

## **CHAPTER III –A : PROCEDURE FOR ‘MAKE-II (INDUSTRY FUNDED)’ SUB-CATEGORY**

### **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 with an intent for import substitution. In this subcategory, no Government funding is envisaged for prototype development purposes but has assurance of orders on successful development of prototype. However, there was no separate, exclusive procedure outlined for ‘Make-II’ sub-category.
2. Off late, the 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 and thereafter following the procedures detailed in Chapter II of DPP 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 with a focus on import substitution, for which no Government funding will be provided for prototype development purposes.
7. Projects under the Make-II sub-category, with estimated cost of prototype development phase not exceeding Rs. 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. Each SHQ (including Coast Guard) shall establish a permanent Make - Project Management Unit (PMU), within its Service. The Make - PMU must be headed by a two star rank officer or equivalent and staffed appropriately with professionals of various ranks/branches and specializations, depending upon the nature and the number of ongoing/envisaged projects under ‘Make-II’ procedure, for the respective SHQs. The Make-PMU Head, under each SHQ will have a tenure of three years and the staff positioned in PMU shall have longer tenures to ensure continuity during execution of projects. Officers of PMU shall be members/member secretaries of the Integrated Project Management Teams (IPMT), which will function under the overall control and directions of the Make

– PMU Head, who shall be responsible for ownership of the service level ‘Make’ projects. The mandates of every Make – PMU are as follows: -

- (a) Closely monitor the implementation of ‘Make’ projects for the corresponding SHQ.
- (b) Ensure timely development and implementation.

- (c) Assign responsibilities and hold task owners accountable for delivery.
  - (d) Identify potential issues that will impact project cost or delivery and resolve them swiftly.
9. Make - PMU may also hire expert practitioners from domains 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**

10. The development & procurement process under Make-II sub-category would involve the following functions: -
- i. Advance Planning & Consultations, and Feasibility Study
  - ii. Constitution of Integrated Project Management Team (IPMT)
  - iii. Accord of Acceptance of Necessity (AoN)
  - iv. Issue of Expression of Interest (Eoi)
  - v. Evaluation of Eoi
  - vi. Award of Project Sanction Order
  - vii. Design and Development of Prototype
  - viii. Solicitation of Commercial Offers
  - ix. User Trials by SHQ
  - x. Staff Evaluation
  - xi. Commercial negotiations by Contract Negotiation Committee (CNC)
  - xii. Award of Contract

#### **Advance Planning and Consultations**

11. On the basis of Long Term Integrated Perspective Olan (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.
12. SHQ will initiate collegiate discussions with various stakeholders such as DRDO, HQIDS, DRDO, DDP/DoD, Indian Industry etc. Such potential projects shall be deliberated by a Collegiate Committee headed by **Secretary (DP)** with members from SHQs, DDP, DoD, DRDO, MoD (Fin)/IFA and will be approved for hosting on DoD & DDP's Website. Simultaneously, PSQRs shall be prepared by SHQs as per extant procedures.
13. List of potential 'Make-II' projects along with Project briefs, Questionnaire for Industry and Project Manager details shall be uploaded on DoD / DDP website inviting their willingness to participate in the aforesaid potential 'Make-II' projects.

### **Annual Acquisition Plan (AAP) – Make-II**

14. A dedicated Annual Acquisition Plan (AAP), on the same lines as explained in Chapter I of DPP-2016, will be prepared for schemes under 'Make-II' category.

### **Feasibility Studies**

15. SHQ shall carry out the Feasibility study 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.

16. SHQs may, if required, engage Standing Consultancy firms who could provide assistance in Feasibility studies, industry outreach programmes, preparation of EoI and evaluation of EoI etc. Funding requirements for preparation of feasibility studies shall be borne by SHQ.

### **Preliminary Services Qualitative Requirements (PSQRs)**

17. Based on the feasibility study, the SHQ concerned would formulate the PSQRs, specifying essential and desirable parameters. The essential parameters of PSQRs of equipment would be of proven technologies available in Indian/world market. Research to achieve the desirable parameters, if any, may commence along with or after the development of prototype through various mechanisms e.g. instituting chairs/ projects in research and academic institutions like IITs, IISc and DRDO etc. These PSQRs shall form part of the Statement of Case (SoC) while seeking AoN for 'Make-II' projects.

### **Constitution of IPMT**

18. SHQ will constitute an IPMT under Head of Make-PMU or suitable officer belonging to the Make-PMU in parallel to placing the SoC before categorization committee. IPMT will consist of representatives from SHQ, HQ IDS, DDP, DGQA/DGAQA/DGNAI, MoD(Finance)/IFA **as required** and other experts if considered necessary.

19. The IPMT, through the Make-PMU Head for the service, shall submit six-monthly progress report to the Defence Production Board (DPrB) through Principal Staff Officer (PSO) concerned at SHQ. The DPrB shall provide policy guidance as may be required in 'Make' cases. The **IPMT's responsibilities** shall include the following important functions: -

a) Preparing EoI, obtaining approval and issue of EOI.

b) Receipt & evaluation of EOI.

c) Finalisation of EoI on technical, financial and other aspects.

d) Preparation of draft Project Sanction Order ('development contract').

- e) Monitoring and reporting of aspects relating to prototype development including generation of Intellectual Property.
- f) Any other responsibilities as entrusted by the Ministry.

#### **Categorisation & Accord of AoN**

20. SHQ shall prepare the Statement of Case (SoC) and refer it to SCAPCC. The SCAPCC will refer the SoC for according AoN to SCAPCHC irrespective of the estimated cost for accord of AoN. PSQRs and Draft EoI shall be enclosed with SoC. Following would be highlighted by the SHQ in the SoC seeking AoN: -

- i. Estimated time period.
- ii. Estimated development cost.
- iii. Likely production cost.
- iv. Quantity of order, **preferably covering the requirement of five years**, that to be placed post the successful development of prototype.

21. The AoN shall be sought based on the combined estimated cost of prototype development phase and the cost of subsequent procurement under 'Buy (Indian – IDDM).' The cost of development and the procurement should be indicated separately in the SoC.

#### **Validity of AoN**

22. 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 VCOAS/DCAS/VCNS**. 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**

23. IPMT shall publish 'EoI' on MoD/DDP Website inviting Company (ies) to participate in to the 'Make-II' project. Additionally, EoI shall also be issued to all those 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 covering requirements of at least five years.
- vii. Details of Evaluation Criteria for assessment of EOI

### **Evaluation of Eol:**

24. Responses to Eol shall be evaluated as per criteria given at **Annexure-I**. All the shortlisted companies will be called Development Agencies (DAs). All evaluation criteria, **shall be finalized and detailed as part of Eol**.

25. Sanction for prototype development as detailed in Eol responses, with 'Nil' financial implications for MoD, would be obtained by the IPMT from **VCOAS/DCAS/VCNS/DG(Coast Guard)**.

26. IPMT will issue Project Sanction Order with Nil financial implications.

27. No reimbursement of development cost for projects under Make-II sub-category will be made. However, if an RFP for the equipment, for which prototype has been successfully developed, is not issued within two years from the date of successful completion of prototype development as stipulated in Eol, the companies will be entitled for reimbursement of Rs 'X' as a development cost.

*(Rs 'X' is the development cost projected by SHQs at the time of accord of AoN)*

### **Access to Books of Accounts**

28. The DAs shall maintain separate books of accounts with an independent bank account, for the project sanctioned Make-II sub-categories of prototype development; MOD or its authorized representative(s) shall have unfettered rights to access these books of account of DAs.

### **Time Overrun**

29. The approval of extension of timelines for any 'Make-II' project up to 20% of the timelines may be accorded by VCOAS/VCNS/DCAS/DG-ICG, based on the recommendations of Head-PMU, and extension of time beyond 20%, the matter would be referred to DPrB.

### **Design and Development of Prototype for Make-II Sub-category**

30. The involvement of IPMT during the design and development stage under Make-II subcategory projects will be limited to the following: -

- i. Finalisation of trial methodology.
- ii. 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.
- iii. Freezing of PSQRs as SQRs, prior to commencement of Users trials.
- iv. 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.

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

### **Intellectual Property Rights (IPRs):**

32. 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: -

- (a) The contractor fails to work the patent towards practical application within a reasonable time; or
- (b) Where health and safety requirements so require the Government to act in public interest;
- (c) For National Security Reasons;
- (d) To meet requirements for public use not reasonably satisfied by the contractor;
- (e) For failure of the contractor to substantially manufacture the products embodying the subject invention in India; or
- (f) For failure of the contractor to comply with any of the requirements laid down under these guidelines.

### **Solicitation of Commercial offers:**

33. Commercial offer for Buy (Indian-IDDMM) phase shall be solicited from all DAs before the commencement of User trials.

### **User Trials**

34. User trials would be carried out by the SHQ in close consultation with IPMT 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.

35. The SQRs of the equipment would therefore be a part of the trial directives, and only the essential parameters as detailed in the SQRs will be tested. The validation of the support system and maintainability trials, integral to and complimenting the trial programme of the defence equipment/upgrades/product/system should be held simultaneously, wherever feasible. Representatives of DRDO, QA agency may also be part of the field evaluation, based on requirement. The user can recommend modification to the system for ease of handling and its maintainability. At this stage, no changes should be suggested which require re-designing of the system/sub-system or technology upgrade. Such suggestions would only be considered and implemented in subsequent phases of development.

### **Staff Evaluation**

36. The procedure of carrying out the Staff Evaluation, approval and acceptance of Staff Evaluation report for procurement under 'Buy (Indian-IDDMM)' category of acquisition, is as detailed in procedure for Make-I sub-category. Benchmarking may be carried out concurrently with commencement of staff evaluation.

37. Once the Staff Evaluation report is accepted, the commercial bid shall be opened for only those vendors whose prototype has been accepted after technical trials and staff evaluation.

38. The quantities in the “Buy (Indian-IDDM)” phase cannot be reduced from the quantities indicated in EoI issued for the prototype development phase.

#### **Multiple technological solutions**

39. In cases involving large quantities and where multiple technological solutions are acceptable, on approval of SCAPCHC, an option may be provided in the EoI during the ‘Make’ phase and subsequently in the RFP for the ‘Buy (Indian – IDDM)’ phase for procurement of specified quantities (**say in the ratio of 60:40**) 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.

40. In case, multiple technological solutions are not acceptable, the successful other L2 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.

#### **Commercial Negotiations by Contract Negotiation Committee (CNC)**

41. The CNC will carry out all processes from opening of commercial bids till conclusion of contract. No CNC will be carried out in case of multivendor projects reserved for MSMEs. In addition, No CNC will be carried out in case of multivendor projects having procurement cost less than say Rs. 150 crore.

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

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

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

#### **Project Management, Review and Monitoring**

45. The progress of the ‘Make-II’ project would be monitored by the IPMT 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. IPMT, through respective 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**

46. In case the project does not proceed according to the predetermined milestones in EoI response, and/or if there are undue time overruns, or failure of the prototype(s) on staff evaluation or on account of any other reasons, the ‘Make-II’ project may be foreclosed in respect of the DA(s) concerned and proposal for foreclosure will be approved by the authority who had accorded AoN. SCAPCHC.

### **Disposal of Tangible Assets Created in Make-II Projects**

47. As **maximum of pre-determined development** cost as mentioned in EoI/ Project sanction order is to be reimbursed on account of non-issue of RFP within 24 months from the date of successful development of prototype, the ownership of **tangible assets** equivalent to amount reimbursed, and the developed prototypes shall vest with the MoD. These may be passed on to the DA at depreciated value as per the extant guidelines of the Government of India.

48. In case of foreclosed Make-II sub category of projects, the tangible assets thus created may be disposed of as per the extant Government guidelines. Expenditure incurred on intangible assets as defined in the relevant Indian Accounting Standards will be written off with the approval of competent authority.

49. 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.

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

51. Any clarification or difficulty arising during execution shall be referred to DPrB/Secretary (Defence Production), for final decision.

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**Evaluation Criteria for shortlisting of Development Agencies based on EoI responses**

1. Indian entity satisfying all of the following criteria shall be considered as an eligible 'Indian Vendor' for issue of EoI by IPMT:-
  - 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. The entity needs to be registered for minimum five years; three years in the case of MSMEs.
  - iv. The entity should have a minimum Long term credit rating equivalent to BBB, issued by any Rating agency registered with SEBI such as CRISIL/ICRA. In case of MSMEs, the minimum rating should be 'SME-4'.
  - v. The entity needs to be profitable for at least three out of the last five years; in case of MSME, it needs to be profitable for at least one out of the last three years.
  - vi. The entity should have a positive minimum 'Net Worth'.
  - vii. Other Technical and Commercial criteria to be spelt out by SHQ based on the project requirement. For start-ups, Technical and Commercial criteria shall be spelt out separately.
2. The eligibility criteria referred at para 1(ii), 1(iii), 1(iv), 1(v) & 1(vi), shall not be applicable to start-ups recognized by DIPP.

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

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**Tentative Time lines for Make-II Projects**

Sr. No	Activity	Time in weeks from collegiate discussions (To)
1.	Approval of proposals as <b>POTENTIAL</b> 'Make' projects by Collegiate to be headed by Secretary (DP) and uploading on DoD/DDP website	<b>To</b>
2.	Completion of Feasibility study	<b>8</b>
3.	Preparation of PSQRs	<b>4</b>
4.	Preparation of SoC	<b>4</b>
5.	Accord of AoN	<b>8</b>
6.	Issue of EoI	<b>8</b>
7.	EoI Response submission	<b>6</b>
8.	EoI evaluation	<b>4</b>
9.	Issue of Project Sanction Order	<b>2</b>
10.	Design & development of prototype	<b>12-30</b>
11.	Freezing of PSQRs as GSQR	<b>4</b>
12.	User trials & Staff evaluation	<b>26</b>
	<b>Total</b>	<b>86-104 weeks</b>

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