

# CAG Report Summary

## Capital Acquisition in Indian Air Force

- The Comptroller and Auditor General of India (CAG) released a performance audit of Capital Acquisition in the Indian Air Force on February 13, 2019. The audit examined 11 contracts of capital acquisition signed between 2012-13 and 2017-18, with a total value of approximately Rs 95,000 crore. In addition to examining systemic issues in the acquisition process, the CAG also reviewed the procurement process of 36 Medium Multi-Role Combat Aircraft (MMRCA) through an Inter-Governmental Agreement with the Government of France. Key observations and recommendations of the CAG include:
  - **Planning and tendering process:** The process of acquisition of air assets starts with the formulation of user requirements known as the Air Staff Qualitative Requirements (ASQR). CAG observed that the formulation of ASQR is the most crucial stage in the defence acquisition process as it determines the quality, price, and competition. The CAG had recommended in 2007 that ASQRs should be stated in terms of functional parameters, which are measurable. However, it noted that instead of using functional parameters, the Indian Air Force (IAF) made the ASQRs exhaustive and included technical details. This led to situations where none of the vendors was able to meet the ASQRs. Further, the ASQRs were repeatedly changed during the procurement process. In this context, the CAG repeated its recommendation that ASQRs should be stated in terms of functional parameters. Further, it recommended that technical experts with knowledge of the systems being considered could be involved in the acquisition process.
  - **Solicitation of Offers:** Offers are solicited from various vendors by issuing a Request for Proposal (RFP). Vendors respond to the RFP by making technical and commercial bids. CAG noted that there was limited competition during this process. The number of vendors who responded to the RFP were less than those invited to bid. This was because of various reasons including delays in the acquisition system and narrowly defined ASQRs. CAG recommended that the Defence Ministry should explore open competitive tendering in case of non-strategic items (such as basic trainer aircraft, and weather radar).
  - **Technical evaluation:** The CAG noted lack of consistency in technical evaluation across procurement cases. In some cases, such as Doppler Weather Radars and Attack Helicopter, technical bids were rejected when vendors failed to meet all the ASQR parameters. However, in the case of MMRCA and Heavy Lift Helicopters, bids were technically qualified even when they did not meet critical ASQRs.
  - **Commercial evaluation:** A Contract Negotiation Committee (CNC) is constituted to evaluate the price bid and negotiate the final contract. Before opening the price bid the CNC is required to estimate the benchmark price, which is used to assess the various bids. The CAG noted that in eight cases, the benchmark price was significantly different from the bid price. It observed that repeated off-the mark pricing reveals inability to estimate the market price.
  - **Organisational issues:** The CAG noted that delays in acquisition were essentially due to a complex and multi-level approval process. From the initiation of the case to the signing of the contract, each procurement case goes through 11 stages. The CAG stated that the current acquisition system is unlikely to support the operational preparedness of the IAF and recommended that the Defence Ministry may undertake structural reforms of the entire acquisition process.
  - **Acquisition of MMRCA:** The CAG examined the procurement process of the MMRCA. It observed that IAF had proposed in August 2000 to acquire 126 Mirage 2000 II aircraft. This proposal was discarded in 2004, and in 2007 a decision was taken to acquire 126 Rafale aircraft from Dassault Aviation. However, the commercial negotiations with Dassault could not be concluded. In 2015, a decision was made to procure 36 Rafale aircraft through an Inter-Governmental Agreement (IGA) with the French government. While comparing these two deals, the CAG stated that price of the 2015 deal was less than the price of the 2007 deal, by 2.86 per cent. Further, the CAG noted that the 2007 deal included a Bank Guarantee from the French government. This meant that in case of default by the vendor, the French government would provide payment. However, the 2015 deal did not include a Bank Guarantee.

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