

# Challenges of Indian MSME Participation in the Indian Defence Sector

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# Order of Priorities in DPP 2013

- 'Buy' (Indian) : outright purchase of equipment from Indian vendor with minimum local content of 30%
- 'Buy and Make' (Indian) : purchase from an Indian company or Indian JV with minimum local content of 50%
- 'Make' (Indian) : indigenous design ,development and production of equipment
- 'Buy and Make' (with Transfer of Technology) : purchase from a foreign vendor followed by licensed domestic manufacture through transfer of technology
- 'Buy' (Global) : outright purchase of equipment from a foreign vendor



# Offsets, Capital Expenditure and MSMEs

- Between the years 2006 and 2013, over USD 4 billion of offset contracts were signed (current Defence Budget is approx USD 40 Billion, inked deals worth USD 60 billion over last decade)
- 60 per cent of the value of which was discharged through the private sector
- During the next 10 to 15 years, the country needs to replace all its major systems and spend a large proportion of the defence budget on capital expenditure.
- It is estimated that there are over 13 million micro, small and medium-sized enterprises in the country today, which comprise 95% of all industrial units and around 95% of all defence vendors



# Offset Policy

- DRDO to assist industry by having back to back arrangements for conducting research, design or development
- DDP to map prospective agencies for undertaking development and/or manufacture. DOMW to take lead in building industry linkages
- Close to 7000 vendors, but no consolidated list and little capacity in DOMW for facilitating backward integration
- In recognition of capacity constraints, the Government should closely study international best practices



# Best Practices

	India	UK	Singapore	USA
Procurement micro-site	X	✓	✓	✓
SME micro-site	X	X	X	✓
Step by step guide	X	✓	✓	✓
Procurement forecast	X	X	X	✓
Online registration	✓	✓	✓	✓
Procurement Technical Assistance Centres	X	X	✓	✓
Dedicated Ombudsman	X	X	X	✓
Business development programmes	'Make in India' initiative	MoD SME focused action plan (updated 17 Oct2014)	X	Various plans put into place



# Service Quality Requirements

- Every component of Defence Stores from clothing and field equipment to satellite communications and missiles are to be manufactured under complex service quality requirements.
- Preliminary requirements are set by the Service HQ or the Lead Service for Procurement under the 'Make' scheme. Thereafter, the Integrated Project Management Team (IPMT) consisting of at least eight different interests subject the requirements to review.
- MSMEs can only be made competitive in defence manufacturing if this process is made transparent



# Some Known Limitations for MSMEs

- **Licencing:** Press Note No. 3, 2014 series, Department of Industrial Policy and Promotion – liberalisation of industrial licencing norms...How has this affected MSMEs?
- **Investments:** Despite the hike in FDI cap to 49%, Latest figures tabled in Parliament recently show just six FDI proposals worth USD 15.3 million
- **Time:** OEMs say handholding MSMEs to meet supply requirements takes a lot of time to ensure quality compliance, often breaching the allowed time-period for discharging offset obligation



# Opportunities to Tackle Challenges

- India could invite foreign firms to establish manufacturing facilities with full ownership and, while building an MSME supplier ecosystem, dilute ownership to 51 per cent in structured manner (Indonesia- coal sector)
- Right time to review the successes and failures of government entities while simultaneously mapping global best practices
- Transparency in terms of evolving service requirements and projected needs assessments for various component (investor facilitation cells)
- Process innovation in the discharge of offsets through MSMEs can catalyse domestic production (multipliers)





Thank you!

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