Registration of Designs, if any, held by the Vendor)

\_\_\_\_\_

\_\_\_\_\_

5. We also undertake to permit MoD/MoD appointed Specialists Committee, to inspect/ carry out technical audit at our premises of the applicable documents, such as Design Reports, Drawings, Specifications, Software Documents & Codes , Gerber files, etc, as may be reasonably necessary and required to prove the above claim of ownership of the Design of the Named Product. (Examination on site at company’s premises only. Documents, in any form, are not be sought nor required to be submitted for examination outside the Company’s premises)

6. Failure on our part to prove the ownership of the Design of the Named Product by us/by an Indian entity or submission of any false undertaking or claim as indicated in the response at any post contract stage of the intended procurement may make us liable to forfeiture of the PWBG to the extent of any direct losses or damages suffered by the MoD as a consequence of such false undertaking or failure to prove the ownership of the Design.

**Appendix B to Chapter I**  
(Refers to Para 16 of Chapter I)

**INDIGENOUS CONTENT ASPECTS**

**Definitions**

1. For the purposes of the DPP, Indigenous Content (IC) for equipment or an item shall be arrived at by excluding from the contract value less taxes and duties of that equipment/item, the following elements of manufacturing/production/assembly:-

(a) Direct costs (including Freight/transportation and insurance) of all materials, components, sub-assemblies, assemblies and products imported into India.

(b) Direct and Indirect costs of all services obtained from non-Indian entities/citizens.

(c) All license fees, royalties, technical fees and other fees/payments of this nature paid out of India, by whatever term/phrase referred to in contracts/agreements made by vendors/sub-vendors.

2. The format for computation of IC, 'Indigenous Content (IC) Proforma' by the Prime Vendor is placed as Annexure 1 to this Appendix. The Prime Contractor is required to maintain this Proforma for the purpose of any audit by the Contracting Authority during the tenure of the contract.

3. Further in all cases where IC is stipulated, it shall imply that IC is required at contract value less taxes and duties as specified in the DPP, read with additional specific requirements in this regard, if any, mentioned in the RFP.

**Reporting Requirements**

4. Considering the vast set of suppliers in multiple Tiers involved in production of Defence System/Equipment/item, the requirement for reporting IC are framed such that maximum coverage is achieved with practical & reasonable efforts for ensuring compliance. IC as defined in Para 1 and 2 above shall be mandatorily reported by Prime Contractor (PC) i.e. the vendor with whom the contract is signed, and key Indigenous Tier 1 (T1) & Tier 2 (T2) suppliers of manufacturing/production/assembly (as defined in para 4) to their higher stages (tiers) as a certified self-declaration, as per the format placed at Annexure – 2 to this Appendix.

## **Computation of IC**

5. The foreign content (FC) for the prime vendors is included in every contract along with break-up for each currency. Further, the FC is also monitored while the vendor seeks adjustments for FERV from the Ministry of Defence (MoD) as well as at the stage of filing for the GST. The final aggregation of Foreign Content (FC) and thus the Computation of IC, shall be undertaken by the PC, with whom an acquisition contract is signed by the MoD/SHQ, as per Annexure -1 to this Appendix, based on certifications and inputs received by the PC from its' lower tiers, as well as on the basis of PC's own procurement actions and manufacturing activities undertaken.

6. The PC shall obtain the details required as per the IC Proforma (Annexure -1) from all the top Indigenous T1 suppliers by value ensuring that total of his own cost and value of these top T1 suppliers account for a minimum of 80% by value of the total contract value. Further, the details as per the IC Proforma (Annexure-1) shall also be obtained by the PC from Indigenous T2 suppliers of these top T1 suppliers, if one of the below conditions are met in respect of the T2 suppliers:-

(a) the contract value of T2 supplier exceeds 10 Crores; or

(b) the contract value of T2 supplier is greater than 5% of the Contract Value of the T1 supplier.

7. The Prime Contractor shall use the above inputs received from such T1 and T2 suppliers, as detailed ibid, to compute the IC.

8. For Indigenous Supplies from the balance T1 suppliers, the import content shall be aggregated in the IC Proforma by the PC, under the head 'Balance T1 Suppliers' at a flat estimated rate of 15% of the total value of supplies. In case the Prime Contractor desires, he may include import certification for additional Tier1 suppliers, over and above the top T1 suppliers considered in paragraph 7 above.

9. Besides the Direct Imports by the main contractor and the imports by key Tier 1 & Tier 2 suppliers, imported components/equipment bought through traders, stockists and/or local agents of foreign suppliers shall be aggregated in the IC proforma, under the head 'Others' at a flat estimated rate of 90% of the purchase value, unless accompanied by import certification.

## **Incorporation in Contract**

10. All contracts, sub-contracts, agreements and MoUs made by prime (main) contractors (and their stipulated lower tier suppliers/vendors) with their business partners/suppliers, insofar as these contracts, agreements or MoUs relate to the main acquisition contract, shall mandatorily

incorporate the definition and reporting requirements for IC as explained in the above paragraphs.

### **Audit**

11. The MoD can exercise its right to conduct an audit with reasonable notice of relevant certifications and costs pertaining to imports for the Contract at all or any stages (tiers) of manufacturing/production/assembly, starting from the PC downwards. The audit(s) could be conducted by the MoD itself and/or by an agency/institution/officer(s) nominated by the MoD, as may be decided by the MoD during the tenure of the Contract and completed within one year of the last delivery under the contract. However, it is clarified that financial records will only need to be maintained for duration as stipulated by the existing Income Tax regulations.

12. All contracts, sub-contracts, agreements and MoUs made by PC (and their lower tier suppliers/vendors to the extent applicable as described in para 4), with their business partners/suppliers, insofar as these contracts, agreements or MoUs relate to the main acquisition contract, shall mandatorily incorporate the right of MoD to conduct an audit in terms of Para 6. Similarly, these business partners/suppliers shall sequentially incorporate these definitions and reporting requirements with their next level (to the extent applicable as described in para 4) of business partners/suppliers in the manufacturing/production/assembly chain.

### **Certification**

13. All relevant deliveries made under contract shall be accompanied by a certificate of IC issued by the 'Responsible Designated Official' i.e. the Contract Signing Authority, Authorised Signatory etc., of the PC and certified/licensed Cost Accountant / Chartered Accountant. Further, the equipment offered for trial shall be accompanied with a certificate of IC issued by the 'Responsible Designated Official' of the PC and certified/licensed Cost Accountant / Chartered Accountant in case the RFP mandates IC content during trials. The format for certification of IC by the 'Responsible Designated Official' and certified/licensed Cost Accountant / Chartered Accountant shall be as per Annexure 2 to this Appendix.

14. Performance cum Warranty Bank Guarantee (PWBG) shall be released only after the submission of a certificate (as per Annexure 2) of meeting the overall IC at Contract level furnished by the 'Responsible Designated Official' of the PC, after completion of all the contractual deliveries, in addition to any other requirements specified elsewhere in the contract.

15. Deliveries by the final stage of contract must conform to IC requirements and categorisation relevant to that particular stage. The Performance cum Warranty Bank Guarantee shall not be released before completing an audit of the IC in all relevant deliveries by the MoD or

its nominated agency/institution/officer(s), if such an audit is notified and initiated by the Contracting authority.

### **Withholding of Payments and Imposition of Penalties**

16. In case a particular delivery is deficient in achieving mandatory IC for that stage, an amount of 5% of the cost of that stage delivery shall be withheld from payment for that stage. However, if the vendor achieves the mandatory IC on a cumulative basis by the next stage of delivery, the amount so withheld shall be released to the vendor without interest. All such payments withheld above shall be forfeited upon failure to achieve required IC by the stage of last delivery of the relevant product. In addition, the Performance-cum-Warranty Bank Guarantee shall also be forfeited upon failure to discharge IC obligations as per contract.

17. In case mandatory IC is not achieved by a vendor and/or if a false certificate is furnished by a vendor/sub-vendor, the Ministry can initiate any action/proceedings against the erring Indian vendor/sub-vendor and its allied firms under any extant law(s)/rules in force. This right can be exercised by the Ministry at any point of time.

### **Miscellaneous**

18. In the event of non-incorporation of the definitions and/or audit requirements laid down in contracts or agreements vendors with next tier at any stage (tier) of manufacturing/production/assembly, it shall be presumed that items/services provided by that stage/tier to the next (tier) have no IC for the purposes of the DPP. Similarly, in the event of non-certification of IC at any stage (tier) as required herein, it shall be presumed that items/services provided by that stage/tier to the next stage (tier) have no IC for the purposes of the DPP. In such cases, the MoD can take any of the steps as per paragraphs 16 and 17 above against the PC.

**Annexure 1 to Appendix A to Chapter I**  
(Refers to Para 1 of Appendix A to Chapter I)

**INDIGENOUS CONTENT (IC) PROFORMA**

<b>Name of the Project / Customer Contract Details</b>						
<b>Sl. No.</b>	<b>Description</b>	<b>Import (In USD terms)</b>	<b>Import (In EUR terms)</b>	<b>Import (In GBP terms)</b>	<b>Import (.....)</b>	<b>Total (Rs.)</b>
<b>1</b>	<b>Import Content of Equipment &amp; Materials</b>					
	- Basic Eqpt & Material (by PC & stipulated T1 & T2 suppliers)					
	- MRLS (by PC & stipulated T1 & T2 suppliers)					
	- Special Maint. Tools (SMT) (by PC & stipulated T1 & T2 suppliers)					
	- Special Test Equipment (STE)(by PC & stipulated T1 & T2 suppliers)					
	- Freight / Transportation & Insurance (if paid by supplier)					
	- Balance T1 Suppliers (@15% FC)					
	- By Others (@90% FC)					
	<b>Sub Total (A)</b>					
<b>2</b>	<b>Import of Services</b>					
	- Royalty Fee					
	- Licence Fee if any					
	- Technical know-how fee					
	- Consultation fees					
	- Other fees/payment					
	<b>Sub Total (B)</b>					
<b>Grand Total - C = (A+B)</b>						
<b>Computation of Indigenous Content</b>						
<b>3</b>	<b>Base Exchange Rate (Ref Note 1,2)</b>	<b>(D)</b>				
<b>4</b>	<b>Import in INR based on Base Exchange Rate (Ref Note 1,2)</b>	<b>E=(C*D)</b>				

<b>5</b>	<b>Contract Value excluding Taxes, Duties &amp; Statutory Levies (Refer Note 3)</b>	<b>(F)</b>	
<b>6</b>	<b>Indigenous Content</b>	<b>G = (F – E)</b>	
	<b>Indigenous Content (%)</b>	<b>IC=G *100 / F</b>	
<p><b>Note:</b></p> <ol style="list-style-type: none"> <li>1. Base Exchange Rate will be the BC Selling Rate of the Parliament Street Branch of State Bank of India, New Delhi.</li> <li>2. Exchange rate for IC computation should be taken on the date of submission of the Techno-commercial/ commercial bid.</li> <li>3. CD, GST and any other applicable taxes, duties, statutory levies should be excluded from both numerator &amp; denominator for calculation of IC ratio.</li> <li>4. The consolidated IC Proforma and applicable IC Proforma, Certificates of applicable T1 &amp; T2 suppliers are to be maintained by the Prime Contractor and made available for audit by the Contracting Authority.</li> <li>5. The IC Proforma / Certificate are to be submitted along with or before the final invoice of the contract. At all prior stages the Prime Contractor shall submit an undertaking of compliance.</li> </ol>			



**Annexure 2 to Appendix A to Chapter I**  
(Refers to Para 8 and 9 of Appendix A to  
Chapter I)

**FORMAT FOR CERTIFICATION OF INDIGENOUS CONTENT**

This is to certify that we, \_\_\_\_\_ (Name of Prime Contractor) have achieved/are offering the following IC in the accompanying delivery under contract/equipment being offered for trials/prototype, as defined under the Defence Procurement Procedure and as required under the RFP/Contract (tick whichever is applicable) No. \_\_\_\_\_ dated \_\_\_\_\_.

**Signed by:**

‘Responsible Designated Official’  
----- (Name of Prime Contractor)

**Certified by:**

Certified/Licensed Cost Accountant / Chartered Accountant  
(Name /Name of Firm)  
Membership Number / Registration Number