PURCHASE MANAGEMENT 2006

March 2006

GOVERNMENT OF INDIA

MINISTRY OF DEFENCE

DEFENCE RESEARCH & DEVELOPMENT ORGANISATION

DIRECTORATE OF MATERIALS MANAGEMENT

SENA BHAWAN, NEW DELHI-110011

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March 2006

सत्यमेव जयते

एम नटराजन
ानिक सलाहकार, सचिव तथा महानिदेशक
M NATARAJAN
: ADVISER TO DEFENCE MINISTER,
:RETARY & DG R&D (DRDO)

भारत सरकार
रक्षा मंत्रालय
रक्षा अनुसंधान तथा विकास विभाग
साऊथ ब्लाक
नई दिल्ली–110011
Government of India
Ministry of Defence
Deptt. of Defence Research & Developr
South Block
New Delhi-110 011

SA to RM MESSAGE ON PM-2006

DRDO is executing various time bound Defence R & D projects through a network of 51 laboratories. In order to achieve the mission it is essential that necessary resources such as materials / components / sub-systems and equipment are provided expeditiously and within the admissible financial regulations.

2. Materials form a sizeable ingredient of the project activity and its management is a support service to ensure uninterrupted execution of projects. The Materials Management of the DRDO Labs/Estts is an activity involving a mix of technical / scientific professionals and materials managers. The Directorate of Materials Management has been evolving the rules / procedures and guidelines for purchase management keeping with the need of ever changing working environment.

3. I am glad that a comprehensive manual (PM-2006) has now been formulated by DMM in consultation with IF(R&D) taking into account eve guidelines, Defence Procurement Manual-2005 and Standards of financial propriety from Revised GFR. The primary objective of PM-2006 was to ensure expeditious procurement of stores of requisite quality complying with technical requirements by optimally utilizing the allocated resources. I hope the manual will ensure greater transparency in our procurement processes and will help demonstrating the highest degree of probity and public accountability, transparency in operations, free competition and impartiality.

4. It was also an excellent attempt to optimize and evolve a uniform purchase procedure for entire DRDO. I wish to place on record my appreciation for the hard work done by all the team members.

M Natarajan

(M NATARAJAN)

New Delhi

28 March 2006

सुभाष चन्द्र नारंग
उत्कृष्ट वैज्ञानिक
मुख्य नियंत्रक अनुसंधान तथा विकास (आर एण्ड एम)

S. C. NARANG
Outstanding Scientist
Chief Controller Research & Development (R&M)

भारत सरकार, रक्षा मंत्रालय
रक्षा अनुसंधान तथा विकास संगठन
244, बी विंग, सेना भवन,
नई दिल्ली-110011 (भारत)

Government of India, Ministry of Defence
Defence Research & Development Organisation
Room No. 244, B-Wing, Sena Bhawan,
DHQ PO, New Delhi-110011(India)

सत्यमेव जयते

MESSAGE

Dated: 27 March 2006

DRDO has an annual store budget which has gradually increased from a few hundred Crores to more than 2000 Crores. This amount may increase further in future. Maximum percentage of budget is spent on purchase of material required for projects, infrastructures, buildup and trials.

It is essential that the budget amount is spent efficiently to meet the requirements. It is imperative that financial propriety is followed while purchasing and utilisation of materials. It should be ensured that no valuable resources are wasted by over procurement, poor inventory control and improper utilisation of material procured. This is possible only by strictly adhering to the norms and procedures of Materials Management.

Any policy guidelines issued in a dynamic organisation like DRDO needs to be relooked every 2-3 years to see if any changes are required in order to meet changing national and defence procedures & policies and also meet the aspiration of Directors for having more improvement & at the same time maintain transparency in public buying. Ministry of Defence issued DPM-2005 for revenue procurement by Services. It is with this view that a review was under taken by DRDO during 2005 and the revised procedure as applicable to DRDO has been prepared, discussed, debated and finalised.

Further two new chapters on Banking Instruments and Evaluation of Quotations and Price Reasonability have been included. The manual has taken into account CVC guidelines issued from time to time and standards of financial propriety from revised GFR have also been incorporated.

The Purchase Management – 2006 has been evolved after lot of reviews at various levels, so that implementation of this manual in the Labs/Estts will be a smooth affair. I hope that all efforts would be made by the concerned officers for timely implementation of these guidelines in their respective Lab/Estts.

Further, I wish to place on records my sincere thanks to Sh. V.K Mishra FA (DS), Sh. P. K Jena Addl FA (J) & JS and Sh. S.N Mishra Addl FA (M) & JS for their significant contribution in evolving the document.

Any queries regarding implementation of the PM-2006 may be addressed to Dte. of Materials Management.

SCNarang

Telephone : (91)-11-23011860(O), 26145131/26177458(R), Fax (91)-11-23015395
Internet E-mail :scnarang@drdohq.res.in

सी एम धवन, निदेशक
C M DHAWAN, Director

MINISTRY OF DEFENCE
Defence R & D Organization
Directorate of Materials Management
Room No.237, 'B' Wing, Sena Bhawan
New Delhi-110011.

Dated: 27 March 2006

MESSAGE

Annual budget of DRDO is increasing every year with new major programmes being undertaken by the laboratories in the high-end technological areas. So the need was felt to review the existing DRDO purchase procedure (PM-2003). I am glad that after extensive deliberations PM-2006 has been evolved which will make the procurement more transparent and effective.

The purchase management manual PM-2006 has been made more descriptive and self-contained by incorporating various clauses like Buy–Back offer, apportionment of quantity when L1 does not have capacity to supply as per tender enquiry, operating repeat order, option clause, access to books of account and Integrity Pact have been suitably incorporated. The issues like how to handle Price Variation clauses, Exchange Rate Variation (ERV) and application of DCF technique in high value contracts involving payments over a long period of time for determining L1 have been addressed in line with instructions since issued by MOD.

Further two new chapters on Banking Instruments and Evaluation of Quotations and Price Reasonability have been included. The manual has taken into account CVC guidelines issued from time to time and standards of financial propriety from revised GFR have also been incorporated.

Lot of efforts have been made at various levels, while revising this Document so that its implementation by the Labs/Estts shall be easier. I am sure that all efforts would be made by the concerned officers for timely implementation of these guidelines in their respective Lab/Estts by keeping in view the following principle of public buying.

(a) To procure the stores and services of requisite quality and in required quantity necessary for timely execution of R&D projects by DRDO.
(b) To procure the stores on a competitive basis at the most economical manner ensuring value for money.
(c) To ensure transparency, and equitable approach in the procurement process.
(d) To procure stores as per the required delivery schedule so as to minimize the inventory and cost thereof.

I wish to thank all my colleagues who have put in concerted efforts in addition to their pressing assignments and have worked sincerely in bringing out the revised document. Any queries regarding implementation of the PM-2006 may be addressed to this Directorate.

No. DMM/PP/0000205/M/868/D(R&D)
Government of India
Ministry of Defence
Deptt. of Defence Res. & Dev.,
New Delhi, the 22 Mar, 2006.

To

Director General Research & Development,
Defence Research & Development Orgn.,
Ministry of Defence, New Delhi.

Sub:- **ISSUE OF ' PROCEDURE DOCUMENT OF PURCHASE MANAGEMENT IN DRDO'**

Sir,

I am directed to convey the approval of the President of India for adoption of "Purchase Management-2006" in DRDO as enclosed.

2. This document on Purchase Management will be applicable to all Labs/Estt and other self-accounting units of the DRDO with immediate effect. These procedures will be implemented keeping in view the relevant rules & orders in force from time to time, and also subject to the directives with regard to economy in expenditure. This supersedes the purchase procedures for DRDO issued vide Govt of India, Min of Defence letter No. DMM/PP/0000203/M/3/3045/D/(R&D) dated 21 Aug 2003 and all other adhoc instructions issued till date. This also supersedes all the relevant paras of Materials Management Policy issued vide Govt of India, Min of Defence letter No. DMM/81001/Policy/95-96/5482/D(R&D) dated 29 Nov 1996.

3. Any clarification required in implementation/interpretation of the procedure will be referred to R&D HQrs (DMM) for clarification.

4. This issues with the concurrence of the Ministry of Defence (Fin/R&D) vide their I.D. No **752** / IF(R&D) dated **20th Mar 2006**.

Yours faithfully,

(S K Deb)
Under Secretary to Government of India

Copies to:-

1. Controller General of Defence Accounts	2 copies
2. Addl FA(J) & Jt Secy	2 copies
3.All CCR&Ds	2 copies each
4. Chief Executive (CW&E)	2 copies
5. CDA(R&D) New Delhi and sub offices	5 copies
6. CDA(R&D) Bangalore and sub offices	5 copies
7. CDA(R&D) Hyderabad and sub offices	5 copies
8. Director of Audit, Defence Services New Delhi	2 copies
10. Director (Fin/R&D)	2 copies
11. Dte of Materials Management	500 copies

Contents

Chapter 1

PREAMBLE

1. During the last over two decades, DRDO has successfully completed major projects relating to defence hardware, which has led the Organisation to win national prominence and global recognition. Having achieved this confidence, DRDO is being assigned further high-value, time-bound projects of defence relevance in the state-of-the-art technology. This significant growth in the responsibilities/activities of the DRDO necessitates manifold increase in expeditious procurement of varied material resources, without impeding the project progress schedules with minimum procedural effort.

1.1 A need was felt to evolve its own policies on Materials Management, streamline and consolidate procedures and remove ad hocism while adhering to current Government policies rather than depending upon assorted corporate instructions issued from time to time. This will obviate procedural delays ensuring purchase/project excellence.

1.2 A Materials Management Policy was issued vide Government letter No. DMM/81001/Policy/1995-96/5482/D(R&D)/96 dated 29 November 1996 and 'Purchase Management' document was issued vide Govt. letter No. DMM/81002/PUR-PRO/97-98/6407/D(R&D) dated 29 December 1997. Subsequently 'Purchase Management 2000' document was issued vide Govt. letter No. DMM/0000200/M/3/2563/D(R&D) dated 25 July 2000 and “Purchase management 2003 “ document was issued vide Govt. Letter DMM\PP\0000203\M\3045\D(R&D) dated 21 Aug 2003. The current document (Purchase Management - 2006) is the revised version of ’Purchase Management- 2003’.

1.3 This document is intended to provide a standard reference for personnel engaged in purchase management tasks; it will simplify procurement methodology and remove impediments for prompt execution of purchases. This will also help in timely realisation of the research targets without diluting financial propriety and ensure optimal use of resources.

1.4 This document will be followed in the DRDO for purchase of all kinds of stores. The term ‘stores’ applies generally to all articles and materials purchased or otherwise acquired for use by Government, including not only consumables stationery, health and hot weather items but also articles of dead stock of the nature of plant, machinery, instruments, equipment, fixtures, etc. This procedure will also *mutatis mutandis* apply to contracts relating to repair, servicing and maintenance of stores and equipment, transportation, printing and other services to be rendered by Government. However this procedure will not be used for hiring of manpower, availing consultancy services and procurement of furniture.

1.5 Approval of IF(R&D)/Govt. of India shall be obtained for any deviation from the purchase procedure through DMM, DRDO HQrs.

1.6 Labs/Estts shall use the formats of purchase forms as given in the Materials Management Forms (Vol-1 Purchase Forms) document. Any modification/suggestion in the formats shall be effected with the approval of DRDO HQrs (DMM) to enable uniformity in these forms. These forms are numbered from **DRDO.MM 01** onwards.

1.7 Any additional information on purchase forms considered essential for the local specific needs of the Lab/Estt may, however, be incorporated without affecting the basic formats, under intimation to DRDO HQrs (DMM).

Chapter 2

BUDGET FORMULATION AND MONITORING

2. Budgeting is a system of financial control over receipts and expenditure. The fundamental rule on which the system of budgetary control rests is that no item, of major public expenditure, can be procured unless provision exists to meet the same in the approved budget estimates. Formulation, monitoring, coordination and reporting of all budget activities will be assigned to an identified group headed by a senior officer well conversant with the planning and resource management functions of the Lab/Estt.

2.1 **BUDGET FORMULATION:** All Labs/Estts will project their annual budget requirements under various heads including purchase of materials, to Directorate of Budget, Finance & Accounts (Dte. of BFA), R&D HQrs to enable them to formulate overall DRDO budget in consultation with IF(R&D) and its onward projection to Ministry of Defence (Finance) in accordance with the instructions issued by Dte of BFA, DRDO HQrs from time to time. All Labs/Estts will forward a copy of their annul budget to PCDA/CDA(R&D) offices for vetting. PCDA/CDA(R&D) will forward their input to the IF(R&D) with copy to Lab Director within 10 working days. As the purchase of materials form a sizeable proportion of the budget, these requirements need to be realistically worked out to ensure progress of the major programmes/projects and other R&D activities.

The following aspects will be kept in view while projecting budgetary requirements:

(a) Organisational goals

(b) User's urgency

(c) Corporate decisions

(d) Cash outgo against the commitments entered during the previous year and against new commitments likely to be entered during the year.

(e) Maintenance of equipment, machinery, etc.

(f) Fund requirements against basic research, build-up activities and procurement of books and journals.

2.1.1 Labs/Estts will forward their budgetary requirements to Dte. of BFA, DRDO HQrs in the prescribed formats so as to reach them by the specified dates. These formats facilitate to assess the cash flow requirement of various activities in different areas for ensuing year under the prescribed accounting code heads as laid down in the Classification Handbook - Defence Services.

2.1.2 While formulating forecast budget in respect of materials, the following priorities will be borne in mind:

(a) Obligatory expenditure on past contractual liabilities, essential maintenance requirements and minimum office contingencies including liveries and protective clothing, will be listed as first priority.

(b) Proposed expenditure on procurement of materials for ongoing programmes/projects will be included as second priority.

(c) Expenditure on fresh programmes/projects to be undertaken during the year, project-related build-ups and training/ seminars will be taken as third priority.

(d) The expenditure on materials procurement under build-up will be considered as last priority for inclusion in the forecast budget report.

(e) Expenditure on urgent, unforeseen, unplanned tasks/ activities will however, be accommodated.

2.1.3 Based on the projection of funds made by the Labs/Estts, a consolidated financial profile will be projected by DRDO HQrs to the Ministry of Defence (Finance) for appropriation, out of the consolidated fund of India. Budget for DRDO will be made available in the Defence Services Estimates under the following Heads:

Revenue Account : Major Head 2080
Capital Account : Major Head 4076, Sub-major Head 05,
Minor Head 111.

2.2 **BUDGET ALLOCATION**: Funds are allotted to Labs/Estts by Dte of BFA, DRDO HQrs under various Budget Heads against their projected requirements considering availability of funds, past commitments, priority of projects and utilisation pattern of funds, allowing specified rate of growth.

2.2.1 Periodic allocations are made to Labs/Estts based on the actual expenditure *vis-a-vis* the anticipated expenditure as mentioned below:

(a) Provisional allotment (vote on account)
(b) Initial allotment
(c) Revised allotment
(d) Final allotment

2.2.2 **Provisional Allotment**: This allotment is made at the beginning of the year to meet obligatory expenses till the budget is approved by the Parliament and the connected appropriation bill is assented to by the President. On the first day of every financial year, DRDO HQrs will allocate an amount not more than 1/6th of the final allotment made in the preceding financial year. In case the allocation is inadequate, an ad hoc additional allotment may be asked for "on required basis".

2.2.3 **Initial Allotment**: Based on the Forecast Budget, this allotment will be made by the first week of June every year. This will include the provisional allotment previously made.

2.2.4 **Revised Allotment**: This allotment will be made in September/ October and may increase or decrease the initial allotment based on utilisation pattern.

2.2.5 **Final Allotment:** This is based on modified appropriation towards the close of the financial year.

2.3 **REPORTS**: To watch the progress of expenditure, laboratories are required to furnish certain periodic reports to Dte of BFA, DRDO HQrs which are regulatory in nature and form an essential part of budgetary and monitoring process. These reports constitute micro level database, which is used for linkage and correlation with macro level expenditure profile received from CGDA periodically. Accordingly, these reports need to be prepared with utmost care and scrutiny to minimise large-scale deviation during the correlation stage and also to provide a benchmark for resource mobilisation efforts.

2.3.1 The usual reports required in this connection are:

(i) Preliminary Estimates	- based upon 3 months actuals
(ii) Revised Preliminary Estimates	- based upon 5 months actuals
(iii) Revised Estimates	- based upon 7 months actuals
(iv) Modified Appropriation	- based upon 10 months actuals

2.3.2 In addition to these reports, HQrs from time to time require certain additional reports of periodic and ephemeral nature to develop linkage between expenditure on projects and actual expenditure incurred under the various accounting code heads, under which budget allotment is made. Some of the reports in this category are annual action plan, quarterly expenditure returns, contractual payment details, etc. The formats of such reports will be forwarded to Labs/Estts as required from time to time by Dte. of BFA.

Chapter 3

SOURCE SELECTION, REGISTRATION AND EVALUATION OF VENDORS

3. The objective behind identification of proper sources of supply, registration of vendors and their periodic evaluation is to obviate the necessity of denovo search of a supplier for each demand. An exhaustive directory of reliable vendors dealing with different categories of stores is an essential prerequisite for prompt initiation of purchase action and to ensure fair and healthy competition and to include genuine manufacturers/stockists/distributors/dealers of the product relevant to the requirement of Lab/Estt. It is essential that the directory of vendors is periodically updated by exploring new vendors and by sharing of such information between Labs/Estts with emphasis on indigenous sources of supply.

3.1 **SOURCE SELECTION**: The selection of vendors with potential to successfully execute supplies against orders placed by Labs/Estts, will be done on the basis of information obtained through the following sources:

(a) User divisions/groups/sections.
(b) Written suggestions from scientists after proper verification and market survey.
(c) Central purchase organisations of Government of India, e.g., DGS&D/DMR&F.
(d) Industrial directories/trade journals.
(e) Advertisement through renowned media sources.
(f) Inter-Service organisations/Government/scientific or research institutions/ other DRDO Labs/Estts, etc.
(g) Technical literature circulated by firms.
(h) Responses received against 'Open Tender Enquiries'.

3.2 **REGISTRATION OF VENDORS**: The vendors will be registered by Labs/Estts for different categories of stores, e.g., raw materials, chemicals, machine tools, instruments, electronics and electrical items, timber, fabrication jobs and other general stores etc. The credentials of firms seeking registration will be verified to ascertain their credibility with regard to financial standing i.e. annual accounts, capacity, reliability, bonafides (income-tax returns, sales tax No. etc.) and past performance, etc. For this purpose, specialists from the respective fields will be included in the Vendor Registration Committee while examining the applications of vendors seeking registration. The registration committee will be appointed for one financial year. The constitution of the vendor registration committee will be as follows:

1. Scientist- F	Chairman
2. Scientist- D/E	Member
3. Head MMG or Rep	Member Secy.

The Chairman can co-opt specialist members if considered necessary.

The Directors may re-nominate one or all members for the next year. The Directors may, however use their discretion to appoint a suitable Scientist as Chairman.

The committee will carry out scrutiny of such applications and offer their recommendations to the Directors of Labs/Estts for approval of vendors for registration/removal. The registration will be awarded to the vendors who are manufacturers, authorised stockists/distributors/ dealers who fulfil above basic requirements.

3.2.1 Registration will be initiated by issuing a notification through Director of Advertising and Visual Publicity (DAVP) or by publication in the *Indian Trade Journal* or by responding to firm’s advertisements or through trade fairs and exhibitions or through market surveys.

3.2.2 No formal application for registration is necessary for the firms already registered with DGS&D/other Inter-Service organisations/ Government deptts/reputed scientific institutions/ NSIC etc. The list of such firms may be obtained from DGS&D or Central/State Government deptts/scientific institutions periodically. If a vendor produces a certificate of registration from any of the above, the registration committee may consider the registration certificate produced by the vendor in accordance of para 3.2.7. No formal application may be insisted upon for registration from firms of repute enjoying monopolistic stature. For such firms of repute or already registered firms with other departments/Labs/Estts the screening committee as defined in Para 3.2 will recommend for registration to the Director.

3.2.3 The firms seeking registration with the Labs/Estts will have to apply in the prescribed application form available with respective Labs/Estts, on payment of a non-refundable nominal fee of Rs 100/- payable by bank draft drawn in favour of the Director. The specimen of "Application Form for Registration of Firms" is given at **DRDO.MM 01**.

3.2.4 For each category of stores, the application forms received for registration will be screened by the registration committee appointed by the Director of Lab/Estt as mentioned in Para 3.2.

3.2.5 In case the registration committee desires, the antecedents of the firm, may be got verified through the police department/ bankers of the firm as per the proforma for "Verification of antecedents of the firms" given at **DRDO.MM 02**.

3.2.6 Capacity verification of the firms seeking registration may be carried out, wherever considered necessary by the registration committee based on the data furnished by them in **DRDO.MM.01**. Recommendations of the Vendors Registration Committee will be put up to the Director as per the "Vendor Registration Report" given at **DRDO.MM 03**.

3.2.7 The satisfactory performance report of the firms claiming to have been registered with other Government organisations, may be obtained from the concerned organisation, to assess their suitability.

3.2.8 After examination of the application forms and the reports mentioned above, the firms found acceptable to the Screening Committee for registration, will be recommended to the Director for approval.

3.2.9 The firms approved for registration for one or more categories of stores will be allotted a registration number, which shall remain valid for a period of five years. The intimation informing firm's registration, as approved vendor will be sent to them as per form **DRDO.MM.04**. On completion of five years, such registration may be renewed based on the performance evaluation during the intervening period for a further period of five years.

3.2.10 A register for allotment of registration numbers will be maintained by Labs/Estts, which will include names of all vendors registered with them. The list of registered vendors will be sent to DRDO HQrs (DMM) and the local CDA (R&D) office. This list will be updated from time to time, preferably on-line, for easy reference and a copy of updated/amended list will be forwarded to DRDO HQrs (DMM) and local CDA(R&D) office biennially.

3.3 **VENDORS' EVALUATION**: The performance of registered vendors should be monitored regularly to assess their evaluation. Their rating of performance will be based on their adherence to delivery schedules, consistency in quality and competitive costs. The following aspects will, however, be taken into consideration:

(a) Latest income tax and sales tax clearance
(b) Number of orders placed and executed
(c) Number of orders executed within original delivery schedules
(d) Number of times, part supplies made
(e) Number of times, orders cancelled or supplies rejected
(f) Number of times, items replaced after rejection
(g) Quality of goods supplied
(h) Average delay in delivery period

3.3.1 JSG015:02:1995 provides "Guidelines for Assessment and Registration of Vendors for Defence" and relevant BIS guidelines for development of vendor rating system which may be referred to while evaluating vendors. The JSG can be obtained from Dte of Standardisation, Ministry of Defence, New Delhi.

3.4 **REMOVAL OF REGISTERED VENDORS**: Removal of approved suppliers from the list will be considered on the following grounds:

(a) The performance is rated below par during the evaluation process.
(b) The firm fails or neglects to respond to three consecutive invitations to tender within the range of products for which it is registered.
(c) The firm fails to execute a contract/order
(d) The firm has no longer the required technical manpower/ equipment/machines.
(e) The firm is declared bankrupt or insolvent.

(f) The firm fails to furnish the income tax clearance certificate or any other document when called for.

(g) The registration of a firm is cancelled under a Government notification (from list of vendors) by another Government department/organisation.

(h) The integrity of the firm is suspected or it is found indulging in unethical practices.

3.4.1 **BAN and Black Listing:** When the misconduct of a firm or its continued poor performance justifies imposition of ban on business relation with the firm or untimely its blacklisting, this action should be taken by the appropriate authority after due consideration of all factors and circumstances of the case. Ban for a specified period of time may be imposed by DRDO/procurement agency or the MOD. For blacklisting of firms Labs/Estt will forward the case with their recommendations, justification and supporting documents to DMM, DRDO Hqrs. DMM will forward the case to Dte of Vigilance & Security for their recommendation and blacklisting will be done with the approval of Secretary (R&D).

3.5 **EXCHANGE OF VENDORS' DATA**: Inter-Lab/Estt exchange of information on the established vendors with good performance record, will help in a long way, to minimise delays in locating proper sources of supply and prompt placement of orders/contracts. As such, Labs/Estts should circulate lists of registered vendors, among them periodically. The list of vendors whose performance has not been satisfactory in executing the orders placed with them or who have shown laxity in providing after-sales service, will also be circulated to other Labs/Estts with a copy to Dte of Materials Management, DRDO HQrs.

3.6 **REGISTER OF FOREIGN VENDORS**: Registration may not be feasible in respect of foreign firms. Labs/Estts should maintain a register of foreign vendors dealing in various types of items based on their satisfactory experience. Details such as type of items, address, telephone/fax number, etc., may be recorded in the register. A list of such vendors will be updated regularly and circulated amongst Labs/Estts, with a copy to DRDO HQrs (DMM).

Chapter 4

INITIATION AND APPROVAL OF DEMANDS

4.0 **INITIATION OF DEMANDS**: Action on demands will be initiated, based on the budgetary projections made to R&D HQrs for Project/build-up/maintenance items and for any other unforeseen urgent requirements. The demands are generally classified in the following categories:

(a) Items against sanctioned projects

(b) Build-up items including setting up of facilities, and

(c) Maintenance items including repairs and servicing of equipment/ machinery.

The demands under all the above categories will be spread out evenly to ensure uniform flow of expenditure throughout the year.

4.1 **ITEMS AGAINST SANCTIONED PROJECTS**: Procurement action will be initiated on major project items, budgeted against the funds catered for in the project sanction under materials and equipment, transport and stationery heads. Such project items (costing above Rs 1 lakh), will be recommended by the Stores Procurement Committee (SPC) of the Lab/Estt, with due consideration to all aspects of their justification for approval of procurement by the Director.

4.1.1 For specific projects/programmes where special sanctioning powers have been delegated, these requirements will be put up to the respective management boards/project directors for acceptance of necessity and approval.

4.1.2 Items costing below Rs 1 lakh will be exempted from scrutiny of SPC and action on their procurement can be initiated directly by the concerned user/project group.

4.1.3 All demands against projects will be routed through ‘Project Stores Accounting Cells’ to record commitments of expenditure and confirm availability of funds within the sanctioned cost and PDC of the project.

4.2 **BUILD-UP ITEMS INCLUDING SETTING UP OF FACILITIES**: Procurement action for major items and setting up of facilities (costing above Rs 1 lakh) which have been provided for in the budget, will be taken after their necessity has been scrutinised and recommended by the SPC for approval by the Directors if they fall under their delegated powers.

4.2.1 Stores demands, budgeted and falling beyond Director’s powers, will be referred to Directorate of Materials Management, DRDO HQrs by Planning/Tech-Coord/Materials Management Group of the Lab/Estt for acceptance of necessity (i.e. EPC approval), along with a "Questionnaire for Acceptance" as given at **DRDO.MM 05**. Further action on procurement of such items will be taken subsequent to acceptance accorded by DRDO HQrs.

4.2.2 For EPC approval from DRDO HQrs, MMG will forward a copy of the demand along with duly completed proforma at **DRDO.MM 05** and recommendations of Lab/Estt SPC, to Dte. of Materials Management, DRDO HQrs. After receipt of DRDO HQrs' approval, these demands will be processed for initiating purchase action.

4.2.3 Items costing below Rs 1 lakh will be exempted from the scrutiny by SPC and will be put up for approval of the Competent Financial Authority.

4.3 **MAINTENANCE ITEMS INCLUDING REPAIRS AND SERVICING OF EQUIPMENT/MACHINERY**: All requirements of maintenance/repairs/ servicing will be dealt with as per the guidelines given in Para 4.2. Emergent breakdown requirements will be processed even if not budgeted.

4.4 **STORES PROCUREMENT COMMITTEE (SPC)**: Labs/Estts will constitute Stores Procurement Committees to scrutinise/recommend the demands for approval by Director for materials and equipment costing above Rs 1 lakh, arising from projects (except for major programmes/projects where specific management boards/committees have been constituted for this purpose), build-up and maintenance requirements, based on budgeted projections. The Committee will be constituted on annual basis and will have members from Budget/Planning Group, Materials Management Group (MMG) as permanent members besides Chairman and user scientist, and a technical member from other than the user group of the Lab/Estt, as co-opted members. The Chairman will be a scientist not below the rank of Scientist F. In the Labs/Estts where scientists of these levels are not available, the SPC will be chaired by an appropriate senior officer nominated by the Director.

4.4.1 The SPC shall include an expert from the relevant field as a member. Such an expert can be a Sc-E or above from a sister Lab/Estt or an expert from another Govt. deptt./educational/ research institution, for only build-up/maintenance items costing above Rs. 10 lakh.

4.4.2 The SPCs will meet periodically and make recommendations not only reiterating the technical necessity of the items, but also take into account the following additional aspects since the time of budgeting:

(a) To verify, if the new requirements can be met by upgrading existing facilities.

(b) To recommend approval and purchase of high-value items bearing in mind the long lead-time for procurement and full exploitation of the warranty period.

(c) To examine the requirement of costly items on their anticipated full time utilisation. Alternatively, SPCs will consider meeting of such requirements either by time-sharing of the items from other Labs/Estts or by leasing from industry or other organisations.

(d) To consider standard indigenous product, with additional interface as substitute for import when required as a sub-system or main system development to save foreign exchange.

(e) Evaluation of draft technical specifications put up by the demanding officers.

(f) Justification of the quantity demanded, priority of procurement and mode of tendering.

(g) To ascertain availability of funds in RE and FE.

(h) To make efforts to bulk purchase common use items, PCs, spares for other standard equipment/machinery to derive price discount.

(j) Specify a realistic time for MMG to process the approved demand till the supply order which normally should not exceed one year, failing which revalidation of the SPC/EPC approval would be necessary with reasons recorded on the file.

4.4.3 The members of the SPC representing Materials Management/ Budget & Planning Groups will monitor progress from the stage of the demand approval till the items are taken on charge and payments made. They will periodically report progress to the Director of Lab/Estt.

4.4.4 SPC will consider details put up to them in the demands by the demanding officers as per "Demand for Local Purchase" placed at **DRDO.MM 06** and endorse their recommendations on the demand in Part-II.

4.4.5 **Dissenting Opinion**: The cases of dissenting opinion, if any, will be referred to the Director of the Lab/Estt. The negative recommendations of SPC/ dissenting opinion of any of its members can be overruled by the Director of Lab/Estt up to the limit of his financial powers for reasons to be recorded in writing by him. For items beyond his financial powers, such recommendations/ dissenting opinion may be sent to DRDO HQRS (DMM) with Director's comments thereon, for a final decision.

4.5 **SPECIFICATIONS**: With the increasing complexity of the projects being handled by DRDO, the materials and equipment needs have also become exacting, requiring professional skill in drawing up the specifications. Such explicit specifications supported by drawings, specifying standard units of measure accompanying the tender enquiries, will ensure elimination of ambiguity, minimise apprehension of vendors on the level of risks they are expected to assume and elucidate precise standards to which the commodity under purchase will be tested/inspected. This will reduce chances of inflating their prices.

4.5.1 Unambiguous and detailed specifications help in methodical evaluation by assigning percentage marks to each individual attribute and establish a viable techno-commercial link between performance/quality standards and costs, for fair price assessment/ comparison by TPC/NC of all the offers.

4.5.2 Directors of Labs/Estts will observe adequate caution while working out detailed specifications of an intended procurement that these are not tailor made to suit a particular brand of product. Broad coverage of the functional performance and environmental parameters will be spelled out in the specifications to allow competition. For this purpose a computer-based data bank of similar products, along with broad specifications will be maintained and updated frequently so as to facilitate fair competition in purchases.

4.5.3 Working out of specifications, if there is lack of information or inadequacy in the Labs/Estts, could be based on:

(a) Drawing the broad performance/environmental parameters from the product catalogues of reputed manufacturers with a view to seek detailed technical specifications from different vendors in response to our enquiries made verbally or official correspondence or through press notification.

(b) Expert advice from educational institutions/engineering colleges/IITs and other scientific organisations having specialised knowledge and expertise.

(c) Assignment of design contracts to suitable professional agencies/consultants for drawing up of detailed specifications and evaluation parameters.

(d) BIS/DEF specifications, if applicable and can be quoted obviating the necessity to work out specifications.

4.5.4 For hiring of services for high -tech items as defined in Para 4.5.3 (b) & (c) above, Directors are empowered to sanction the consultancy charges up to a maximum of 2 % of the estimated cost or Rs. five lakh, whichever is lower.

4.5.5 Director's of Lab/Estt will ensure that there is no waiver/amendment to Essential parameters after issue of tender enquiry.

4.6 **AUTHORITY/LEVELS FOR INITIATION**: Demands for indigenous stores against projects, build-up, maintenance and general use will be initiated on the proforma at **DRDO.MM 06** by scientists of the level given in the succeeding paragraphs with a proviso that:

(a) Funds are available.

(b) Requirement of proprietary items will be accompanied by a "Proprietary Article Certificate" (PAC) as per format at **DRDO.MM 07** duly countersigned by the Director after recommendations of the SPC.

(c) Demands below Rs 1 lakh will be exempted from scrutiny by SPC. (Refer Para 4.2.3)

(d) "Demands for Imported Items" will be initiated as per the format at **DRDO.MM 08** for consideration of SPC wherever required.

(e) Draft specifications, wherever applicable, will be enclosed.

(f) The demand will clearly indicate inspection/acceptance procedure, the mode of transport and requirement of insurance cover where needed along with other special instructions, if any.

(g) Non-availability endorsement will be made by the MMG for centrally stocked items except in cases of service or maintenance contracts/orders.

4.6.1 Demands for items costing up to Rs 1 lakh will be initiated by a Scientist B or above and countersigned by Head of the Division/ Group. If required, such demand could also be initiated by TO`B` or TO`C` engaged in project/material management activities and countersigned by Head of the Division/Group".

4.6.2 For demands for stores above Rs 1 lakh, the levels for initiation for putting up to SPC/DRDO HQrs/various committees with delegated powers under various programmes and projects, will be as under:

(a) **Rs 1 lakh to Rs 15 lakh**: Initiation by Scientist C and above, countersigned by project or group head.

(b) **Rs 15 lakh to Rs 50 lakh**: Initiation by Scientist D and above, countersigned by project or group head.

(c) **Rs 50 lakh and above**: Initiation by Scientist E and above and countersigned by project or group head.

4.6.3 In Lab/Estt where it is not possible to get initiated by the levels mentioned above, the Director will use his discretion to specifically assign these responsibilities by authorising other officers of appropriate level keeping in view that a demand has been initiated and countersigned by different scientists/officers.

4.6.4 If the need arises, DRTC officers (i.e. T.O. ‘B’ & T.O. ‘C’ having minimum qualification of B.Sc or diploma in Engineering with 5 years experience) may also be deployed for Materials Management related functions at the discretion of the director of Lab/Estt.

4.7 **PREPARATION OF DEMANDS**: All demands will be prepared in triplicate in proforma at **DRDO.MM 06**. Demanding officer will retain one copy. Other two copies will be handed over to MMG for further action as under:

(a) Up to Rs 1 lakh: For obtaining CFA’s sanction and initiating purchase action.

(b) Above Rs 1 lakh: For recommendation of SPC.

4.7.1 However, recommendation of SPC for demands approved by project boards, is not required and purchase action may be initiated by MMG.

4.8 **APPROVAL OF DEMANDS**: Directors of Labs/Estts are the competent authority to approve all demands up to the limit of financial powers vested in them, based on the recommendations of SPC, where applicable. The Directors may, however, authorise such of his own powers to the extent considered necessary to a suitable senior officer for approving these demands on his behalf to the extent of their financial powers vide Government of India, MOD letter No.93916/RD-26/(ii)/5242/D(R&D) dated 15.10.85 as amended from time to time.

4.8.1 The authorities specifically so designated will accord approval of demands for specific programmes/projects.

Chapter 5

GENERAL PRINCIPLES OF PURCHASE AND CODE OF ETHICS

5. The authorities vested with the approval and processing of purchases in all Government departments shall adhere to the time tested procedures and maintains financial propriety as per the instructions issued from time to time. The decision for purchase will be based on the recommendations of an appropriate committee, consisting of a number of specialists, thus ensuring transparency and objectivity.

5.1 **GENERAL PRINCIPLES OF PURCHASE:** In purchasing materials for Government use, the officers/staff will observe adequate vigilance as a safeguard against infructuous expenditure from public funds and exercise prudence, as they would normally do in respect of their personal expenditure. To ensure this, all expenditure on purchases will only be need-based and Government funds will not be spent on anticipatory requirements, not having immediate use. The authorities should invariably refrain from exercising powers of sanctioning expenditure, which will be directly or indirectly to their own advantage.

5.1.1 The following further cautions will be observed for purchasing stores:

(a) Bulk purchases will normally fetch quantity discount. This should, however, not lead to over-stocking resulting in expiry of shelf life or redundancy due to obsolescence.

(b) Purchase orders will not be split-up to avoid the necessity for obtaining sanction of the higher authorities.

(c) Open tendering should be adopted to ensure fair competition, unless it is considered expedient to follow other modes of tendering due to urgency. Purchases will be made from the lowest acceptable tenderer. Adequate care would be exercised to ensure that delivery from the vendor is within the specified time schedule.

5.1.2 The present policy of the Government stipulates the following order of preference for all public purchases:

(a) Indigenous items of acceptable quality to boost indigenous industry.

(b) Items indigenously manufactured with foreign collaboration/ materials.

(c) Imported items available on rupee payment with due exemption from Custom levies as applicable to DRDO and are cost effective.

(d) Imported items, if unavoidable, with a view to subsequent indigenisation wherever cost-effective.

5.1.3 General guidelines for placement of supply order are as follows:

(a) The terms of supply order will be unambiguous with no room for misconstruction.

(b) Changes in terms and conditions, having financial implications, will not be allowed after the acceptance of the order.

(c) Adequate safeguards will be provided for Government property entrusted to the vendors for execution of the orders/contracts, by way of bank guarantee. The option of indemnity bond on stamped paper of appropriate value may be accepted from PSUs/Government organisations/universities and educational institutions.

(d) No supply order involving an uncertain and indefinite liability or any conditions of an unusual character shall be placed without the prior consent of the CFA.

5.1.4 Not withstanding the safeguards enumerated above, additional flexibility/delegation for DRDO is essential for materials procurement. For execution of the R&D projects, time is the essence for their successful fructification. Strict adherence to inflexible procedures leads to avoidable delays and invisible expenditure, leaving no option for the user services but to import the equipment.

5.1.5 The following specific features are pertinent in respect of DRDO purchases for projects and programmes:

(a) Any marginal additional expenditure at the prototype development stage is well worth a sacrifice to complete the project in time, without slippage of its PDC. The rigid economy aspects could be taken care of at the time of effecting bulk purchases required for induction of equipment into the Services.

(b) Due to dilution of purchases through DGS&D/ISMs, the total purchasing responsibility has been assigned to individual departments/Labs/Estts. Requirement of professional training for staff handling purchases has assumed paramount importance to improve purchasing efficiency.

(c) Stockpiling of critical components will be allowed for important projects to ensure their uninterrupted availability.

5.1.6 For high technology projects in progress, the materials/components required are obtainable only from a few monopolistic manufacturers/vendors of repute. In such cases flexibility will be allowed to effect purchases on PAC/Limited Tender basis.

5.1.7 The vendors after identification and satisfactory evaluation should not be changed till successful completion of technical/user trials for supply of components/sub-systems. Such procurement will, therefore, be treated as proprietary. It is, however, advisable to work out reasonableness of cost in such cases.

5.1.8 The negotiating authority should take into account, the initial cost added to installation and maintenance cost, expenditure on special environment, effective warranties, spares requirement, etc. while making the final selection. This concept will generally apply to procurement of all capital equipment/facilities.

5.2 **CODE OF ETHICS**

(a) To consider first the total interest of one's organisation in all transactions without impairing the dignity and responsibility to one's office.

(b) To buy without prejudice seeking to obtain the maximum ultimate value for each rupee of expenditure.

(c) To subscribe and work for honesty and truth in buying and selling; to denounce all forms and manifestations of commercial bribery and to eschew anti social practices.

(d) To accord prompt and courteous reception as far as conditions will permit to all that calls up on legitimate business mission.

(e) To respect one's obligations and those of one's organisation consistent with good business practice.

5.3 **STANDARDS OF FINANCIAL PROPRIETY:** Every officer incurring or authorizing expenditure from public moneys should be guided by high standards of financial propriety. Every officer should also enforce financial order and strict economy and see that all relevant financial rules and regulations are observed, by his own office and by subordinate disbursing officers. Among the principles on which emphasis is generally laid are the following: -

(a) Every officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys, as a person of ordinary prudence would exercise in respect of expenditure of his own money.

(b) The expenditure should not be prima facie more than the occasion demands.

(c) No authority should exercise its powers of sanctioning expenditure to pass an order which will be directly or indirectly to its own advantage.

Expenditure from public moneys should not be incurred for the benefit of a particular person or a section of the people, unless –

(i) A claim for the amount could be enforced in a Court of Law, or

(ii) The expenditure is in pursuance of a recognized policy or custom.

(e) The amount of allowances granted to meet expenditure of a particular type should be so regulated that the allowances are not on the whole a source of profit to the recipients.

(f) The responsibility and accountability of every authority delegated with financial powers to procure any item or service on Government account is total and indivisible. Government expects that the authority concerned will have the public interest uppermost in its mind while making a procurement decision. This responsibility is not discharged merely by the selection of the cheapest offer but most conform to the following yardsticks of financial propriety:-

(i) Whether the offers have been invited in accordance with government rules and after following a fair and responsible procedure in the prevailing circumstances.

(ii) Whether the authority is satisfied that the selected offer will adequately meet the requirement for which it is being procured.

(iii) Whether the price on offer is reasonable and consistent with the quality required.

(iv) Above all, whether the offer being accepted is the most appropriate one taking all relevant factors into account and in keeping with the standards of financial propriety.

(g) Wherever called for, the concerned authority must place on record in precise terms, the considerations which weighed with it while taking the procurement decision.

5.4 **ACCESS TO THE BOOKS OF ACCOUNTS:** In case it is found to the satisfaction of the Buyer that the seller has engaged an Agent or paid commission or influenced any person to obtain the contract as described in clauses relating to Agents/Agency Commission and penalty for use of undue influence, the Seller, on a specific request of the Buyer shall provide necessary information/inspection of the relevant financial documents/information.

5.5 **INTEGRITY PACT:** An "Integrity Pact" would be signed between DRDO and the bidder for purchases exceeding Rs. 100 crores. This is a binding agreement between the agency and bidders for specific contracts in which the agency promises that it will not accept bribes during the procurement process and bidders promise that they will not offer bribes. Under the IP, the bidders for specific services or contracts agree with the procurement agency or office to carry out the procurement in a specified manner. The essential elements of the IP are as follows:

(a) A Pact (contract) between the Government of India (Ministry of Defence) (the authority or the "principal") and those companies submitting a tender for this specific activity (the "bidder");

(b) An undertaking by the principal that its officials will not demand or accept any bribes, gifts, etc. with appropriate disciplinary or criminal sanctions in case of violation;

(c) A statement by each bidder that it has not paid, and will not pay, any bribes;

(d) An undertaking by each bidder to disclose all payments made in connection with the contract in question to anybody (including agents and other middlemen as well as family members, etc., of officials); the disclosure would be made either at time of tender submission or upon demand of the principal, especially when a suspicion of a violation by that bidder emerges;

(e) The explicit acceptance by each bidder that the no-bribery commitment and the disclosure obligation as well as the attendant sanctions remain in force for the winning bidder until the contract has been fully executed.

(f) Undertaking on behalf of a bidding company will be made “ in the name and on behalf of the company’s chief executive officer.”

(g) The following set of sanctions shall be enforced for any violation by a bidder of its commitments or undertakings:-

(i) Denial or loss contracts;
(ii) Forfeiture of the bid security and performance bond;
(iii) Liability for damages to the principal and the competing bidders; and
(iv) Debarment of the violator by the principal for an appropriate period of time.

(h) Bidders are also advised to have a company code of conduct (clearly rejecting the use of bribes and other unethical behavior and compliance program for the implementation of the code of conduct through out the company.

5.5.1 While the “Access to the Books of Accounts” clause would be applicable in all cases, signing of “Integrity Pact” would be mandatory in respect of purchases above Rs. 100 crores.

Chapter 6

PROCUREMENT OF MATERIALS: CASH PURCHASE

6. a) Cash purchase will normally be resorted to up to Rs. 10,000/-per item in respect of the following cases:

(i) For petty small value items.

(ii) For procurement of unanticipated, emergent and shut-down purchases required to be made at a short notice in the event of breakdown or crisis.

(iii) To meet urgent requirements of parts/components for trials of major equipment and systems at outstation.

CFA will ensure that splitting of demands is avoided.

b) In the following types of cases, even though the value does not exceed Rs 10,000/- (Rs ten thousand) regular purchase orders may also be placed:

(i) Foreign purchase,
(ii) Where the sale procedure of a particular supplier does not provide for cash sale, and
(iii) Where the nature of transaction makes it necessary to issue a regular purchase order.

c) Relaxation in the normal cash purchase procedure will be allowed for Labs/Estts located in remote/snowbound areas such as FRL, DRL, DARL, DFRL, SASE, ITM etc, for purchasing perishable items or for procurements involving high fluctuations in prices. The monetary limit for such relaxation will be Rs 20,000/- only.

6.1 **APPROVAL AND PROCESSING OF CASH PURCHASE**: The Directors may delegate cash purchase powers vested in them to various project leaders or group heads, to meet urgent requirements. All cash purchases made under such delegated powers, will be compiled for every week/month and a report, as given in a format at **DRDO.MM 09** will be submitted to CFA through Head (MMG) by seventh of the following month. Heads of divisions should ensure that all bought items have been brought on Charge (BOC).

6.1.1 The project leaders/group heads will be authorised to approve cash purchases up to the limit of cash purchase powers vested in the Directors. For this purpose, a team comprising minimum two officials, including one officer nominated by the officer competent to approve cash purchase, will be deputed to make cash purchases. The cash purchases will be made on the verbal enquiries by this team on the spot. Preference should be given to authorised dealers/agencies.

6.1.2 This team will certify in respect of each item that the purchase made by them was the cheapest or alternatively record reasons for the purchase at higher cost.

6.1.3 **Cash Purchase by Trial Team Leaders at Outstation**: For outstation trials, the trial team leaders will be specifically authorised by the Directors for hiring of vehicles and making on-the-spot urgent cash purchases for each individual item up to Rs 10,000/-. These purchases will be effected through verbal enquiries by a group of two persons, from the local market. The trial team leader will record a certificate as per Para 6.1.2. For this purpose, the trial team leader will be authorised to carry a lump sum amount as required for each trial. The settlement of such advances will be completed within 15 days after completion of the trials.

Note: For definition of trial, see Para 21.1 of the Materials Management Policy (1996).

6.1.4 When cash purchase from outstation is necessitated to meet emergency/special requirements, due to non-availability at the local station, approval of the Director will be necessary to make such purchases within the authorised financial limits.

6.2 **DRAWL AND SETTLEMENT OF ADVANCES**: Project leaders/group heads will consolidate their requirements against demands for which cash purchase has to be effected on a particular date and forward the same to the Accounts Officer, one day in advance. A copy of each approved "Cash Purchase Demand" as per proforma at **DRDO.MM 10** will be sent to the Accounts Officer for payment of cash.

6.2.1 On the intended day of cash purchase, the designated officer will draw cash advance from the Accounts Officer to effect the cash purchases.

6.2.2 Cash purchases will be completed within one day from the date of drawl of cash.

6.2.3 The printed Cash Memo/Receipt will be obtained in duplicate, clearly indicating description of stores, unit of accounting, prices and taxes charged.

6.2.4 Before entry of the cash purchase items into the Lab/Estt, these will be entered into the register maintained at the gate security office, which will be authenticated by the security staff on duty, on the reverse of the Cash Memo/Receipt.

6.2.5 After completion of the cash purchase, prompt action will be taken for settlement of advance. One copy of each Cash Memo/Receipt will be handed over to the Accounts Officer/Advance Paying Officer along with the consolidated statement of advance drawn and the amount actually spent on the cash purchase. The relevant proformae to be used up to the final settlement are given in **DRDO.MM 10** (on reverse). Balance amount will be refunded in full settlement of advance within a day after completion of the cash purchase. However, for Debit Voucher (DV) settlement, user must give receipt voucher within ten days. The Labs/Estts may allow the divisions to institute simplified accounting procedure by maintaining expendable registers to record receipts and expenses, to meet the audit requirement and for preparation of a list of cash purchase items as per Para 6.1 on **DRDO.MM 09.**

6.2.6 One copy of the Cash Memo/Receipt will be sent to MMG for centralised accounting of cash purchase items.

6.3 **SPECIAL DISPENSATION FOR REMOTELY LOCATED LABS/ESTTS**: The day-to-day requirements of perishables and other commodities for food and agricultural laboratories are unique in comparison with the role and needs of other DRDO Labs/Estts. Some of these Labs are located in snowbound and remote areas, which are communication-wise, industrially and commercially under developed. These laboratories, besides their normal activities, are called upon to provide support to the Services and local population in disaster management, provide emergency Compo-pack ration and processed food in exceptional circumstances to the troops in forward areas/difficult terrain and to expeditions undertaken at national level. In all these cases, timely procurement of essential commodities is of paramount importance. Directors/Officers-in-charge of these laboratories will, therefore, be authorised to evolve their own prudent methodology consistent with economy and prevailing local conditions/ trade practices for procurement of daily/seasonal requirements either by concluding annual rate contracts as resorted to by ASC (Supplies) or purchase 'on as required basis' from their respective dependent markets, viz, Delhi/Guwahati/Calcutta/Chandigarh/Mysore, etc. The Labs/Estts may approach Dte of BFA, DRDO HQrs for augmentation of their imprest/cash assignment, if considered necessary.

6.4 **PURCHASE OF DRUGS/MEDICINES**: The medicines in the Labs/Estts may be procured to meet the immediate day-to-day requirements of MI Rooms/Dispensaries located within the premises of the Labs/Estts. The normal source of supply for the medicines is AFMSDs or Govt. medical store depots. The Labs/Estts will place their quarterly demands on the nearest AFMSD or Govt. medical store depot to ensure regular supply.

6.4.1 In the event of non-materialisation of normal supply through the AFMSD/ Govt. medical store depots or to meet immediate requirements, the Labs/Estts may resort to cash purchase of the medicines within their delegated powers. Such purchases should be effected from the authorised wholesale distributors of the manufacturers or through super bazars/co-op stores/ stockists, etc.

6.4.2. In case the purchase of medicines exceeds the limit of cash purchase powers vested in the Directors, Labs/Estts may procure the same as per the normal local purchase procedure outlined in Chapter 7.

6.4.3. It will be ensured, at the time of taking delivery from the vendors, that the medicines produced in the latest available batch with maximum shelf life only are accepted.

Chapter 7

PROCUREMENT OF MATERIALS: LOCAL PURCHASE

7.1 **DETERMINATION OF THE MODE OF PURCHASE**: On receipt of the stores demand in the MMG, the officer concerned, after satisfying that the demand is complete in all respects, shall obtain approval of the competent authority. The mode of purchase will be decided with regard to all the relevant factors, such as nature of the demand, i.e., whether the stores/equipment are general purpose or specialised item(s); likely sources of supply, expected competition, known sources of supply, delivery schedule for the supplies, urgency, etc. Purchases will be processed based on recognised modes of purchase in accordance with well-established guidelines by one of the following methods of calling tenders:

i. Open tenders
ii. Global tenders
iii. Limited tenders
iv. Single tender
v. Single tender with PAC

7.2 **COMMON FACTORS FOR ALL TENDERS**: The common factors required to be indicated for invitations of all types of tenders are:

(a) Proper nomenclature with clear specifications, user's requirements, evaluation, testing and acceptance criteria including inspection process chart and test schedules (as already evolved at the time of initiation of demand - Para 4.5)
(b) Clauses for security deposit and earnest money deposit (EMD)
(c) Delivery schedule
(d) Liquidated damages clause
(e) Payment terms
(f) Insurance, if required
(g) Inspection agency, as applicable
(h) Mode of dispatch with place of delivery
(j) Validity period of the quotation
(k) Requirement of installation, commissioning and training, if applicable.

7.2.1 **Other General Guidelines**

(i) Due date and time of submission of quotations, due date and time of opening of quotations will be clearly mentioned in tender enquiries. Time gap between submission of quotations and opening of quotations will be kept within 24 hours. However, in respect of two bid quotations, only techno-commercial bid will be opened on the date of opening.
(ii) The day selected for opening the tenders should be a working day. Mondays or days followed by a series of holidays should be avoided, as far as possible.

(iii) Time allowed to the tenderers to submit quotations should be reasonable. Normally, three to six weeks will be allowed; time likely to be taken to secure and study specifications/drawings by the firm will be taken into account, wherever applicable.

(iv) Realistic validity period of the quotations will be specified in the tender inquiry. This period will be fixed keeping in view the nature of stores and post-tender formalities. A bid shall remain valid for 90 days in case of single bid tender enquiry and 120 days in case of two-bid system, unless otherwise specified, from the date of opening of tender.

(v) Tender enquiries will be signed for and on behalf of 'President of India'.

(vi) Suitable clauses regarding trial/guarantee run, warranty period, after sale service and availability of spare parts, wherever applicable, will be included in the tender inquiry.

(vii) Drawings/specifications will be supplied to the tenderers on payment of reasonable charges along with tender documents, wherever considered appropriate.

(viii) All correspondence with vendors regarding calling of tenders and supply order, etc., may be by an officer from MMG duly authorised by Director.

(ix) **Expression of Interest (EOI)**: When the estimated cost of stores/works/service is above Rupees 25 lakh, if desired, an enquiry for seeking 'Expression of Interest' from prospective bidder/service provider may be published in at least one national daily and the website of DRDO. The website address should also be given in the advertisement. Enquiry for seeking Expression of Interest should include in brief, the broad scope of work or service, inputs to be provided by the Lab/Estt, eligibility and the pre-qualification criteria to be met by the prospective supplier/service provider and their past experience in similar work or service. The prospective supplier/service provider may also be asked to send their comments on the objectives and scope of the work or service projected in the enquiry. Adequate time should be allowed for getting responses from interested prospective suppliers/service providers.

7.3 **MODES OF TENDERS**: In general, open/global tender should be called for to generate as much competition as possible. However, if the situation so warrants, other modes of tendering may also be used in accordance with the prescribed procedure. Brief description of the modes of tendering and likely situations where they may be used is given in the succeeding Paras 7.4 to 7.8.

7.4 **OPEN TENDERS**: All purchases should generally be made by open tender.

7.4.1 This system will essentially be followed for items where the limited tendering, irrespective of its estimated value, has not resulted in creation of expected competition and getting the best offer.

7.4.2 Open tender system involves wide publicity through advertising media (press, trade journals, etc.) to ensure extensive competition. Open tender notifications will also be sent to Director General of

Commercial Intelligence and Statistics, Calcutta for publication in their weekly issue of the Indian Trade Journal and to the DAVP, New Delhi for publication in leading newspapers. Directors may issue advertisements directly inviting open tender offers through the leading newspapers, if considered expedient after recording reasons for the same on the file.

7.4.3 Simultaneously, attention of renowned prospective suppliers may also be drawn to the advertised tender notice to enable them to offer the quotations after buying the tender documents from the Labs/Estts concerned.

7.4.4 Bidders not registered with any Lab/Estt or any other Government department will be asked to apply for such registration. This requirement, however, may not be insisted upon from the firms of repute and Labs/Estts will enlist such firms themselves in the registers as per Para 3.2.2.

7.4.5 The tender documents will be sold at the following rates, depending upon the estimated value of the stores. Tender documents may be supplied free to registered vendors only. Tender documents are not transferable.

Estimated value	**Rate**
Up to Rs 50 lakh	Rs 100/-
Above Rs 50 lakh	Rs 500/-

7.5 **GLOBAL TENDERS**: Global tendering is to be resorted to for items of foreign origin, where competition from more than one source from different countries is envisaged. Concurrent to the publication of tenders in newspapers/journals, as applicable to open tender system, adequate copies of the global tender documents will be endorsed to the respective Indian Embassies and High Commissions, to seek offers through their liaison. The payment of the cost of tender documents will not be insisted upon and left to the discretion of the respective Embassies/High Commissions abroad.

7.5.1 In the event of a single or two responses against open/global tenders, the TPC/NC can recommend the purchase, considering the merits of the case, dispensing with the need for retendering. Such cases of single response will not be treated as Single Tenders.

7.6 **LIMITED TENDERS**: This mode of tendering may be chosen for the following cases:

(a) When the sources of supply are definitely known and are limited.
(b) When it is not in the public interest to call for open tenders due to reasons of security or when superior authorities have issued specific instructions in this regard.
(c) When Government policies designate specific agencies.
(d) When open tender system adopted during previous one year has established sufficient and assured sources of supply at competitive rates.

(e) When the requirement of stores is urgent and the desired delivery schedule cannot be met if open tenders are invited, the indenting officer must place on record, the nature of the urgency and why the demand could not be anticipated earlier. Urgency of such cases will be specifically monitored till the placement of order.

7.6.1 Limited tender enquiries will be issued to vendors registered with R&D Labs/Estts, DGS&D, NSIC, other Government departments and to the firms of national repute who will be registered before their bid is considered as per Para 3.2.2. Such tenders may also be invited from the Government designated agencies. While inviting limited tender enquiries, due care will be observed in selecting vendors, especially in the case of traders who are not the actual manufacturers/authorised agent, to ensure better after sale service.

7.6.2 For imported items, help of Indian Embassies/High Commissions may be sought to locate sources of supply, if feasible.

7.6.3 The limited tender enquiries will be floated to all registered firms with a minimum of seven such firms for the concerned item(s). In a case where the number of registered firms is less than seven, these enquiries will be issued to all known firms dealing with the stores and efforts made in this regard will be recorded on the file.

7.6.4 Quotations received from at least three firms against limited tender enquiries are mandatory to process the purchase. In the event of response from less than three firms, action in accordance with succeeding Paras 7.6.5 & 7.6.6 will be taken.

7.6.5 In case only two valid and acceptable quotations are received, retendering is required if the rates quoted are higher than our estimates/LPR. Retendering is not required if the rates quoted are within reasonable limits as compared to our estimates/LPR. In exceptional cases where retendering is not considered fruitful inspite of the higher rates quoted, a valid justification is to be recorded by the user and approved by the Director. TPC/NC may consider such purchase.

7.6.6 In case only one valid and acceptable quotation is received after re-tendering, mode of tender should be changed to single tender without PAC and appropriate approval of CFA as per delegated powers is obtained before negotiations.

7.6.7 Unsolicited offers will not be considered. When an addressed manufacturer refers the tender inquiry to his authorised sales outlet or its branch office for dealing on their behalf, under intimation to Lab/Estt, such response/quotation will not be deemed an unsolicited offer.

7.7 **SINGLE TENDER**: This system will be adopted in respect of the following cases, with the approval of CFA as per delegated powers:

(a) Non-proprietary items, when only single response is available, in spite of limited tendering on more than one occasion.

(b) For items to be purchased from a source specified by Government or by the user (duly approved by the CFA).

7.8 **SINGLE TENDER WITH PAC**: This system will be adopted in respect of following cases on certification by the Director of Lab/Estt that no other make/brand can be used.

(a) Proprietary articles which are monopoly product of a single manufacturer. If possible, a certificate in this regard may be obtained from the concerned firm, before Director signs the PAC.

(b) Spare parts, attachments, accessories, etc for existing equipment.

7.9 **SELECTION OF TYPE OF TENDERING:** Directors may decide any mode of tendering within their delegated powers to be adopted for each purchase on the basis of the technical complexity of the item and known sources of supply etc. as elaborated below.

7.9.1 Dir of Lab/Estt is the competent authority to decide on the mode of tendering, i.e. Global/Open, Limited, Single or PAC within the overall cost of the project for the purchase of materials as per the delegation of financial powers in vogue.

7.9.2 In cases of items other than projects, beyond Director's powers, Director's recommendation should be sent along with EPC approval to DRDO HQRS (DMM) along with list of vendors being recommended for approval in case mode of tendering is other than open/global.

7.10 **EARNEST MONEY DEPOSIT (EMD)**: All tenderers other than those registered with DGS&D/any DRDO Lab or Estt/any other Government Deptt, offering their quotations in response to open tender enquiries, will be asked to remit EMD, an amount equivalent to 2 per cent of the estimated value subject to a maximum of rupees two lakh along with their bids, by way of a bank draft drawn in favour of the Director of the Lab/Estt. Organisations such as KVIC, Kendriya Bhandar/NSIC will be treated as registered vendors. In terms of Para 7.6.1, limited tender enquiries are to be issued to registered vendors only, who are exempted from remitting EMD. Requirement of EMD prevents non-serious vendors from making infructuous offers. EMD will be refunded in full to the unsuccessful bidders after finalisation of the supply order. In case of successful bidder, this amount will be refunded after submission of the security deposit.

7.10.1 **Forfeiture of EMD**: EMD will be forfeited, if the tenderer withdraws or amends or derogates from the tender in any respect within the period of validity of his tender. If the successful tenderer fails to furnish the required "Security Deposit" as defined in Para 7.11, EMD furnished will be forfeited.

7.10.2 **In case of 2 bid system;** Earnest Money Deposit (EMD) will be enclosed with the price bid, which will be opened during the TPC/NC. The tenderers will certify in the Techno Commercial bid that EMD amount as applicable has been enclosed in the price bid without disclosing the amount. However, if Earnest Money Deposit is not found enclosed with the price bid when opened by TPC/NC, such offers would not be considered by TPC/NC and would be treated as technically rejected.

7.11 **SECURITY DEPOSIT**: Directors of Labs/Estts will ask the qualified vendors to deposit the 'Security' equivalent to an amount, not exceeding 10 per cent of the value before release of the supply order. Security deposit is intended to safeguard the Govt. interest and to ensure successful execution of the supply order/contract. This deposit will be made in favour of CDA(R&D) Account and will not be held in the Public Fund Account of the Lab/Estt. However, this deposit can be accepted by way of a bank guarantee at the discretion of the Director. This requirement may not be insisted upon for PSUs and Government Deptts.

7.11.1 EMD and Security Deposit may not be insisted upon from foreign vendors, except for high value long-gestation orders.

7.11.2 (a) For orders costing less than Rs. 1 lakh; no security deposit is required.

(b) CFA is authorized to waive off security deposit from small vendors for orders costing between Rs. 1 to 5 lakh after recording the reasons for such waiver in writing as per para 7.11.3.

(c) For orders valuing greater than Rs. 5 lakh, CFA is authorized to waive off the requirement of security deposit based on the recommendation of TPC/NC as per para 7.11.3.

7.11.3 TPC/NC and CFA should take into account the past performance of the vendor in terms of timely delivery, quality of supply and also the fact whether the vendor is registered with the Lab/Estt while recommending waiver of security deposit or approving such waivers respectively.

7.12 **INVITATION OF TENDERS/QUOTATIONS**: Tenders/quotations having techno-commercial and price bids in a single envelope are termed as single/combined bid and tenders/quotations having techno-commercial and price bids in separate envelopes is termed as two bids. Tender/quotations may be invited in a single bid/ two bid depending upon the technical complexity of the item. Single bid system may be used for general use items/raw materials, where specifications are well established (BIS, DEF, etc.) and technical clarifications are not required. Bids for technically complex items, which need a thorough technical evaluation, should be called for, in two separate envelopes, i.e., techno-commercial and price bids. However, cases up to Rs. five lakh may be invited in a combined/single bid as no TPC is required and procurement can be finalised by CST and CFA approval.

A specimen proforma for 'Invitation of Tender/Quotation' is given at **DRDO.MM 11** (for other than open tender cases). Specimen of tender document (for open tender cases) is given at **DRDO.MM 12.**

7.13 **RECEIPT OF TENDERS**: A tender box, locked and sealed, will be placed at the security gate or any other secured convenient place in the Lab/Estt to facilitate uninhibited access to the tenderers to drop their quotations. This box will be removed from the place or made inaccessible to the vendors at the time of closing as specified in the tender inquiry. The key of the tender box will be kept in the personal custody of a responsible officer. Quotations received through the couriers/by post will be put immediately into the box without opening. Price bids received from indigenous vendors by telegram/telex/fax/e-mail, except in cases of PAC/Single Tender will not be accepted. However, for imported items, the quotations received from foreign vendors by telegram/telex/fax/e-mail may be considered if the same are received before expiry of the prescribed date and time. Price bids received by fax in Director's office may be kept in his personal custody and placed before TPC/NC.

7.13.1 **Extending of Date and Time for Opening of Tenders**: When a decision for postponement of the date of opening of a tender is taken either to meet the requirement of the Lab/Estt or at the request of vendors, it will be communicated to all the firms addressed originally in case of limited tenders and all the firms who have purchased tender documents in case of open tenders. Such communication will be issued well in advance of the date of opening of tenders originally stipulated.

7.13.2 **Late/Delayed Tenders**: All tenders or modifications thereto received beyond the specified time for opening and those received after the specified time of receipt, but before that for opening, shall be marked as 'Late' and 'Delayed' respectively and will not be considered.

7.13.3 **Scrapping of Tenders**: Scrapping of tenders will be resorted to in the following cases with the approval of the Director:

(a) Change in basic specifications governing supplies after opening of tenders.

(b) Non-receipt of offers as per specifications laid down.

(c) Sudden downward market trend.

(d) Prices quoted being very high/unreasonable.

(e) Large/manifold variation in tendered prices.

7.14 **OPENING OF TENDERS/BIDS AND EVALUATION:** Following procedure will be followed for opening of tenders/bids and their evaluation.

7.14.1 a**) Tender Opening Committee (TOC):** The Directors of Labs/Estts will appoint a Tender Opening Committee for opening the tenders on the date and time specified. The Tender Opening Committee may comprise representatives from MMG, vigilance officer/security officer and duty officer of the day. Any two of the committee members may be authorised to open the tenders.

b) All quotations received and opened will be entered in the tender register indicating the names of the firms, quotation reference number, file number and other pertinent details. The serial number allotted in the register will be marked on the respective tenders/quotations. Overwriting/crossed-outs etc in the tenders will be identified and initialed by at least two members of the TOC. These members will initial pages of tenders and write their names below their initials**.**

7.14.2a) **Opening of Tenders/Quotations:** The bids for items costing up to Rs. 5 lakh, for which no TPC/NC is required, will be opened by TOC and MMG will prepare CST as per Para 7.14.5 and refer to the Officer-in-Charge of the user division for recommendation of the vendor on whom the order should be placed. While recommending the user should keep in view the CVC guidelines of considering L1 only. The CST will be submitted to CFA for approval.

b) Tenders for items above Rs. 5 lakh coming in a single bid, in which no technical evaluation is required, will be opened by the TPC/NC. Negotiations, if required, will only be carried out with L1.

c) In case of two-bid quotations, TOC will open only the techno-commercial bids and hand over to a Technical Evaluation Committee (TEC) formed by the Director as per Para 7.14.3 for techno-commercial evaluation, while price bids will be opened as per Para 7.14.4 after TEC report is finalized. In case of two bids, vendors who fail to submit in two bids will not be considered.

d) The desiring vendors or their authorised reps may be allowed to be present while opening of tenders/bids.

7.14.3 a) **Evaluation of Techno-commercial Bids**: The need for carrying out a thorough technical evaluation of offers is a very important step in purchasing to ensure processing of only technically acceptable offers. Based on the details furnished by the firms in their techno-commercial offers, a comparative evaluation will be carried out by a Technical Evaluation Committee (TEC) appointed by the Director. This Committee will comprise of technical expert(s) from the Lab/Estt and a representative each from MMG and the user group. The Directors may at their discretion include a technical expert (SC-D or above) from sister Lab/Estt or an outside expert from other Govt. Deptts./Academic Institutions, in the TEC to derive technical advantage based on their expert opinion. In cases where techno-commercial evaluation includes financial/commercial issues, a rep from IF(R&D)/ CDA(R&D) shall be co-opted.

b) TEC may also bring about the commercial terms such as payment terms, taxes, duties etc. and uniformity within the framework of Govt. policy. All technically acceptable vendors may be given the uniform commercial terms and allowed to revise their price bid, if necessary. If inspite of the efforts made by the TEC, variations persist in commercial terms, this will not form the sole basis for rejection of technically acceptable offers. In such cases TPC/NC will normalise techno-commercial terms before opening price bids.

c) TEC will shortlist the offers to be considered for negotiations by the price negotiating committee only after bringing technical uniformity on the basis of standardised specifications/technical parameters and prepare their recommendations. For the purpose of proper assessment/evaluation, the TEC will also prepare a techno-commercial CST as per format at **DRDO.MM 13** bringing out the comparison between the specifications/other terms asked for and offered by vendors. Reasons for rejection of any offers will be recorded clearly in the recommendations. TEC recommendations will be put up to TPC/NC for consideration.

d) There should be at least three technically acceptable offers with a rating allotted by TEC. In case the technically acceptable offers are less than three, further action will be taken in accordance with Paras 7.5.1, 7.6.5 and 7.6.6.

e) Specifications will not be revised after TEC report is finalised and price bids are opened during TPC/NC meeting after fresh inputs are received. In such cases scrapping of tenders may be resorted to with the approval of TPC/NC.

7.14.4 **Opening of Price Bids:** Price bids for two bid quotations will only be opened after TEC report is finalised and approved by the Director. Price bids will be opened by TPC/NC. Negotiations if required will only be carried out with L1.

7.14.5 **Preparation of Commercial CST:** The CST will be as per the format given at **DRDO.MM 14**. The CST will indicate all details of offers, i.e., nomenclature, price, sales tax, duties, insurance, packing and forwarding charges, etc., as given in the quotations. Detailed specifications and the TEC report along with warranty stipulations, maintenance support, availability of spares wherever applicable, will be annexed to the price bid CST. For fair comparison with a view to ascertain the real cost of procurement, details as given in the quotations such as delivery ex-godown or FOR destination, transportation, inspection costs etc will be reflected in the CST. Last purchase price, wherever available, will also be indicated in the CST, if similar item was purchased earlier. The CST will be signed by the member secretary/rep MMG.

7.15 **CONSTITUTION OF TENDER PURCHASE COMMITTEE/NEGOTIATION COMMITTEE (TPC/NC):** The constitution of TPCs/NCs will be based on the concept of “Standing TPCs/NCs” for all purchases, including proprietary items and those from foreign sources up to tender value of Rs 1.00 Cr. This will ensure uniformity and obviate delays in handling purchases and allied issues. For procurement above Rs. 1.00 Cr , TPC/NC will be constituted on a case-to-case basis by DMM, DRDO HQrs. The standing TPCs/NCs will be constituted for specified duration of one year according to financial limits given in (a) and (b) below:

(a) **For Tenders above Rs 5 lakh and up to Rs 50 lakh:** These TPCs/NCs will be constituted by the Director of Lab/Estt by nominating officers of the following levels:

(i)	Scientist F/equivalent or above	Chairman
(ii)	Specialist technical officer from a sister Lab/Estt not below Scientist D	Member
(iii)	Local CDA (R&D) rep	Member
(iv)	An officer from the user group	Member
(v)	Head (MMG) of Lab/Estt or his rep	Member Secy

In the Lab/Estt where an officer of Scientist 'F' levels is not available, the senior-most officer next to the Director may be nominated to preside over the TPC/NC. The Chairman may co-opt any other officer/specialist from the Lab/Estt or any other organisation, at his discretion, for this Committee.

(b) **For Tenders above Rs 50 lakh and up to Rs 1 Crore**: These TPCs/NCs will be constituted by the Director of Lab/Estt and will have the following composition:

(i)	Director of Lab/Estt or Sc 'G'/equivalent	Chairman
(ii)	Local CDA (R&D) rep	Member
(iii)	Specialist Technical officer from a sister Lab/Estt not below Sc 'E'/equivalent	Member
(iv)	An officer of user group (Sc 'D' and above)	Member
(v)	Head MMG of Lab/Estt or his rep	Member Secy.

The Chairman may co-opt any other officer/specialist from the Lab/Estt or any other organisation at his discretion for this committee. In case of Labs/Estt located in remote areas such as FRL, DRL, DARL, DFRL, SASE, ITM and Single Lab/Estt in the whole station such as NMRL, NPOL and NSTL, for constituting the TPC/NC a specialist technical office of suitable rank may be taken as a member from any Govt organization / Academic Institutions, if not available from DRDO Lab/Estt.

(c) **For Tenders above Rs 1 Crore and upto Rs 3 Crore**: Dte of MM, DRDO HQrs, will constitute these TPCs/NCs for individual cases by nominating officers of the following levels:

(i)	The Director of the Lab/Estt or an officer of Scientist G/equivalent	Chairman
(ii)	DFA(R&D)/ Director (Fin/R&D) or his rep	Member
(iii)	Technical Director (DRDO HQrs) or his rep.	Member
(iv)	Director, ECS (DRDO HQrs) or his rep (For computer items only)	Member
(v)	Director, DMM (DRDO HQrs) or his rep.	Member
(vi)	Head of the user group or next senior most Officer	Member
(vii)	Head MMG of Lab/Estt or his rep	Member Secy.

The Chairman may co-opt any other officer/specialist from the Lab/Estt or any other organisation, at his discretion, for this Committee.

(d) **For Tenders above Rs 3 crore**: These TPCs/NCs will be constituted by Dte of MM, DRDO HQrs for individual cases and will have the following composition:

(i)	CCR&D or Director of Lab/Estt (with approval of CCR&D)	Chairman
(ii)	Addl FA (R&D) or his rep	Member

(iii) Director of indenting Lab/Estt or his rep — Member
(iv) Technical Director at DRDO HQrs or his rep — Member
(v) Director MM (DRDO HQrs) or his rep — Member
(vi) Director, ECS (DRDO HQrs) or his rep — Member
(For computer items only)
(vii) Head (MMG) of Lab/Estt or his rep — Member Secy.

The Chairman may co-opt any other officer/specialist from DRDO HQrs/Labs/Estts or any other organisation, at his discretion, for this Committee.

7.15.1 The estimated value will be the criteria for deciding the level of TPC/NC. In case the actual value exceeds more than 10% of the limit of the TPC/NC, concurrence of higher TPC/NC will be required.

7.15.2 The timetable for scheduling of TPCs/NCs will be evenly spread throughout the year to ensure uniform annual expenditure.

7.15.3 The evaluation of techno-commercial bids will be made by TECs specifically formed and approved by Director of Lab/Estt for each item. The TEC recommendations will be put up to TPCs/NCs for consideration (Para 7.14.3 c refers)

7.15.4 Wherever the response from vendors is considered adequate, prices/other commercial terms are found reasonable and price negotiations with vendors is not considered necessary, option of 'conducting of TPC by circulation' along with the file containing all relevant papers including TEC report, may be adopted. This methodology may also be adopted for FE cases where negotiations with foreign vendors are not feasible.

7.15.5 The option to constitute TPCs/NCs, for special items will however, remain with DRDO HQrs (DMM).

7.15.6 Chairman and other members of TEC and TPC should be different as far as possible except for user member(s).

7.16 **CONDUCTING OF TPCs/NCs:** The Directors of Labs/Estts will appoint "Standing TPCs/NCs" for levels mentioned in Para 7.15 (a) & (b) at the beginning of the financial year. Calendar for scheduling of all these TPCs/NCs will be drawn up by the concerned Chairman in consultation with sister Lab/Estt/Local CDA (R&D).

7.16.1 Labs/Estts will forward their proposals to DRDO HQrs (DMM) for constitution of the TPCs/NCs for the tender value above Rs 1 crores. Labs/Estts shall ensure for validity of quotation, EPC approval, Availability of Funds before conducting TPC/NC meeting. The proposal will contain approved demand, techno-commercial report of TEC and TPC/NC Information Proforma as given at **DRDO. MM15.** The date and venue for scheduling of these TPCs/NCs will be decided by the Chairman in consultation with IF(R&D)/DMM.

7.16.2 The member secretary will issue notice, indicating date/time and venue for scheduling of the meeting. He will compile agenda papers duly supported by technical brief and justification furnished by the user groups in support of the requirements. The agenda papers along with approved demand, techno-commercial report of TEC and other briefing papers, if any, including TPC/NC Information Proforma will be sent to all members so as to reach them at least 10 days in advance.

7.16.3 Where negotiations are contemplated, concurrently the respective vendor(s) will be informed so as to enable them to be present on the day of the meeting.

7.17 **GUIDELINES FOR NEGOTIATIONS:** Before scheduling negotiations, it may be advisable to work out estimated reasonable rate, based on the material and labour content of the item to assess reasonableness of the prices quoted by the vendors. While fixing reasonable rate, the advice of IF(R&D)/CDA(R&D) representative and an outside expert/consultant may be sought, if considered necessary.

7.17.1 In case of tenders where there is adequate competition and prices quoted are considered reasonable, with reference to estimate/Last Purchase Price (LPP), the option of “conduction of TPC” by circulation may also be considered.

7.17.2(a) When negotiations are considered necessary, out of all firms whose offers fully meet the techno-commercial requirements as per the technical evaluation, only the firm whose price-bid is the lowest (L1) will be called for negotiations by TPC/NC.

(b) The purchase preference for central public sector enterprise will be allowed, as per the current policy of GOI if the price quoted by them is comparable with L1. However, the Labs/Estts are cautioned not to use such preference as a shield or a conduit for getting costly inputs or for improper purchases, as per the guidelines issued by the Central Vigilance Commission (CVC).

(d) If L1 does not have the capacity to supply within the delivery period as per tender enquiry, after loading L1 fully as per its capacity and past delivery, order can be placed on L2, L3……… for the balance quantity at L1’s rate.

(e) When it’s not possible to obtain L1’s rate and there is an operational or production compulsion, CFA can approve the price differential upto 5%, within his financial powers in consultation with CDA(R&D)/IF(R&D) as applicable.

(f) For any price differential above 5% approval of Secretary(R&D) would be necessary for procurement of stores costing up to Rs. 15 cr.

7.17.3 Apart from the price, the offer should meet the quality requirement, delivery schedule and time profile of the project needs. Overall economy of the offer after taking into account the maintenance cost, etc. should be considered before selecting a vendor. To achieve value for money, DRDO Labs/Estts will consider all price and non-price factors that are significant in any individual procurement. Such factors include fitness for purpose, whole life cost, fair market prices, timely delivery, post-delivery support and effective warrantees.

7.17.4 The cost of post-warranty maintenance contracts for high value complex equipment will be included in the initial price-negotiations by the TPC/NC to seek price concession.

7.17.5 The payment terms considered most favourable to Government will be negotiated. Where the firms offer sizeable discount conditional to cash payment, such an offer may be considered favourably by TPC/NC and payments disbursed by A/C payee cheques promptly.

7.17.6 Penalty by way of Liquidated Damages (LD), forfeiture of deposit, etc., will be negotiated with a view to imbibing caution in the minds of vendors to meet delivery schedule.

7.17.7 The Central Public Sector Undertakings will be allowed purchase preference as per the Government orders issued from time to time. Price preference, will be allowed to Khadi and Village Industries Commission (KVIC)/Women Development Corporation/Small Scale Units as per the Government policies.

7.17.8 For items/stores channelised by Government through designated sources of supply, negotiations are not essential pre-requisite for placement of orders.

7.17.9 In case of all items from Indian vendors delivery should be F.O.R destination as far as possible. In cases of imported stores, transit insurance may be considered as per Para 7.42.

7.17.10 Wherever performance warranty is required, Bank Guarantee (BG) for 10 % of the value may be asked for from the vendor. Indemnity bond (IB) in lieu of bank guarantee may be considered in case of PSUs. Academic institutions/Govt. Deptts may be considered for exemption of BG/IB on the recommendation of TPC/NC by CFA.

The case for waiver of performance bank guarantee (PBG) shall be referred to DMM/DRDO Hqrs after recommendation of TPC/NC for obtaining of approval of CFA.

7.17.11 **Issue of Stores:** Whenever Govt. stores are issued to contractor/vendor for some fabrication/repair/maintenance either during warranty period or after warranty period, the necessary BG may be obtained to safeguard the Govt. interest. Cases may arise where the contractor/vendor may not agree to such Bank Guarantee; these cases may be decided as per provisions given below:

(a) Whenever the cost of the Govt stores to be issued by the Lab/Estt for use in the contract, is more than 100% of the contract cost, the necessary BG may be obtained for the value of contract cost and for the remaining cost of the free issue of material, insurance shall be provided by the vendor in the favour of Lab/Estt Director.

(b) Indemnity bond may be taken from Government Departments/PSUs in place of BG.

Any deviations of the above may be referred to the DRDO HQrs (DMM) for approval in consultation with Integrated Finance.

7.17.12 While conducting negotiations, recent publication on “Guidelines for Negotiations” authored by Shri R Ramanathan, Addl FA(R) and AS and any other relevant publications, may be consulted.

7.18 **SCRUTINY BY TPC/NC MEMBERS:** An officer from MMG or member secretary will complete as far as possible the "TPC/NC Information Proforma" as given at **DRDO.MM 15** for consideration of all TPC/NC members. All papers relating to the item i.e., SPC recommendations, approval for mode of tender etc will be made available for scrutiny by TPC/NC members, if required. The TPC/NC members will examine the following points in respect of stores intended to be purchased, during preliminary discussions:

(a) Description of the item and its estimated cost.

(b) Purpose of requirement, i.e., project/build-up/maintenance.

(c) PDC of the project, If for project.

(d) Likely availability of funds.

(e) Likely cash outgo during current financial year.

(f) Mode of tendering: Global/open/limited/single/single with PAC.

(g) If the mode of tendering is ‘limited’, whether the tenders were invited from registered/reputed vendors?

(h) Mode of inspection/inspection facilities available.

(j) Facilities for installation and commissioning are available/are covered in the firms’ quotations.

(k) Requirement of specialised training, if any.

(l) Warranty period and availability of post-warranty facilities.

(m) Validity of quotations.

(n) Reasonableness of quoted price.

(o) Registration status of Indian agent if any, commission payable and currency in which payable.

(p) Payment terms.

(q) Delivery period.

(r) Other commercial terms e.g. taxes and duties, packing and forwarding charges, mode of dispatch, transit insurance cover, place of delivery, etc.

7.18.1 TPC/NC members will thoroughly scrutinize the techno-commercially acceptable offers of the vendors in relation to all points mentioned in Para 7.18 above, with a view to derive maximum advantage for successful materialization of the procurement within time schedule at the most favorable rate and payment terms. In order to determine L1 the financial implication should be considered on the basis of all inclusive cost (viz. basic price, taxes, freights, insurance etc. payable by the DRDO Lab/Estt after availing various benefits of exemptions from taxes/duties as applicable to DRDO from time to time) to the State on delivery to the designated consignee i.e. L1 determined on the basis of total cash out flow from Lab/Estt".

7.18.2 Minutes of the TPC/NC meeting will be prepared after the deliberations of the meeting, recording all discussions held during the meeting and highlighting the recommendations made by the committee. In case the procurement is not finalised during the meeting, any useful discussion may be recorded for use by subsequent TPC/NC. The minutes will be finalised immediately and not later than 7 days after conclusion of the TPC/NC meeting. A copy of the accepted minutes will be sent to DRDO HQrs (DMM), local CDA(R&D) office and Director (Fin/R&D), as applicable. If the minutes are not finalised within 30 days, the demand will have to be revalidated by the next higher authority.

7.18.3 The minutes of TPC/NC duly signed by all members will be put up to Director for approval.

7.19 **DISSENTING OPINION:** Dissenting opinion, wherever expressed, will be recorded in the minutes and referred to the Directors of the Labs/Estts (if they are not chairman of TPC/NC) up to the financial powers vested in them and to DRDO HQrs above this value, for decision. The competent financial authority will record sufficient reasons in arriving at a ruling on such cases.

7.20 **SINGLE TENDER/SINGLE TENDER WITH PAC PURCHASE**: The quotations received in response to single tender/single tender with PAC enquiries, will be assessed for techno-commercial suitability by TEC, delivery schedule and other commercial terms by an appropriate TPC/NC for cases above Rs. 5 lakh, before approval of the competent authority and placement of orders.

7.21 **EXEMPTION FROM TENDERING:** Tendering procedures need not be followed for purchase of items/products of following categories where:

(a) Prices are fixed by the Government such as steel from Government yards, oil and petroleum products from Indian Oil Corporation, Bharat Petroleum and Hindustan Petroleum, etc.
(b) The prices and distribution are controlled by Government or any other statutory authority.
(c) Materials are marketed by the state trading agencies, i.e., STC, MMTC, etc.
(d) Sales outlet is through Government-controlled retail shops such as super bazars, cooperative societies, State-managed fair price shops, Canteen Stores Deptt (CSD) etc.

7.21.1 The above does not dispense with the requirement of holding TPC/NC meetings.

7.22 **FINANCIAL SANCTION OF THE CFA:** The purchase file containing all the relevant papers along with the CST and TPC/NC minutes will be put up to the Director/CFA of the Lab/Estt for financial sanction up to the financial powers delegated to them.

7.22.1 Cases beyond the Directors' powers will be referred to DRDO HQrs (DMM) along with approved TPC/NC minutes and copy of accepted quotation for according financial sanction by the competent authority.

7.23 **PAYMENT TERMS**: The normal terms of payment are 100 per cent within 30 days after receipt/acceptance of stores in good condition or the date of receipt of the bill whichever is later. In cases where the risk during performance warranty is required to be covered, Labs/Estts may withhold an amount not exceeding 10 per cent of the value of the order or obtain performance bank guarantee for an equivalent amount for the duration of warranty period before release of final payment. The requirement of performance bank guarantee may be waived by CFA on recommendation of user for low value procurement costing up to Rs. 5 lakh. However, the following payment terms may be agreed to by TPC/NC on the merits of the case:

7.23.1 Whenever insisted upon by the vendor, payment up to a maximum of 95 per cent plus statutory levies in advance may be made on the strength of inspection & despatch documents or on receipt and acceptance of stores in the Labs/Estts and bank guarantee for an amount not exceeding 10 per cent of the value of the order when such a guarantee is required. The cheque for advance payment up to 95% plus statutory levies may be drawn against a proforma invoice received from the firm. Such cheque, whenever drawn, will remain in the custody of Lab/Estt representative for handing over to the firm after satisfactory inspection and receipt of dispatch document at firm's premises/receipt & acceptance in the Lab/Estt. Balance 5 percent will be paid after receipt of stores in full and good condition, satisfactory installation and setting to work within 45 days.

7.23.2 In cases, where firms insist for advance payment on release of documents through a bank, this will be acceptable for vendors of repute after inspection as per the limits specified in Para 7.23.1. Wherever Labs/Estts have established revolving Letters of Credit, to make payments against indigenous supplies, such payments will be regulated against these LCs. All LC and other charges, if any are to be borne by the supplier.

7.23.3 Payment up to 100 % against delivery when insisted upon by the vendor for consumable stores such as chemicals, gases, etc., can be made up to a limit of Rs. 5 lakh. For such cases above Rs. 5 lakh, prior approval of DRDO HQrs (DMM) in consultation with IF(R&D) will be obtained.

7.23.4 **Advance Payment**: As per the current policy of the Govt. no advance should be offered in the tender enquiry and the first stand of the CFA should be of no advance. However, in exceptional cases of contract for manufacturing of equipment, system or that for a project with long execution time, advance payment up to 30% for the ordered supplies may be approved by CFA. On recommendation of TPC/NC, against valid BG from a scheduled bank. However, in some cases, stage payment at pre-defined stages of contract completion may be approved by the CFA if considered appropriate.

7.23.5 Payment to PSUs/Government Deptts: Wherever justified, PSUs/Government Deptts will be allowed up to 100 per cent advance payment whenever insisted upon either in one go or in stages as per negotiated terms. All advances and warranty stipulations will, however, be covered through a suitable Bank Guarantee/Indemnity Bond on a stamped paper of appropriate value, wherever applicable. Samples of bank guarantee and indemnity bond are given in Forms **DRDO.MM 28** and **DRDO.MM 29** respectively. Requirement of Bank Guarantee or Indemnity Bond may not be insisted upon for Government Deptts**. /** reputed Academic Institutions such as IITs, etc., at the discretion of CFA.

7.23.6 **Payment to Foreign Firms**: Payment by Letters of Credit/sight drafts/tele-transfer is to be made for imported supplies.

7.23.7 Stage payments linked with completion of milestones may be accepted by CFA on assessing the expenditure of the completed tasks, if recommended by TPC/NC.

7.23.8 **Payment against Service/Maintenance Contracts**: Advance payment up to 100 per cent on account of charges payable in respect of contracts for periodical servicing and maintenance, defect investigation/repairs, etc., may be allowed against Bank Guarantee.

7.23.9 **Deviation from Standard Terms of Payment**: Any deviations from the above mentioned terms of payment will, however, be allowed in exceptional circumstances on the specific recommendations of TPC/NC by **CFA** in consultation with Integrated Finance (R&D).

7.23.10 **Bank charges** on account of all Bank Guarantees will be borne by the vendors.

7.24 **LETTER OF INTENT**: It may, at times, be necessary to conclude the purchase by issue of a letter of intent or telegraphic/telex/fax acceptance due to imminence of expiry of the quotation or any other reason. In such cases, the letter of intent/telegraphic or telex/fax acceptance amounts to final acceptance of the offer. It is, therefore, imperative that all-important and relevant aspects such as description of stores, quantity, price, delivery period, etc are properly reflected in the advance communication. It will be ensured that in such cases there is no variation between the letter of intent and the formal supply order issued subsequently. The advance communication should specifically confirm acceptance of the offer and state that the formal supply order showing full details will follow. The formal supply order will be issued without any avoidable delay.

7.24.1 The letter of intent is a legally binding document and could be issued based on the recommendation of TPC/NC if the negotiated amount does not exceed the amount approved by EPC.

7.25 **PREPARATION OF SUPPLY/PURCHASE ORDERS**: For items below Rs 5 lakh the supply/purchase orders will be prepared only after the CST has been recommended by the user group and approved by the CFA.

7.25.1 For items above Rs 5 lakh, the supply/purchase order will be prepared after acceptance of TPC/NC minutes by CFA/Director. The orders will incorporate only such terms and conditions/instructions as have been agreed to by the firm and approved by TPC/NC.

7.25.2 For imported items, release of Foreign Exchange by competent authority is an essential pre-requisite before placement of the order.

7.25.3 It will be ensured that sufficient budget is available at the time of delivery of items for this supply order**.**

7.25.4 The following details will be incorporated in the supply/purchase orders:

(a) Supply/purchase order number and date.

(b) Supplier's quotation reference and date.

(c) Description of items/stores with detailed specifications.

(d) Quantity required and the accounting unit.

(e) Rates both in figures and words including discount, if any.

(f) Total number of items and their aggregate value shown below the list of items.

(g) Delivery date (words such as 'immediate' or 'as soon as possible' will not be used).

(h) Packing, dispatch, insurance, mode of transportation, instructions and terms of delivery.

(j) Payment terms liquidated damages clause for delayed supplies.

(k) Orders will be signed for and on behalf of 'President of India' by an officer specifically so authorised by the Director.

(l) Acknowledgement and acceptance of Supply/Purchase Order.

(m) Provision for part/stage payments against part supplies may be included, wherever applicable.

(n) A suitable Arbitration clause may be added, if considered appropriate, as per Para 7.45.

A specimen format of Supply/Purchase Order is placed at **DRDO.MM 16** and its acknowledgement is placed at **DRDO.MM 17**. Standard terms and conditions are mentioned in the form **DRDO.MM 16**. However any new conditions or any modifications duly approved by TPC/NC may be incorporated in the same.

7.25.4 **Supply Order Progress Register**: Labs/Estts should maintain a 'Supply Order Progress Register' or 'Computer Entry System' wherein all supply orders will be entered as per the serial numbers. These registers/computer records will be updated with stages of progress of supply orders relating to amendments, if any, stage/part payments, delivery details, final payment details with cheque Nos. and date, etc.

7.26 **DISTRIBUTION OF SUPPLY/PURCHASE ORDERS**: Distribution of Supply/Purchase Orders will be as follows:

(a) Supplier – 2 copies including original with a request to return the original copy duly acknowledged for settlement of bills.

(b) Local CDA (R&D) authority – 1 copy (ink-signed)
(c) Demanding officer – 1 copy
(c) Stores Movement Control Div. (Receipt & Dispatch Section) - 1 copy
(e) Bill Payment Section – 1 copy
(g) Case file – 1 copy

7.27 **DESPATCH OF SUPPLY/PURCHASE ORDERS**: The purchase orders will be dispatched to the supplier along with required number of blank bill forms by registered post acknowledgement due. However, other modes such as speed post, courier, etc. may be adopted at the discretion of Head, MMG. On receipt of the order acknowledgement/acceptance from supplier, as given in **DRDO.MM 17**, any deviations proposed by the vendors will be dealt with in an appropriate manner, as per the prescribed rules.

7.28 **AMENDMENTS TO SUPPLY/PURCHASE ORDERS**: Minor corrections to Supply/Purchase Orders, not affecting the prices and specifications, will be issued by the authorised officer. Amendments affecting delivery period will not be made as a matter of routine. In exceptional cases, where supplier has asked for revision of delivery period justifying with sufficient reasons, the concurrence of demanding officer and CFA for acceptance of the delay will be obtained before granting such extension. Each such case will be examined on merit for imposing/waiving off the liquidated damages. Decision on imposing/waiving off liquidated damages as per clause 7.44.1.

7.28.1 Amendments on account of increase in statutory levies will be admissible after approval of the CFA. Any amendment to issue exemption certificate for CD/ED etc. will be done with the approval of CFA on recommendation of TPC/NC (if applicable).

7.28.2 Amendments due to variation in supplies up to 5 per cent necessitated by exact multiples of the standard units of measure, etc., or when requirement is of repetitive nature or where it is difficult to mention exact quantity (weight) in the case of steel plates, etc., may be allowed.

7.29 **REPEAT ORDERS**: If a demand is received for an item or items previously ordered by Labs/Estts or other DRDO Labs/Estts or other Government scientific research institutions, the repeat order may be placed without fresh tendering/negotiations provided that:

(a) Items ordered have been delivered successfully.

(b) The repeat order is not placed to split the requirement to avoid sanction of the next higher CFA.
(c) The original order was placed on the basis of lowest price negotiated by TPC/NC wherever applicable and technically acceptable offer and was not on delivery preferences.
(d) The repeat order is placed within twelve months from the date of supply order and only once by the Lab/Estt, the total quantity to be ordered /purchased on repeat order does not exceed 100% of original order.
(e) The requirement is for stores of identical description/specifications.

(f) The supplier's willingness to accept the repeat order on the same terms and conditions as per the original order is obtained.

(g) The CFA is satisfied that there is no downward trend in the market price of the item and a clear certificate is appended to that effect if the enquiry is floated afresh, the expenditure is not likely to be less.

(h) The cost of repeat order does not exceed the original supply order.

(j) Quantity discount is sought from the vendor, if applicable.

(k) The additional taxes and transportation charge as applicable on the date of placement of repeat order are paid.

7.30 **OPTION CLAUSE:** The purchaser retains the right to place orders for additional quantity up to a **maximum of 50%** of the originally contracted quantity at the same rate and terms of the contract. Such an option is available during the original period of contract provided this clause has been incorporated in the original contract with the supplier. Option quantity during extended DP is limited to 50% of balance quantity after original Delivery Period.

(a) Option clause can be exercised with the approval of CFA under whose powers total value of supplies of original contract plus 50% option clause falls. This option is normally exercised only when there is no downward trend in prices as ascertained through market intelligence. CVC have also reiterated the need to look at the downward trend before exercising option clause.

(b) In case of single vendor OEM, option clause should be normally operated up to 50% subject to there being no downward trend. However, in multi vendor contracts, great care should be exercised before operating option clause up to 50%.

(c) In case provision of option clause has been opted, repeat order option will not be applicable.

7.31 **LOCAL PURCHASE AGAINST DGS&D RATE CONTRACTS**: They may place orders against valid DGS&D rate contracts for items/equipment acceptable to them, for expeditious materialisation of supplies and cutting short the tendering and TPC/NC formalities.

7.31.1 List and details of rate contracts concluded by the DGS&D can be obtained by Labs/Estts directly.

7.32 **ENTERING INTO RATE/RUNNING CONTRACTS BY LABS/ESTTS**: Labs/Estts may enter into rate/running contracts based on open tenders for common-use items such as laboratory chemicals, solvents, glass apparatus, electronic components, electrical items or similar items which are in regular demand and prices of which are not subject to appreciable market fluctuations after getting the TPC constituted from DMM, DRDO HQrs as per Para 7.32.3. A format for Rate Contract is placed at **DRDO.MM 30**

7.32.1 **Definition**: The definition of rate/running contracts is given hereunder:

(a) **Rate Contract***:* It is a contract for the supply of stores at a specified rate during the period of contract. No quantity is mentioned and the contractor is bound to accept any order, which may be placed on him.

(b) **Running Contract***:* It is a contract for supply of an approximate quantity of stores at a specified price for a certain period.

7.32.2 **Guidelines for Entering into Rate/Running Contracts**: All stores of standard types required in bulk quantity which are in common and regular demand, and for which the price is not subject to appreciable market fluctuations, shall be purchased against rate or running contracts based on assessed future consumption.

7.32.3 Rate and running contracts will normally be entered into for stores, if the annual drawls against the contracts are expected to exceed Rs 50,000/-. For such contracts station-wise consolidation should be made and considered by an appropriate TPC/NC formed by DRDO HQrs (DMM) having members from local CDA(R&D) and DMM. DRDO HQrs (DMM), on request from Labs/Estts will identify, station-wise, a nodal Lab/Estt to finalise rate and running contracts against which the local Labs/Estts can procure their requirements.

7.32.4 Normally the duration of a rate or running contract should be for a period not exceeding two years. In special cases, with the approval of CFA, a shorter or longer period of contract may be entered into. No extension to validity of the contract is required when deliveries against outstanding supply orders continue after expiry of the validity period. The contract will remain alive for the purpose of delivery for all the stores ordered during the validity of the contract until deliveries are completed.

7.32.5 No new rate contract should be placed with the firms having backlog against existing contracts and also if the backlog is likely to continue for the major portion of the new contract period.

7.32.6 Rate contract should be placed only on registered and/or reputed and established firms, which are capable of supplying the stores as, required.

7.32.7 Quotations for rate contracts should be invited for slab quantities and contracts concluded, accordingly.

7.32.8 In cases where a firm has already a rate contract with any other Government Department, Central/State Public Undertaking, etc., it should be ensured that the contract is entered into on not less favourable terms and conditions than those agreed to by it with the other Departments, Undertakings, etc. The contract will contain a stipulation to the effect that, if during the currency of the contract, the contractor sells the goods at a price lower than the contract price, he will be paid only that lower price. Such a stipulation is commonly known as the Fall Clause and may be stipulated on the following lines:

Fall Clause:(i) The prices charged for the stores supplied under the contract by the Contractor shall in no event exceed the lowest price at which the contractor sells the stores of identical description to any other person/organisation during the period till performance of all supply orders placed during the currency of the rate contract is completed.

(ii) If, at any time, during the said period, the Contractor reduces the sale price of such stores or sells stores to any other person/organisation at a price lower than the price chargeable under the contract, he shall forthwith notify such reduction or sale to the concerned Head of the Department; and the price payable under the contract for the stores supplied after the date of coming into force of such reduction or sale shall stand correspondingly reduced.

The above stipulation will, however, not apply to:

(a) Export by the Contractor.

(b) Sale of goods as original equipment at prices lower than the prices charged for normal replacement.

(c) Sale of goods such as drugs, which have expiry dates.

While submitting his bills to the Government for the goods supplied against the rate contract, the Contractor shall give the following certificate also:

"I/We certify that the stores of description identical to the stores supplied to the Government under the contract herein have not been offered/sold by me/us to any other person/organisation up to the date of bill/the date of completion of supplies against supply orders placed during the currency of the rate contract, at a price lower than the price charged to the Government under the contract."

If the Contractor sells any goods at lower than the contract price except covered by any of the three exceptions indicated above; such sales have also to be disclosed in the aforesaid certificate to be given by the Contractor to the Government. The obligations of the Contractor in this regard will be limited with reference to the goods identical to the contracted goods sold or agreed to be sold during the currency of the contract.

7.32.9 In addition to the usually applicable standard terms and conditions, the following clauses should also be included in the rate/running contracts:

(a) The purchaser reserves the right:

(i) to enter into parallel rate contracts, simultaneously, or at any time during the period of the rate contract with one or more tenderers.

(ii) to place ad-hoc contract or contracts, simultaneously or at any time during the period of the rate contract with one or more tenderers.

(iii) to terminate the contract by giving one month's notice.

(b) The successful tenderer shall maintain stocks at the station and shall make deliveries against supply orders from such stocks within the specified period.

7.33 **REPAIR CONTRACTS**: The tendering and TPC/NC methodology laid down above for local purchase of stores will also apply to conclusion of contracts for repair and overhaul of equipment/machinery. The bill for such contracts has to be supported by the following specific certificates from the user group, that:

(a) The repair was not carried out during warranty/guarantee period.

(b) The repair was necessitated through fair wear and tear.

(c) The facilities for the repair are not available in the Lab/Estt.

(d) The parts recovered during repair have been accounted for.

(e) The equipment/machinery is functioning satisfactorily after repair.

(f) The equipment/machinery is not covered by any other maintenance contract.

7.33.1 On satisfactory completion of the repairs, the Director should obtain a certificate from the repairing agency for defect-free performance of the equipment/machinery for a specified period.

7.34 **MAINTENANCE CONTRACTS**: The maintenance contracts will be regulated as per the procedure applicable to local purchase orders. To derive maximum benefit and ensure sustained serviceability of equipment, such contracts should be assigned to original manufacturers/ representatives, who have successfully performed during warranty/ guarantee period or to reputed third parties. Effort should be made to club the maintenance contracts of similar equipment held by different Labs/Estts, located at a station. DRDO HQrs (DMM) may nominate a nodal Lab/Estt, station-wise, for this purpose.

7.34.1 The maintenance contracts for computers, equipment and machinery, will be entered for a period of one year initially after the warranty/guarantee period is over. If the service is found satisfactory the existing contract can be renewed, under the powers of the Director of the Lab/Estt, for an additional period of one or two years without going into the formalities of a new contract provided that:

(a) There is no downward trend in the prices.

(b) The escalation in cost is not more than 10 per cent.

7.34.2 Alternatively, the maintenance contracts for equipment, machinery and computers not likely to run into obsolescence, may be negotiated for a period of three years at the outset with suitable 'down-time' penalty clauses. This mode of contracting will be adopted to ensure sustained serviceability of the facility and would prove more cost-effective as compared to annual contracts.

7.35 **PURCHASE OF COMPUTER SYSTEMS**: The tendering and purchase procedure for computers and their peripherals would be the same as for other equipment. The points given in the succeeding paragraphs are considered relevant and should be borne in mind while processing such procurement:

7.35.1 Due to rapid development in computer technology, obsolescence of any system acquired is very fast. Caution is, therefore, necessary to purchase the latest system which commensurates with the price paid, before being rendered obsolete.

7.35.2 Computers for autonomous use or as dedicated systems are essential ingredients of any complex system. Hence the number of acquisitions at a station could be standardised to seek volume discount and to facilitate common maintenance effort, provisioning of spares and peripherals.

7.35.3 While procuring computers/peripherals, preference will be accorded to the systems where upgradation is possible to meet future needs. Ease of connectivity may also be given due consideration.

7.35.4 Quantity for procurement should be so restricted to meet the present needs only as there is an all round downward trend in prices due to tremendous advancement in computer production technology.

7.35.5 While procuring costly software, it is essential to ensure that the original software with documentation is procured instead of the pirated copies so as not to infringe on the intellectual property rights of the originator and to avoid any legal repercussions.

7.35.6 Considering the security risk associated with hiring of computers it is desired that practice of hiring/leasing computers from private firms should be done away within all the vital/sensitive organisations of Govt. of India on ground of security.

7.36 **PURCHASE OF STATIONERY**: The authorised channel for supply of all common stationery items is Government of India Stationery Depot, for all Ministries/Government Deptts. It is experienced that procurement of stationery through the above channel involves lot of delay and many items are not available for supply to Labs/Estts. Labs/Estts will, however, continue to place their annual demands for stationery items to the Stationery Depot, Calcutta, but shall meet their periodical requirements through local purchase, without waiting for a formal Not Available (NA) certificate from the Stationery Depot.

7.36.1 For requirement of items of repetitive nature, which are commonly used by many Labs/Estts, it would be preferable to enter into rate/running contracts on DRDO HQrs/local basis. Requirements/suggestions for the same may be sent to DMM, DRDO HQrs.

7.36.2 The cost of procurement of stationery items will be debitable to LP budget head. For all project-related work, items of stationery including drawing office stationery may be provided from project funds.

7.36.3 The DMR&F also concludes rate contracts for general purpose and special stationery items as well as for a variety of office equipment, e.g., electronic typewriters, photo-copying machines, ammonia printing machines, etc, from time to time. Labs/Estts may obtain their requirements for such items through the DMR&F.

7.37 **PURCHASE OF PROTECTIVE CLOTHING AND LIVERIES**: Purchase of items of protective clothing for example, Overall Combinations, Aprons, Protective Shoes, Protective Goggles, Welding Hand gloves, First Aid Kits, etc., as recommended by the local Chief Inspector/Inspector of Factories (under the Factories Act, 1948), will be effected as per the normal local purchase procedure. The cost of such procurement will be debited to the local purchase budget head.

7.37.1 Items of liveries for entitled categories of employees, as per the scales laid down by Department of Personnel from time to time, will be purchased as per the normal purchase procedure and their cost will be debitable to Misc. budget head.

7.37.2 For purchase of liveries, preference will be accorded to Government-sponsored production units run by social welfare organisations for upliftment of women/handicapped persons/ weaker sections of society.

7.37.3 Option of placing SWODs on Ordnance Clothing Factories to meet requirements of livery items, may also be excercised, if considered expedient.

7.38 **PURCHASE OF FIRE FIGHTING EQUIPMENT**: Purchase of fire-fighting equipment will be made as per the directions of Chief Fire Adviser, Ministry of Defence and/or Central/State Government Fire Service authorities. These purchases will be processed as per the normal local purchase procedure and the cost debited to LP budget head.

7.39 **LEASING/HIRING OF FACILITIES/CAPITAL EQUIPMENT**: In cases where progressing of projects require use of major facilities or capital equipment/machinery for the duration of the project, it may not be worthwhile to make huge investments in acquiring/setting up of such facilities and additional expenditure on their subsequent maintenance. The alternative of hiring/leasing of these facilities/capital equipment from the local industry, will be in order in such cases. This is in line with the policy stipulations made in Para 4.2 of the 'Material Management Policy (1996)'.

7.39.1 Before deciding upon leasing or hiring of the costly facilities/capital equipment, cost-effectiveness of such proposals will invariably be examined in detail, considering the following aspects:

(a) Huge investment on purchase of such costly facilities is not commensurate with its utilisation.

(b) Leasing/hiring meets the project needs and doesn't compromise the security aspect.

(c) The terms of leasing/hiring are such that these are economically beneficial to the State.

7.39.2 In all cases of leasing/hiring of facilities/capital equipment, the normal local purchase procedure will be applicable. However, the terms and conditions of such contracts may have to be specifically evolved in each case and finalised after the approval of the competent authority.

7.40 **STATUTORY LEVIES/DUTIES**: DRDO Labs/Estts and their projects/programmes have been granted exemption from payment of customs/excise duties under special sanction from Ministry of Finance (Deptt of Revenue) for items of R&D nature. While processing procurement where such an exemption exists, payment of duties will not be made. If duties have to be paid, reasons for that must be recorded by the TPC/NC and approved by the Director.

7.40.1 For availing concessional rates of tax in respect of purchases involving inter-state transactions, Labs/Estts will issue 'Form D' to the supplier before dispatch of the consignment. Supply/Purchase Orders will incorporate such clause while placing the orders.

7.40.2 While purchasing imported stores on rupee payment through an indigenous source, exemption from customs duty will be sought from the appropriate authority by issuing CDECs, if agreeable to the vendor. In all such cases, a suitable clause must be added in supply order on the recommendations of TPC/NC giving items/value of items.

7.41: **BUY-BACK OFFER**: When it is decided with the approval of the competent authority to replace an existing old item(s) with a new and better version, the department may trade the existing old item while purchasing the new one. For this purpose, a suitable clause is to be incorporated in the bidding document so that the prospective and interested bidders formulate their bids accordingly. Depending on the value and condition of the old item to be traded, the time as well as the mode of handing over the old item to the successful bidder should be decided and relevant details in this regard suitably incorporated in the bidding document. Further, suitable provision should also be kept in the bidding document to enable the purchaser either to trade or not to trade the item while purchasing the new one.

7.42 **TRANSIT INSURANCE COVERAGE**: As per the existing rules, stores costing above Rs 2.5 crore may be insured. For stores costing less than Rs 2.5 crore, Directors of Labs/Estts may, however, use their discretion to insure. This may be done through a nationalised insurance agency or their subsidiaries, against loss or damage in transit for the sensitive/delicate/fragile/costly stores/equipment/ machinery and scientific instruments where probability of loss or damage is considered very high. Efforts should be made to seek replenishment of damaged/lost items instead of monetary compensation so that project progress is not hampered. Insurance cover will invariably be obtained from the insurance agency before dispatch of the consignment by the supplier.

7.42.1 Sanction of the CFA will be accorded as per the financial powers delegated from time to time.

7.43 **PRICE ESCALATION/ENHANCEMENT OF COST**: Purchase will normally be made on firm prices. Variations on account of following contingencies will, however, be allowed for delivery period of more than one year provided the same is recommended by TPC/NC and included as part of purchase order/contract:

(a) In respect of Indian firms for supply of imported stores, where payment is to be made in rupees provided that:

(i) The cost variation is attributable to variation in official currency rates.
(ii) Supplies are made within the stipulated delivery period or extension is solely attributable to delays on the part of Lab/Estt.

(b) Variations in the rates of statutory levies, i.e., Customs/Excise Duty and Sales Tax.

7.43.1 Price increases as a result of Paras 7.43 (a) and (b) above will be approved by the authority who approved the purchase in the first instance provided that the revised amount is within his financial powers. Increases on account of statutory levies during extended delivery period beyond the originally agreed delivery date will not be considered except where delays in delivery are attributable to the user/demanding officer.

7.43.2 In specific cases where essential condition of sale requires that the prices charged will be those ruling on the day of delivery, it will be in order to include such a clause in the Supply/Purchase Order.

7.43.3 The price escalation cases other than those mentioned in Paras 7.43 (a) and (b) above will be referred to DMM, DRDO HQrs for approval in consultation with the Integrated Finance.

7.44 **REVISION OF DELIVERY PERIOD (DP)**: Any correspondence with the firms after delivery date with reference to a supply order is tantamount to extension of delivery period. Extension of delivery date stipulated in the order can only be considered with the consent of both parties, i.e., Lab/Estt as well as the vendor. Action for extension of delivery date at the request of the supplier will be considered taking the following factors into account:

(a) Urgency of the requirement and whether delay involved has or will cause any loss or inconvenience to the Lab/Estt.
(b) Advances given and no downward market trend is noticed.
(c) Whether difficulties advanced by the suppliers are genuine and whether they have conducted themselves, since placement of the order, in such a manner as to indicate that they have genuine intention to execute the order.
(d) In case of project requirements, the revised DP falls well within the PDC of the project.
(e) For build-up/maintenance, the extension of DP will be subject to the condition that budgetary provisions do not lapse as far as possible.
(f) All DP revisions will normally be approved within the expiry of contracted delivery schedule, to obviate the need for ex-post-facto sanction.

7.44.1 Directors of Labs/Estts are authorised to extend DP of all contracts/supply orders up to a period of one year beyond the stipulated delivery schedule in the supply order. Beyond this period, such extensions will be approved by the Directors, in consultation with local audit authorities.

7.44.2 **Ex-Post-facto sanction for DP revision** - Directors are authorised to accord ex-post-facto sanction, under special circumstances, limited to the following contingencies:

a) Where vendor has requested for extension within the DP stipulated in the supply order.

b) When delays are attributable to Labs/Estts to fulfil their contractual obligations such as supply of drawings, samples or carrying out pre-delivery inspection, etc.

c) The ex-post-facto sanction of revised DP, authorised by Directors as at (a) and (b) above, will not exceed one year from the date of original delivery period.

d) Price increase due to revision of statutory levies, exchange rate variation, upward revision of price of Government controlled stores etc will not be admissible during the extended delivery period except at (b) above.

e) All cases of ex-post-facto sanction, not covered above, will be sent to DRDO HQrs (DMM) for CFA/Government sanction along with full justification and recommendation of review TPC/NC in respect of cases costing more than Rs 5 lakh and of Director of Lab/Estt for cases costing up to Rs. 5 lakh. The constitution of review TPC/NC will be same as that of original TPC/NC. The review TPC/NC may be held by circulation, if considered, appropriate by members.

7.44.3 Extension of delivery period will be approved without prejudice to the right of the Lab/Estt to recover liquidated damages depending upon the merit of the case.

7.45 **MONITORING/REVIEWING OF PROGRESS**: After placement of the orders, the progress made by the vendors will have to be constantly monitored to facilitate timely action to prevent delays in materialisation of supplies and take appropriate corrective measures. For this purpose, Head MMG of Lab/Estt will institute a manual or computer-aided system for day-to-day monitoring of the progress. This monitoring will lead to:

(a) Judicious assessment of genuine difficulties expressed by the vendors for their mitigation.

(b) Curtailment of any indifference on the part of the vendors towards execution of the order by imposing necessary checks.

(c) Examination of vendor's competence or otherwise to ensure timely execution of the orders. In case slippage of delivery period is noticed beyond the prescribed limit, timely action may become necessary to cancel the order or revise its delivery period.

7.45.1 'Progress Review Teams' consisting of the Purchase Officer and the Demanding Officer will be nominated in respect of high-value supply/purchase orders with long delivery schedules, to aid Head MMG for progress monitoring.

7.46 **LIQUIDATED DAMAGES (LD)**: In compliance with Indian Contract Act, liquidated damages imposed on the contractor, are to be based on the extent of demonstrable loss due to delayed delivery. The LD clauses are included in the supply orders/contracts to ensure prompt delivery and not as a measure of penalty on the contractor. The quantum of LD to be charged shall be 1/2 per cent per week subject to a maximum of 5 per cent depending on the merit of each case. Constructive assessment of reasons contributing to delayed delivery will be the deciding factor to waive/impose LD.

7.46.1 Directors of the Lab/Estt are authorised to impose / limit / waive off LD for cases up to Rs 5 lakh. For Procurement of stores costing more than Rs 5 lakh waiver of LD will be done based on the recommendation of the review TPC/NC (para 7.44.2(e) refers). The cases for waiver of Liquidity damage (LD) shall be forwarded by Lab/Estt to DMM/DRDO Hqrs for approval of CFA.

7.47 **DISPUTES/ARBITRATION/CONSUMER REDRESSAL FORUMS**: All the clauses, terms and conditions of the contract/supply order will be explicit and unambiguous to avoid disputes. To facilitate expeditious settlement of disputes, inclusion of a suitable clause in the long duration supply orders, may be considered by the Directors.

7.47.1 **Essential Elements:** Essential elements of an arbitration agreement as per the Arbitration and Conciliation Act, 1996 are:

(a) Arbitration agreement means an agreement by the parties to submit to arbitration all or certain disputes which have arisen or which may arise between them in respect of a defined legal relationship, whether contractual or not.

(b) An arbitration agreement may be in the form of an arbitration clause in a contract or in the form of a separate agreement.

(c) An arbitration agreement shall be in writing.

(d) An arbitration agreement is in writing if it is contained in:

(i) a document signed by the party,

(ii) an exchange of letters, telex, telegrams, or other means of telecommunication which provide a record of the agreement, or

(iii) an exchange of statement of claim and defence in which the existence of the agreement is alleged by one party and not denied by the other.

(e) The reference in a contract to a document containing an arbitration clause constitutes an arbitration agreement if the contract is in writing and the reference is such as to make that arbitration clause part of the contract.

7.47.2 The sample clause for inclusion in the contracts/supply orders, drawn in consultation with Ministry of Law & Justice (Department of Legal Affairs) is given below:

"In the event of any question, dispute or difference arising under this contract or interpretation of the terms of, or in connection with this contract (except as to any matters the decision of which is specially provided for in this contract) the same shall be referred to the sole arbitration of the Chief Controller of Research & Development (CCR&D) DRDO or of some other person appointed by him. Each of the parties hereby specifically waives his right to raise any objection that the Arbitrator so appointed is a Government Servant. The award of the Arbitrator shall be final and binding on the parties to this contract. The parties also agree that:

(a) If the Arbitrator be the CCR&D (DRDO), (i) in the event of his being transferred or vacating his office by resignation or otherwise, it shall be lawful for his successor in office either to proceed with the reference himself or to appoint another person as Arbitrator, or (ii) in the event of his being unable to act; unwilling to act; becoming incapable of acting for any reason; or the award given by him having been set aside by a Court of Law it shall be lawful for him to appoint another person as Arbitrator .

(b) If the Arbitrator be a person appointed by the CCR&D (DRDO), in the event of his dying, neglecting or refusing to act, or resigning or being unable to become or incapable to act, for any reason or his award being set aside by the Court for any reason, it shall be lawful for the CCR&D(DRDO), to remove such Arbitrator and to terminate his mandate and either to proceed with the reference himself or to appoint another person as Arbitrator (in place of the outgoing Arbitrator). In every such case, it shall be lawful for CCR&D (DRDO), or the Arbitrator appointed in place of the outgoing Arbitrator, as the case may be to act on the record of the proceedings as then taken in the Arbitration, or to commence the proceedings de-novo; as he may in his discretion decide.

(c) Upon every and any such reference, the assessment of the cost incidental to the reference and award respectively shall be at the discretion of the Arbitrator.

(d) Subject as aforesaid, the Arbitration and Conciliation Act 1996 and the rules thereunder and any statutory provisions thereof for the time being in force shall be deemed to apply to the Arbitration proceedings under this clause.

(e) Unless determined otherwise by the Arbitration Tribunal, the place of Arbitration shall be the city where the contract is concluded. The Arbitration Tribunal may, however, meet at any place it considers appropriate for conducting any of the Arbitration proceedings. "

7.47.3 In case where the vendor/contractor insists for the option of institutional arbitration through the Indian Council of Arbitration, the following arbitration clause will be included in the contracts/supply orders:

"Any dispute or difference whatsoever arising between the parties out of or relating to the construction, meaning, scope, operation, or effect of this contract or the validity or the breach thereof shall be settled by arbitration in accordance with the Rules of Arbitration of the Indian Council of Arbitration and the award made in pursuance thereof shall be binding on the parties."

7.47.4 The departmental arbitration cases (Para 7.47.2 above), will be referred to DRDO HQrs (respective technical Director) for approval/consent of the concerned CC (R&D). The cases of institutional arbitration (Para 7.47.3) will be taken up directly with Indian Council of Arbitration whose present address is: Federation House, Tansen Marg, New Delhi-110 001.

7.47.5 The cases for expenditure involved in respect of institutional arbitration through ICA will be referred to DRDO HQrs (DMM) for CFA sanction.

7.47.6 **Foreign Arbitration**: The Arbitration and Conciliation Act 1996 has provision for international commercial arbitration which will be applicable if one of the parties has its central management and control from any foreign country. The salient features of this law are:

(a) The parties can choose either Indian or any foreign law governing arbitration.

(b) To minimise interference of courts in stalling arbitration proceedings.

(c) Arbitrator can be changed by mutual consent without approaching court.

(d) Vesting of enhanced powers to arbitrator.

(e) Clearly defining the obligations of the arbitrator.

(f) Arbitrator's award to be enforceable as if it were a decree of the court.

The Ministry of Law, Justice and Company Affairs have, however, advised that the arbitration clause included in the contract should specify that the arbitration proceedings shall be conducted in India under this Act.

7.47.7 All disputes arising out of or in connection with the present contract shall be finally settled under the Rules of Arbitration of the International Chamber of Commerce by one or more arbitrator appointed in accordance with the said Rules in India.

7.47.8 For dispute redressal, besides Arbitration and Reconciliation Act 1996, shelter of Consumer Protection Act can also be taken.

7.47.9 **Consumer Redressal Forums**: Consumer Redressal Forums may be approached for redressal of any complaints against the vendors for materials/machines/equipment supplied by them to seek expeditious award.

Chapter 8

PROCUREMENT OF STORES: IMPORTED ITEMS

8.1 **GENERAL**: Import of equipment, materials and subsystems are essential for completing/pursuing the high technology projects, where indigenous competence is not available. Components, subsystems, materials will normally be imported for developing a new technology/hardware for the prototypes and subsequent indigenisation.

8.1.1 It will, however, be necessary to scrutinise each requirement of import by the Director/Project Director to keep the self-reliance goal in mind, in spite of countrywide liberalisation.

8.2 **PROJECTION OF FE REQUIREMENT**: Based on the individual requirements furnished by various Project Leaders/Group Heads, the Budget Planning Group of the Lab/Estt will consolidate the FE requirements every year by February end for next financial year and forward the same to DMM, DRDO HQrs as per proforma for "FE Requirement" at **DRDO.MM 18**. Priority-wise requirements will be projected in the following order:

(a) Outstanding payments against past commitments,

(b) Project requirements,

(c) Maintenance requirements, and

(d) Build-up requirements.

8.2.1 FE requirements for actual cash outgo during the year and FE commitment for the future years will be separately compiled and forwarded to DMM, DRDO HQrs. Labs/Estts will ensure that funds are available when these LC's retire as FE release does not amount to allotment of funds.

8.3 **INITIATION/APPROVAL OF DEMAND**: Procedure and levels for initiation/approval of demands for the imported items will be the same as applicable to other purchases as defined in Chapter 4. Such demands, however, will be restricted to the list already projected to HQrs with the exception of emergency and unforeseen requirements.

8.3.1 The foreign vendors unless represented by the Indian agents, are normally not registered with the Labs/Estts and access to their products is through trade catalogues/other technical literature. The demands initiated by the demanding officers should, as far as possible, include names of likely foreign suppliers, to help addressing tender enquiries to them, based on the response to exploratory communications.

8.3.2 Labs/Estts may keep record of foreign vendors on the specific recommendation of user and approval of Vendor Registration Committee (refer Para 3.2) with details of past record, if any.

8.4 **INVITATION/PROCESSING OF TENDERS:** The tendering procedure for inviting quotations and their processing for the imported stores, will be the same as outlined in Chapter 7 except that the vendors will be asked to quote using proper Incoterms see **Appendix A** (at the end), i.e., on

FCA/FOB basis. The following features may, however, be noted for guidance:

(a) Adequate copies of tender documents under Global Tendering will be forwarded to respective Indian Embassies/High Commissions. The payment of the cost of tender documents will not be insisted upon and left to the discretion of the respective Embassies/High Commissions abroad.

(b) Stipulation regarding EMD may not be necessary in respect of foreign vendors. Security deposit, however, will be insisted upon for the performance, by way of a bank guarantee, whenever considered appropriate.

(c) A specimen proforma for "Invitation of Tender for Import" is at **DRDO.MM 31.**

8.5 **INDIAN AGENTS/AGENCY COMMISSION**: It is not the policy of Government per se to look for, encourage or engage agents. Wherever it is possible to secure supplies and ensure after-sale-services etc; on reasonable terms without the intercession of agents, there is no need for engaging any such agent. In all other cases, the employment of Indian agents by foreign suppliers for purchases made by DRDO, as may be found necessary shall be regulated by the following, on a case to case basis:-

8.5.1 Indian Agents of foreign suppliers (Authorised Representatives/ Agents/Sales Consultants or by whatever name called) employed by foreign suppliers for the promotion of their product must be registered with the DGS&D/Ministry of Defence/Labs/Estts of DRDO. The Indian agents/Indian representatives of foreign firms/original equipment manufacturer who are registered /enlisted with DGS&D and Ministry of Defence need not be required to register again but those who are not registered with either of these agencies may be registered with DRDO after obtaining following details:-

(a) Name of foreign firm/ Original Equipment Manufacturer represented by the Indian representative/ Indian agent

(b) Agency Agreement

(c) PAN Number, name and address of bankers in India and abroad

(d) The nature of services to be rendered by Indian agent/ Indian representative and

(e) Percentage of Commission payable to Indian agent/ Indian representative by Principal/ Original Equipment Manufacturer (OEM).

8.5.2 The amount of commission payable would be brought on record and made explicit so as to ensure compliance of tax laws and prevent leakage of foreign exchange. Lab/Estt Director would ensure that the commissions payable are paid in Indian Rupees only, in compliance with the provisions of FEMA and the Hand book on Import/Export procedure. Lab/Estt Director would ensure at source deduction of the Income tax as per prevailing rules from the agency commission payable to the vendor in order to avoid tax evasion.

8.5.3 An undertaking would be obtained from the Indian representative/Indian agent to the effect that agency commission would be accepted in Indian rupees only. Where the agency commission is payable directly by the foreign Principals/Original Equipment Manufacturer, such commission shall be received through inward FFE remittance through banking channels and disbursed to the Indian agent in rupees only.

8.5.4 The nature of services to be rendered by Indian agent/ Indian representative of OEM/foreign suppliers and the commission payable to Indian agent / Indian representative shall unambiguously be reflected in the supply order/contract. All particulars relating to agency commission should be reported by Lab/Estt to the Enforcement Directorate. Ministry of Defence has instructed that in all future contracts with the foreign suppliers, the following clauses will be included in all supply orders/contracts for supply of costly equipment

(a) Penalty for the use of undue influence

(b) Access to books of accounts
Detailed text of above clauses as approved by Min of Law, Justice and Company Affairs is included in the Form MM-23.

8.5.5 Ministry of Defence has since constituted a Committee for considering procurement of items, which cannot be procured directly from the manufacturers. DRDO has, however, been exempted from reference to this Committee to import components, materials, sub-assemblies, equipment (process/test evaluation) in small numbers and critical technology items (equipment, components, sub-assemblies and materials) which original manufacturers (OEMs) currently do not manufacture or the equipment is obsolete and procurement from OEM is not possible. Such cases need not be referred to the Committee if the cost of import is below Rs. 50 crore. The procurement can directly be made under the existing delegate powers from the established sources of supply other than OEMs.

8.5.6 Where regional offices of foreign firms have been authorised and set up within the country, they will not be treated as agents of the foreign firms and the financial dealings with such regional offices will be restricted to the norms stipulated by the RBI for each specific case. Such regional offices form integral part of the foreign vendors and their functions are totally controlled by their corporate office abroad and are hence not entitled to any agency commission.

8.5.7 Where Indian/regional offices of foreign firms are to provide post-sale services, such as installation, setting to work, execution of warranty operations and post-warranty maintenance etc; such stipulation will explicitly be made in the terms and conditions of the supply order/contract. Payment on this account will be made in Indian rupees, except for the cost of spares/services required from abroad for post-warranty maintenance.

8.6 **TENDER PROCESSING, TECHNICAL EVALUATION AND OPENING OF PRICE BIDS**: The procedure for tender processing, technical evaluation, opening of price bids will be as per the guidelines given in Paras 7.12, 7.13 and 7.14.

8.6.1 If any clarifications on the offers received are required from the foreign firm, the same will be obtained through correspondence / fax/e_mail.

8.6.2 As the validity of offers from the foreign firms is often for a short period, the tender processing, technical evaluation, etc. should be done promptly to avoid expiry of quotations and revision of prices.

8.7 **CONDUCTING OF TPC/NC**: Normal procedure for constitution and conducting of TPC/NC for imported stores (above Rs 5 lakh value) will be the same as outlined in Paras 7.15 to 7.21.

8.7.1 If the price offered is considered reasonable or is in conformity with the catalogue price and other commercial terms are acceptable, the TPC/NC may take decision without the necessity of negotiations.

8.7.2 Where the offers have been received through the Indian representatives of foreign principals or through the regional offices (located in India) of foreign firms, participation of firm's representatives in the negotiation meetings may be possible. TPC will always negotiate with the lowest technically acceptable offer. In respect of quotations received from abroad, it may not be always possible for the foreign vendors to come for TPC/NC meeting except for high value items. In such cases TPC/NC may invite revised best offer with all terms clarified from the lowest bidder through fax/e_mail before finalising the price.

8.7.3 After deliberations of the TPC/NC, the final recommendations along with the case, will be submitted for financial sanction to the CFA and release of FE as mentioned in the succeeding paragraphs.

8.8 **RELEASE OF FOREIGN EXCHANGE**: Allocation of bulk FE will be made by DRDO HQrs (DMM) to the DRDO Labs/Estts/Major CCPA Programmes/LCA in consultation with the Integrated Finance and MOD (D-Budget). This allocation will be made at the beginning of financial year and on as-required basis depending upon the exigencies.

8.8.1 **FE Release by the Lab/Estt Directors** (up to Rs 15 lakh)**:** The Directors of Labs/Estts are delegated with powers to release FE up to Rs 15 lakh in each proposal/contract only on cash outgo basis in the same financial year up to allocated ceiling. The amount of all such FE releases will be noted by the local office of the CDA (R&D) on case to case basis.

8.8.2 **FE Release above Rs 15 lakh:** The FE release above Rs 15 lakh will be made on case-to-case basis by DMM, DRDO HQrs against the proposals forwarded by Labs/Estts. The noting of such FE releases will be made by the Integrated Finance (R&D). All releases on commitment basis for any amount will be processed through DMM, DRDO HQrs.

8.8.3 **Norms for Release of FE (**Paras 8.8.1 and 8.8.2**):** The essential conditions governing release of FE, required to be observed, are indicated hereunder:

(a) All cases of FE release, complete in all respects, will be submitted to the appropriate sanctioning authority along with the following documents:

   (i) Valid quotation(s),

   (ii) PAC or CST, as applicable,

   (iii) TPC/NC minutes with specific recommendations/ approval,

   (iv) Proforma as per **DRDO.MM 19/DRDO.MM 20**,

   (v) Anticipated amount of cash outgo within the current financial year and commitment in the ensuing year(s),

   (vi) Request for financial sanction in cases beyond Director's delegated powers, and

   (vii) Checklist for scrutiny of FE proposal as given at **DRDO.MM 21/DRDO.MM 22.**

(b) The proposals shall not be split merely to bring them within the delegated powers.

(c) The import in question is covered by an appropriate rupee budgetary support during the financial year.

(d) The approved FE ceiling for a financial year is intended to cover the outgo in respect of all previous commitments as well as fresh commitments made during the year. No further commitment will be made unless it is ensured that adequate provision exists for the same.

(e) The FE is released and noted on CIF/CIP basis. It may, therefore, be ensured that even if the freight and insurance are paid in Indian rupees, the same will be noted against the foreign exchange allocation, as these are treated as charge against foreign exchange.

(f) The noting will be made on cash outgo basis against the financial year in which the payment is to be made. If the foreign exchange released is not utilised during the year in which it was noted, the same will be got denoted for the current year and noted for the next financial year after the fresh allocation is made.

(g) Allocations made to Labs/Estts shall not be exceeded in anticipation of additional funds. Additional allocations will be sought from DRDO HQrs well in advance to ensure timely allotments.

8.8.4. **Customs Duty Exemption/Prompt Clearance:** Government has exempted all imports made by DRDO from payment of Customs Duty vide various notifications issued from time to time. These benefits will be availed on all imports. As such, close liaison will be maintained with the Air Consolidation Agents to ensure clearance of goods from customs without payment of customs duty and within the prescribed period of free limit so as to avoid payment of demurrage/warehousing charges.

8.8.5. **FE Release for Major Programmes and LCA Project**: The release of FE under the Major Programmes/Projects is regulated on the basis of approval accorded by the CCPA and competent authorities from MOD (Fin) and Ministry of Finance. The authorities under such delegated powers will release the FE, on as-required basis. FE beyond the delegated powers will be referred to DRDO HQrs (DMM).

8.8.6. **FE Noting:**

(a) FE released by the Directors of Labs/Estts under their delegated powers (up to Rs 15 lakh in each case) will be noted by the concerned local CDA (R&D) offices.

(b) FE released by DRDO HQrs (DMM), above Rs 15 lakh value in each case, will be noted by IF (R&D).

(c) FE released under delegated powers vested in various authorities of Major Programmes and LCA Project will be noted by the DFAs/JCsDA and DG, ADA respectively.

8.8.7. **Reporting and Monitoring**: The status of FE release notings made at Labs/Estts level will be reported periodically to DRDO HQrs (DMM) as per directives issued by them from time to time. The DRDO HQrs (DMM) in consultation with Integrated Finance (R&D), will monitor the FE status for reporting to Ministry of Defence (D-Budget), as per their requirement.

8.9 **PLACEMENT OF PURCHASE ORDER/CONTRACT**: After release of FE, the purchase order/contract will be placed on the foreign supplier for the required items as per the quotation and approval accorded by the CFA. All Supply/Purchase Orders will be placed on FCA/FOB basis and shall include special instructions, if any, governing packing/forwarding, insurance, airfreight, transportation, etc. Specimen proforma for supply orders is placed at **DRDO.MM 23**. Acknowledgement proforma is placed at **DRDO.MM 24**.

8.9.1 All Supply/Purchase Orders will be signed by the authorised officer only ‘for and on behalf of the President of India’.

8.10 **END USE CERTIFICATES**: Wherever required, Labs/Estts will render end use certificates to appropriate authorities to enable the consignor to seek clearance for export of items from the country of origin, keeping in view the guidelines provided by C-Tech at DRDO HQrs.

8.11 **IMPORT CERTIFICATES**: For certain category of stores, Import Certificates are required for facilitating export by the vendors from their country due to restrictions imposed by some foreign Governments. Such certificates will be issued by C-Tech, DRDO HQrs when required by the Labs/Estts.

8.12 **LETTERS OF CREDIT (LCs)/SIGHT DRAFTS**: The normal terms of payment to foreign vendors are 100 per cent payment through Letters of Credit/Sight Drafts with 10% performance bank guarantee, wherever required. The LCs covering 100 per cent net FOB (gateway airport) value of supply order, will be opened by Labs/Estts through CDA(R&D)/JCDA(R&D) in State Bank of India after receipt of order acknowledgement from the foreign supplier. For LC opening in any other nationalised bank, prior approval from DRDO HQrs through DMM is required. Normally, irrevocable LCs will be established. In exceptional cases when insisted upon by the supplier, establishment of confirmed LCs, involving higher banking charges, will, however, be allowed. Advance payment of margin money will not be made at the time of submission of LC application. Only after the bank receives shipping documents, the actual amount will be paid. In the event of cancellation of a supply order/contract due to reasons beyond control of the Lab/Estt., Directors are authorised to regularise the banking charges already incurred in respect of LC's opened/cancelled, under LP budget head.

8.12.1 Requisite number of copies of the following documents will be forwarded to the CDA/JCDA(R&D) for opening LCs:

(a) Application addressed to bank for opening LC (specimen copy illustrated at **DRDO.MM 25**),

(b) Application to open irrevocable/confirmed documentary credit (specimen copy illustrated at **DRDO.MM 26**),

(c) 'Form A1' (specimen copy illustrated at **DRDO.MM 27**),

(d) Supply Order and amendments, if any,

(e) FE release letter, and

(f) Order acknowledgement **(DRDO. MM 24)** received from the vendor.

8.12.2 **Sight Drafts**: This is another mode of payment for remittance of money to foreign vendors who do not accept payment through LC, for small value orders. In such cases, payment is released after receipt of the consignment based on complete set of dispatch documents negotiated through bankers. Full payment to the extent of 100 per cent FOB (gateway airport) value can be released through Sight Drafts. In case of sight drafts all documents listed at Para 8.12.1 except (b) will be forwarded to CDA/JCDA(R&D).

8.12.3 **Advance Payments**: Advance payments should be avoided as far as possible. However, in case of import of capital equipment and high value items, Labs/Estts may pay advance up to 30 per cent of FOB (gateway airport) value of the supply order/contract to the foreign firm against proforma invoice and bank guarantee (format placed at **DRDO.MM 28**), when insisted upon by the firm or standby letter of credit from first class banks. Before affecting payment, bank guarantee/standby letter of credit shall be got vetted and accepted by the SBI/any other designated bank through whom the payment has to be affected so as to ensure their genuineness.

8.12.4 For low value orders up to Rs. 2 lakh in foreign exchange can be paid as advance to the firms of repute/having good past record through Tele-transfer/advance draft when no other mode of payment is acceptable to the firm. Directors are authorised to approve such advances if considered appropriate.

8.12.5 In case of orders placed on departments of foreign governments, government research institutions etc, the Labs/Estts may make payment of 100 per cent advance on demand from the foreign government agency against proforma invoice for the like amount against suitable guarantees such as Bank Guarantee Bonds, standby LCs, etc.

8.12.6 The advance payments to the foreign suppliers by all Labs/Estts should follow the RBI rules in force on the date of payment, and the policy laid down by DRDO HQrs from time to time.

8.12.7 **Payment of Training, Installation and Commissioning Charges**: For purchase of capital equipment and its training, installation and commissioning, the foreign firms may insist on payment of training, installation and commissioning charges separately. In these cases, the Labs/Estts will make such payments after obtaining approval from RBI and the 'No Objection Certificate' from Income Tax Deptt for payment of service charges. These payments will be made by opening separate LC or by Sight Draft as mutually agreed upon.

8.13 **INSURANCE COVERAGE**: Directors of Labs/Estts will use their discretion to insure through a nationalised insurance agency, against loss or damages in transit, the sensitive/delicate/fragile/ costly stores/ equipment /machinery and scientific instruments where probability of loss or damage is very high. Further details on insurance coverage will be in conformity with Para 7.42.

8.14 **SHIPPING AND AIRFREIGHTING**: The consignment will be despatched by the foreign suppliers as per the shipping instructions contained in the purchase orders/contracts on freight-collect basis by Indian vessels/Air India.

8.14.1 Where the mode of transportation is by sea, the Lab/Estt will follow the shipping instructions issued by the Ministry of Shipping & Transport, Parivahan Bhawan, Sansad Marg, New Delhi-110 001 and ship their consignments through the agents of the Ministry of Shipping. All contracts/supply orders should be placed on FCA/FOB basis and freight charges paid in Indian currency at the destination point.

8.14.2 For dispatch of consignments by air, the Labs/Estts will follow the instructions given as per the rate contract concluded by DMM, DRDO HQrs with a consolidation agent.

8.14.3 In special cases, Labs/Estts may use the services of other agents/Embarkation HQrs for import of stores. In such cases, Lab/Estt will make a separate arrangement with the consolidation agent/Embarkation HQrs for completing other formalities like customs clearance, etc.

8.14.4 In case the goods are not insured during transit, the value of the consignment should be declared to the carrier before dispatch of the consignment by sea. This would enable claiming the full amount from the carrier on the basis of value of the consignment rather than according to weight, in case of loss while in the custody of the carrier.

8.15 **CUSTOMS CLEARANCE**: Imports by DRDO are generally exempted from customs duty by giving an appropriate Customs Duty Exemption Certificate (CDEC).

8.15.1 **Direct Imports**: Whenever the Lab/Estt is importing directly, from a foreign supplier by paying in FE, it is considered a direct import. For this DRDO HQrs issues a certificate signed by CC R&D (R). This certificate enables Lab/Estt Directors to issue CDECs for all direct imports.

8.15.2 **Third Party Imports**: These imports are those where the purchase order is placed on a third party who will import on behalf of Lab/Estt, get custom cleared and then deliver the stores. These CDECs will also be issued by Lab/Estt Directors and countersigned by CC R&D (R) through DMM. These imports with CDEC must be kept to the minimum.

8.15.3 Labs/Estts will prepare all their documents including CDECs well in advance to avoid delay and demurrage in clearing the consignments. The format and instructions are given in **DRDO.MM 32.**

8.15.4 For direct imports, the following documents will be made available to the clearing agency well in advance of the landing of consignment to facilitate clearance of air/ship consignments without payment of Customs Duty on landing at destination:

(a) Original Bill of Lading duly endorsed by bank and consignee (for ship consignments),

(b) Original Air Way Bill (AWB) or bank delivery order (for air consignments),

(c) Invoice,

(d) Packing list,

(e) Copy of purchase order,

(f) Technical write-up and descriptive illustrated catalogue/literature,

(g) CDEC, and

(h) Any other relevant documents.

8.15.5 On arrival of the cargo or based on the manifest filed by the carrier, the bill of entry is made by the clearing agency and submitted to the appraiser who will, in turn assess the Customs Duty, if leviable or exempt the consignment from duty. As DRDO is mostly exempted from the payment of Customs Duty, it is essential to ensure that the nomenclature/description of stores along with their code numbers, if any, tally with each other on all these documents together with the imported value obviating the scope for any doubt. Any discrepancy in documentation may lead to imposition of Customs Duty, which should be avoided.

8.16 **EXPORT OF ITEMS 'NOT REPAIRABLE IN INDIA':** Occasions arise when imported equipment need repair after the warranty period, either by the firm who supplied the item or by their authorised agency located abroad. The repairable items, at times, are also required to be sent abroad after receipt of the free replacement. Items may need repairs abroad during warranty period. For all such repairs/replacements, the equipment needs to be exported either free of charge or on payment. In such cases, the following documents will be produced while exporting the items:

(a) Export proforma,

(b) Requisition for carriage,

(c) Packing note-cum-invoice,

(d) Airworthy certificate,

(e) Airlift sanction,

(f) Firm's letter of acceptance,

(g) FE release certificate,

(h) 'Not Repairable in India' certificate by the Director of Lab/Estt,

(j) Initial import details like Bill of Entry, AWB, etc, and

(k) Reserve Bank of India clearance, wherever necessary as per Exchange Control Regulations.

8.17 **SPECIAL PROVISIONS FOR EQUIPMENT IMPORTED FOR TRIAL/ DEMONSTRATION/TRAINING**: Special items which are not available nor are manufactured in India, and are needed for the purpose of trial or demonstration of defence equipment, can be imported by DRDO Labs/Estts under Customs Notification No. 42/74 and 150/94, as amended from time to time. If such items are to be re-exported after trial/demonstration, a certificate to that effect should be obtained from the Deputy/Under Secretary, Ministry of Defence (R&D) and produced to the Customs authorities. Such items are required to be re-exported within a period of six months from the date of clearance. Extension of time can be availed from the concerned Asstt Commissioner of Customs on a written request. If these items are to be consumed/are consumed in the trial/demonstration, a certificate to that effect will be obtained from the Deputy/Under Secretary, Ministry of Defence (R&D) and produced to the Customs authorities.

8.18 **REFUND CLAIMS**: If Customs Duty is paid for any consignment which is otherwise eligible for duty-free import, the refund claims will be filed with Customs immediately. All relevant and supporting documents will be enclosed along with the claim for submission to Asstt. Commissioner of Customs (Refunds) for claiming refunds.

8.19 **APPEALS**: The refund claims, however genuine, are at times rejected by the Asstt. Commissioner of Customs (Refunds) due to various technical reasons like:

(a) Relevant documents not produced by the consignee,

(b) Discrepancies exist in the documents produced,

(c) Customs Notification under which exemption is claimed is not mentioned or mentioned inaccurately, and

(d) Delay in filing refund claim, etc.

Adequate care should be taken to ensure that customs refund appeals are not rejected due to procedural lapses.

8.19.1 In such cases appeals can be filed with the Commissioner of Customs (Appeals) within mandatory period as decided by Customs to avoid rejection. If this appeal is also rejected, and Lab/Estt considers the refund claim should be processed further, an appeal can be filed with Central Excise & Gold (Control) Appellate Tribunal (CEGAT), New Delhi within six months of rejection, on payment of prescribed fees. Generally, the decisions of CEGAT are final and binding. The appeals can, however, be taken up with the Special Cabinet Committee (High Power Committee) constituted to study inter-departmental disputes through DRDO HQrs giving chronological history of events leading to rejection, in special cases only. This committee does not consider cases below Rs. 2 Lakh. Therefore, all such cases may be closed after necessary loss statement and approved by DRDO HQrs (DBFA).

8.19.2 Labs/Estts will maintain a register for 'Refund Claims for Customs Duty' which will be updated with the latest progress of each case. Director and Head, MMG of the Lab/Estt will periodically inspect this register. An annual report based on this register may be sent to DMM, DRDO HQrs.

8.20 **DEMURRAGE/WAREHOUSE CHARGES**: Free clearance of the imported stores should be ensured within the stipulated clearance period.

8.20.1 Any expenditure incurred as demurrage/warehouse charge is construed as cash loss and will need approval of the CFA for regularisation. Hence, Labs/Estts should endeavour to clear all foreign consignments promptly to avoid payment of demurrage/warehousing charges.

8.21 **LOSS/DAMAGE/SHORT-LANDING**: Defence consignments are not normally opened by the Customs. If loss/damages are suspected, a survey can, however, be conducted at the behest of the consignee/clearing agent in order to ascertain such loss/damage by a Survey Board duly constituted by Director of Lab/Estt. Representatives from the Lab/Estt, clearing agent, carriers, insurance company (if stores are insured) are to be present in the Survey Board. A survey report will be prepared and sent to the Lab/Estt and clearing agent. Notice of liability for the loss/damage will be sent to the supplier/carrier as the case may be, within 14 days of the survey and claim for the loss/damage/short-landing lodged within 120 days from the date of Airway Bill/Bill of Landing.

8.22 **DRAW BACK CLAIMS**: Sometimes goods imported by paying Customs Duty are to be exported back to the country of origin, on non-returnable basis. If the duty paid has not been refunded, a draw back claim can be preferred on the Customs. Procedure for such claims is laid down in Customs Act, 1962, Chapter X.

8.23 **PAY BACK DEMAND NOTICE**: All refund claims, which have been passed and refund cheque issued, undergo scrutiny of Central Revenue Audit. If any discrepancy in the claim is found during such audit scrutiny, Custom authorities issue Pay Back Notice to the importer for returning the amount refunded forthwith, along with the reasons for making such untenable refund claims. In such cases, Labs/Estts will interact briskly to sort out problems promptly. Inept handling of such cases will complicate the situation and invite adverse criticism from the higher authorities.

8.24 **INLAND TRANSPORTATION**: For air consignments, the consolidator will arrange transportation to the Labs/Estts on prescribed rates as per the existing rate contract. In case of ship consignments, concerned Lab/Estt can authorise Embarkation HQrs in specific cases to arrange for transportation by rail/road. The payment of transport charges in such cases will be borne by the respective Lab/Estt. Alternatively, the Lab/Estt can depute representatives for collection from Embarkation HQrs or from the port directly.

8.25 **ACCEPTANCE/ACCOUNTING OF IMPORTED STORES**: The procedure for acceptance, inspection and accounting of imported stores will be the same as applicable for indigenous items.

8.26 **IMPORTANT DOCUMENTS USED IN IMPORTS**: In international purchasing, special documents, not used in indigenous purchases are required. A brief description of commonly used documents, for clear understanding, is given in the following:

(a) **Bill of Lading/Airway Bill***:* These documents are evidence of the fact that the goods have been despatched by the exporter by sea/air and give the importer title to the goods and enable them to claim the goods on arrival in India.

(b) **Invoice***:* The commercial invoice describes the merchandise, indicates the price, identifies the buyer and the seller, vessel/name of the carrier, port of discharge, export and import permit numbers, etc.

(c) **Certificate of Origin***:* This is required by the Customs authorities for clearance and for assessment of duty, as duties on imported goods are not same for all countries.

(d) **Weight Certificates***:* These certificates help in organising best mode of arrangements for the carriers and freight forwarders and transporters.

(e) **Insurance Policy***:* It is a contract between the insurer and the insured. The insurer pays a premium and the insured agrees to indemnify against loss/damage and other perils of sea/air carriage.

(f) **Packing List***:* A packing list indicates the exact nature, quantity and quality of contents together with address, dimensions, weight, etc of each package in a shipment and helps in clearance through Customs.

8.27 **SMALL VALUE IMPORTS THROUGH TAs (DEFENCE) IN HCsI/EMBASSIES**: For requirement of small value items where tendering action may not attract any response or is not considered worthwhile, the services of Technical Advisers (TAs) of High Commission of India (HCI), London/Indian Embassy in USA, may be availed for import/purchase of such items.

8.27.1 Labs/Estts intending to avail such services, will seek release of FE and place funds at the disposal of HCI, London/Indian Embassy (USA), to enable them (TAs) to make prompt payments at the time of purchase from the foreign vendors.

8.27.2 The normal procedure for Customs clearance of the stores in question will apply in these cases on arrival of the consignment in India.

CHAPTER 9

BANKING INSTRUMENT

9.1. **GENERAL:** Import is regulated by the Directorate General of Foreign Trade (DGFT) under Ministry of Commerce and Industry, Department of Commerce, Government of India. Authorised dealers, while undertaking import transaction, should ensure that the imports into India are in conformity with the Export Import Policy in force and Foreign Exchange Management.

9.1.1 Importer should follow normal banking procedures and adhere to the provisions of Uniform Customs and Practices for Documentary Credits (UCPDC) while opening Letters of Credit for import into India.

9.2 **LETTER OF CREDIT (LC):** A letter of credit is a written understanding given by the buyer's bank (the issuing bank) on behalf of and at the request of its customer (the applicant) routed through the agency of a bank in the seller's country (advising bank) to the seller that it (issuing bank) guarantees to pay the seller for the goods within a specified time provided that the conditions laid down in documentary credit are fully satisfied. A LC can be established in any of the 27 Public Sector banks besides SBI. Ministry of Finance, Banking Division ID No. 19/1/2002-BOA dated 24-6-2002 is placed at **Appendix 'A'** (at end of chapter) in this regard.

9.3 **REASONS FOR USING LC:** In international trade, buyer and seller being located in different countries may not know each other well. The two countries will have different legal systems, currencies, trade and exchange regulations. Due to this fact both the Buyer and Seller, need some conditions to be fulfilled, to suit their requirements, before releasing the payments and goods respectively. The buyer and seller want the following: -

(a) Seller would want: -

(i) To be paid as soon as he ships the goods

(ii) An assurance that he will be paid by the buyer or his bank as per contractual obligations.

(iii) Convenience of receiving payments in his own country.

(b) Buyer would want: -

(i) To pay for the goods only after they are shipped by the seller.

(ii) An assurance that seller will ship the goods ordered for and deliver them in time.

9.4 **BASIC FORMS OF LSC : -** Basic forms of LsC as applicable to Defence Departments are enumerated below:-

(a) Revocable letter of credit.

(b) Irrevocable letter of credit.

(c) Confirmed letter of credit.

(d) Revolving letter of credit

9.5 **REVOCABLE LETTER OF CREDIT:** A revocable letter of credit is one which may be amended or cancelled by the issuing bank at any moment without prior notice to the beneficiary. Therefore such a type of letter of credit does not give complete sense of security to the beneficiary. However when the revocable letter of credit is made available at a branch of a bank concerned, the notice of amendment or cancellation is effective only upon receipt of such notice. If such a bank has undertaken liability (i.e. Paid, negotiated or accepted) against documents, which appear on the face of it to be in conformity with the terms and conditions of the credit before notice of amendment/cancellation, then the issuing Bank is bound to reimburse such a bank. If the letter of credit is silent as to whether it is revocable or irrevocable, the credit is deemed as IRREVOCABLE.

9.6 **IRREVOCABLE LETTER OF CREDIT:** when the issuing Bank gives a definite, absolute and irrevocable undertaking to honour its obligations provided the beneficiary complies with all the terms and conditions such a credit is known as an irrevocable letter of credit. That means that the letter of credit cannot be amended, cancelled or revoked without the consent of the parties to the letter of credit. This gives the beneficiary definite protection.

9.7 **CONFIRMED LETTER OF CREDIT:** A confirmed letter of credit is one when another Bank in the beneficiary's country adds its confirmation at the request of the issuing Bank. This undertaking of the confirming Bank to pay/negotiate/accept is in addition to the undertaking of the issuing bank. This is an added protection to the beneficiary. This is not to be agreed as it undermines the credibility of our Nationalized Banks.

9.8 **REVOLVING LETTER OF CREDIT:** In such credits, the amount is restored, after it has been utilized, to the original amount. Such credits are used when the buyer is to receive partial shipment of goods at specific intervals for a long duration. It can be cumulative or non-cumulative in nature. It avoids opening letter of credit for each and every consignment.

9.8.1 The above LsC can be divisible, non-divisible. Divisible LsC are opened when more than one Beneficiary is allowed and payment has to be made as per consignment.

9.9 **PROCEDURE FOR OPENING LC**: The procedure for opening of an LC would generally include steps as given below: -

(a) Step-1: Receipt of PBG and Readiness of Goods. Contract concluding Dte/MoD receives readiness of goods for shipment as per contractual terms from the supplier.

(b) Step-2: The Contract concluding authority / Dte seeks FFE release from the appropriate authority. The IFA is to note the FFE and budget outgo and the approval of CFA is obtained.

(c) Step-3: On release of FFE the contract concluding authority forwards the case for opening of LC to CDA (R&D) who after proper scrutiny of all details for correctness, authorizes the bank to open LC. The bank establishes the LC and intimates the CDA (R&D) and the contract concluding authority.

9.10 **PAYMENT THROUGH LETTER OF CREDIT: -** The letter of credit mechanism works as follows: -

(a) Buyer requests the issuing bank to open an LC.

(b) Issuing Bank conveys LC through advising bank.

(c) Advising bank advises the credit to beneficiary.

(d) Beneficiary after complying with terms and conditions against stipulated documents gets the value either from the Advising bank or Nominated bank as per the terms of LC.

(e) After passing on the value, negotiating Bank claims reimbursement from the opening Bank or nominated bank as per the terms of LC.

(f) Ultimately opening Bank recovers the amount from the applicant. It Is the definite commitment of Opening Bank to reimburse to the negotiating bank whether applicant provides the value of negotiation or not.

9.11 **ESSENTIAL ELEMENTS OF LC:** Following essential elements are to be clearly stipulated while opening LC: -

(a) Type of LC

(b) Name and address of applicant and beneficiary

(c) Amount of credit and currency

(d) Validity of LC

(e) Latest shipment date (delivery date as per contract)

(f) Basis of delivery (FOB/FCA/CIP/CIF)

(g) Contract No. and date

(h) Shipment from …………. To …………

(j) Consignee and ultimate Consignee

(k) Part shipment allowed/not allowed

(l) Documents required to be produced by the beneficiary for release of payment from LC

(m) LD Clause

(n) Any other special instructions.

9.12 **DOCUMENTS TO BE PROVIDED BY THE SELLER:** Paid shipping documents are provided to the Bank by the Supplier as proof of dispatching goods as per contractual terms so that the supplier gets his payment from LC. The Bank forwards these documents to the Buyer for getting the goods/stores released from Port/Airport. Documents include: -

(a) Clean on Board Airway Bill/Bill of Lading

(b) Original Invoice

(c) Packing List

(d) Certificate of Origin from Seller's Chamber of Commerce

(e) Certificate of Quality and current manufacture from OEM

(f) Dangerous Cargo Certificate, if any.

(g) Insurance Policy of 110% if CIF/CIP contract.

(h) Certificate of Conformity & Acceptance test at PDI, signed by Buyer's and Seller's QA Deptt.

(j) Phyto-sanitary/Fumigation Certificate.

(k) Performance Bond/Warranty Certificate

(l) Authenticated signature of the supplier or his authorised rep should be available with the bank and verified by them before releasing LC payment.

The above details should form part of the contract.

9.13 **EXTENSION OF LC:** Following points should be checked before initiating the case for extension of LC by Contract concluding Directorate/MoD: -

(a) Extension of delivery date in the contract and corresponding amendment in LC for latest date of shipment.

(b) Performance Bank Guarantee (PBG) extension.

(c) Onus of charges for LC extension.

9.13.1 IFA clearance and CFA approval should be obtained prior to extension of LC.

9.14 **DIRECT BANK TRANSFER:** A transferable credit is a credit under which the Beneficiary may request the bank authorised to pay, incur a deferred payment undertaking, accept or negotiate or in the case of a freely negotiable credit, the bank specifically authorised in the credit as a transferring bank to make the credit available in whole or in part to one or more than one beneficiaries. Direct Bank Transfer shows high degree of trust between parties. Buyer ensures that the payment is released only after receipt of the following:-

(a) Clean on Board Airway Bill/Bill of Lading

(b) Original Invoice

(c) Packing List

(d) Certificate of Origin from Seller's Chamber of Commerce

(e) Certificate of Quality and current manufacture from OEM

(f) Dangerous Cargo Certificate, if any.

(g) Insurance Policy of 110% if CIF/CIP contract.

(h) Certificate of Conformity & Acceptance test at PDI, signed by Buyer's and Seller's QA Deptt.

(j) Phyto-sanitary/Fumigation Certificate.

(k) Performance Bond/Warranty Certificate

The above details should form part of the contract.

9.14.1 After obtaining the above documents, the concerned Dte. Authorizes CDA(R&D) for Direct Bank Transfer. CDA(R&D) in turn authorizes the Buyer's bank to make direct transfer of funds to Seller's bank account.

9.15 **ADVANTAGES:** Following advantages accrue in comparison to payments through LsC: -

(a) Payment released only after receipt of goods.

(b) Payment to be made only after full satisfaction to the quality, quantity etc.

(c) Cost-effective-inexpensive compared to LsC.

For contracts below USD 50,000.00, DBT payment terms should be insisted upon, at the time of concluding the contract.

9.16 **SPECIFIED TIME LIMIT AND DELIVERY SCHEDULE** The normal delivery schedule for spares procurement in case of LC and DBT payment terms should be as follows: -

(a) **L/C Payments :-** Six months from the date of signing of contract which will include :-

(i) Obtaining export license and giving notification of readiness for opening of L/C by seller – 45 days.

(ii) Obtaining Foreign Exchange Release and opening of L/C through CDA(R&D) by buyer – 45 days

(iii) Validity period of L/C – 90 days. The LC will be opened three months prior to the expiry of delivery period only.

In case the spares under procurement are in large quantity or their technical production cycle is long as specified by the seller in the tender enquiry, then the LC shall be opened for more than one quarter as agreed by the TPC/CNC.

(b) **DBT Payments :-** Preferably within three months of signing of the contract

9.17 **PERFORMANCE BANK GUARANTEE (PBG):** A written undertaking through the bank to perform the promise/terms and conditions of the contract and to ensure the discharge of liability of supplier in case of his default. Format of performance bank guarantee is given in MM forms.

9.18 **ESSENTIAL ELEMENTS OF PBG**: Essential elements of PBG are :-

(a) Amount.

(b) Address of Beneficiary, Applicant and Bank.

(c) Validity date.

(d) Contract Number and Date.

(e) Bank should release the amount without any demur on receipt of a written order from beneficiary.

9.19 **SALIENT FEATURES OF GUARANTEES**: Salient features of Guarantees are given below:-

(a) Guarantees are absolute in character and independent of underlying contract.

(b) Obligation to pay not to perform.

(c) Un-conditional and without demur payment against valid claim.

(d) For specified amount and period.

(e) Issued against matching counter-guarantee from the applicant.

9.20 **INVOCATION OF GUARANTEES:** Guarantees can only be invoked after fulfilling the following conditions:-

(a) Should reach issuing Bank on or before expiry date.

(b) Should be in strict conformity with Guarantee terms.

(c) Issuing Bank not to enquire into merits of claimer or take views on dispute between applicant and beneficiary.

(d) On compliance of terms of guarantee, payments effected immediately and unconditionally.

9.21 **CONFIRMATION OF PBG.** Advice of SBI should be taken as to whether the foreign bank providing Bank Guarantee for advance is a first class bank of international repute before taking a decision whether such PBG should be further confirmed by SBI, BOB, Canara Bank and BOI.

Appendix ‘A’

Government of India
Ministry of Finance
Banking Division
BOA Section
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Sub: Opening of letter of Credit and other related transactions through Public Sector Banks.

Ministry of Defence (Finance Division) may please refer to their ID note no. 230(13)96/BII dated 18.03.2002 on the subject above and to say that no specific instructions have been issued by the Banking Division in this regard. However, Ministry of Defence may enter into banking arrangements of any kind including letter of credit with any of the 27 Public Sector Banks.

Sd/-
(MRS. KIRAN S KHULLAR)
SECTION OFFICER (BOA)

Banking Division ID Note No. 19/1/2002-BOA dated 24.06.2002

CHAPTER 10

EVALUATION OF QUOTATIONS AND PRICE REASONABILITY

10.1 **INTRODUCTION:** In any purchase decision, the core issues to be decided by the CFA are whether the offered items meet the essential tender requirements, prices being charged are reasonable and the procedures followed are proper, fair and transparent. In this regard, provisions in General Financial Rules, 1963 (GFR) are as follows: -

"The responsibility and accountability of every authority delegated with financial powers to procure any item or service on Govt. account is total and indivisible. Government expects that the authority concerned will have public interest upper most in its mind while making procurement decision. This responsibility is not discharged merely by selection of cheapest offer but must conform to the following yardsticks of financial propriety: -

(a) Whether the offers have been invited in accordance with the governing rules and after following fair and reasonable procedures in prevailing circumstances.

(b) Whether the authority is satisfied that the selected offer will adequately meet the requirement for which it is being procured.

(c) Whether the price of the offer is reasonable and consistent with the quality required.

(c) Above all, whether accepted offer is the most appropriate one taking all relevant factors into account and keeping with the standards of financial propriety.
(Min. of Finance O.M. No. F23 (10).E 11(A)/86 dt. 29.-06-89

10.2 Provisions relating to economy in procurement of stores estimated cost for purchase of stores in the GFR is reproduced below: -

(a) Rule 103 "Purchases shall be made in most economic manner in accordance with the definite requirements of the public service."

(b) Rule 105(1) All indents sent out shall state clearly and accurately the grant number and the head of account to which the cost of stores is debit able, the amount of appropriation provided and an estimate of cost of each item.

10.2.1 In many cases CVC had observed that the estimated rates were worked out in an unprofessional and perfunctory manner. CVC further observed that estimated rates are vital element in establishing the reasonableness of prices and therefore, should be worked out in realistic and objective manner on the basis of prevailing market rates, last purchased price, economic indices for raw material / labour, other inputs costs, and assessment based on intrinsic value etc.

10.3 **EVALUATION OF QUOTE:** The first step in arriving at the decision regarding reasonability of price or otherwise is to know the exact cost of the proposal. In order to do this, all valid quotes have to be ranked as per the criteria indicated in the tender enquiry. In order to ensure that all offers are compared in an equitable and fair manner and the vendors are provided a level playing field, all elements of cost, including the terms and conditions with financial implications are to be taken into account while ranking quotes.

10.4 **PRELIMINARY EXAMINATION OF QUOTES**: The purchase cell/officer should examine the quotations to determine whether they are complete in all respects, and check for any computational errors will be rectified on the following basis: -

(a) If there is a discrepancy between the unit price and the total price that is obtained by multiplying the unit price and quantity, the unit price shall prevail and the total price shall be corrected.

(b) If there is a discrepancy between words and figures, the amount in words shall prevail.

10.5 **COMPARATIVE STATEMENT OF TENDERS (CST**): On receipt of all accepted tenders, the purchase cell is to collate them in the form of Comparative Statement of Tenders (CST). The CST will be exhaustive and is to include all details given in the quotations. Deviation from the tender documents is to be brought out in the CST. LPP, wherever available, should be indicated for a fair comparison of the offered prices. CST will be vetted by the IF(R&D)/CDA(R&D) representative (for cases above Rs 5 Lakh) with regard to original quotations, indents and other supporting documents. The IFA(R&D)/CDA(R&D) representative and purchase officer will sign the CST.

10.6 **BENCH MARKING**: Before scheduled negotiation (wherever considered necessary) it would be advisable to work out estimated reasonable rate. In case of single tender cases, a technical team should make an assessment of estimated cost based on available information. The approach to be taken for assessing reasonability in different contingencies is given below.

10.7 **REASONABLENESS OF PRICES IN COMPETITIVE TENDERING**: In the case of competitive tendering where two or more vendors are competing independently to secure a contract, the competitive bids form the basis for pricing. Database maintained on cost based on concluded contracts, price of the product available through market should also be used to assess reasonableness of the price offered.

(a) Evaluation of tenders is made on the basis of the ultimate cost of the user.

(b) As a general principle, no offer involving any uncertain or indefinite liability or any condition of unusual character should be considered.

(c) The reasonability of the price proposed has to be established by taking into account the competition observed from the response of the trade to the enquiry, last purchase price, estimated value as given in the indent, database maintained on costs based on the past contracts entered into, market price wherever available and changes in the indices of various raw materials, electricity, whole sale price index, and statutory changes in wage rates etc.

(d) Procurement of spare parts, consumables and small value contracts which are supplied in the past, the price reasonableness can be determined after comparing with last purchase price after factoring in changes in price indices published by the Government sources.

(e) The reasonability of price may also be examined, by resorting to Cost Analysis in situations where there is a wide variance over the LPP not explained by corresponding changes in indices.

(f) Effort should be made to check cost break up details as per format placed at Appendix 'A' (at the end of chapter) to the extent possible. A Book examination clause should be invariably provided in the Tender Enquiry.

10.8 **LAST PURCHASE PRICE (LPP)**: LPP is one of the relevant factors in deciding the price reasonableness. However, following needs to be considered while comparing the quoted rates with the LPP:-

(a) LPP of more than three years vintage is not taken as a real scale for comparison. However, such LPP could be used as an input for assessing the rates.

(b) LPP should pertain to a past successfully executed order of similar magnitude and scope of supply.

(c) Factors like basket price and bulk discount offered need to be taken in to account while using LPP as a scales for comparing prices.

(d) Price variation clause, if any, and the final cost paid by the Govt. in respect of last purchase to which LPP pertains to be considered.

(e) Factors like items supplied against LPP being of current production or ex-stock supply need to be taken into account..

(f) Market conditions and extraneous factors like re-starting production lines due to obsolescence may also have to be considered.

10.9 **LACK OF COMPETITION**: Exists in the following situation:-

(a) The number of acceptable offers is less than three.

(b) Ring prices have been quoted by all tenderers (Cartel formation).

(c) The product of only one manufacturer has been offered by all the tenderers irrespective of the number of quotations.

(d) Store under purchase is chronically in short supply against which a number of acceptable offers never exceeds two.

10.9.1 In the case of single tender not covered under para 13.9 above, analysis of the costs and price structure may be done to ensure that the price quoted is reasonable with reasonable profit margin. In this regard GFR rule 102 (1) and para 9 of the annexure containing instructions for purchase of stores is reproduced below: -

“Where the lines of manufacture are the monopoly of a single firm or a group of firms, or where a significant increase over the purchase price, not explained by a corresponding increase in price of raw material or of labour charges, is being asked for, the reasonableness of the offer is determined with reference to the actual cost of production plus a reasonable margin of profit. In such cases, the indigenous manufacturer should be asked to accept the order on actual cost plus a reasonable fixed margin of profit, with quoted price being the ceiling subject to adjustment after necessary cost check. Prior consent of the competent financial authority should be obtained by the purchases offer before entering into a contract relating to uncertain conditions, wages, and cost of raw materials. Wherever possible, the right to examine firm’s books should also be reserved, except where details furnished by the firm provide an adequate check and are satisfactory in all respects.”

10.10 **ADAPTATION OF DISCOUNTED CASH FLOW TECHNIQUE (DCF):** The Discounted Cash Flow is defined as “method of evaluation by which cash flow of the future are discounted to current levels by the application of a discount rate with a view to reducing all cash flow to common denomination and make comparison” : DCF is also defined as “ a method of investment appraisal under which today’s cash outflows are compared with today’s cash inflows”

10.10.1 The DCF procedure is to reduce both cash inflow and out-flows into net present values (NPV) through the DCF methods, which would be more scientific and reliable. The use of Net Present Value (NPV) analysis in Cost and Price Analysis is based on the concept of time value of money. The money has a time value because of the opportunity to earn interest or the cost of paying interest on borrowed capital. This means that a sum to be paid today is worth more than a sum to be paid in a future time. The cash out flow/inflows and the average cost of capital i.e., cost of borrowing becomes an important constituent in evaluation process. The NPV of a stream of cash flows is described as follows: -

$$NPV = \frac{C1}{1+r} + \frac{C2}{(1+r)^2} + \frac{C3}{(1+r)^3} + \text{------}$$

or

$$NPV = \frac{\sum Cn}{(1+r)^t}$$

In the formula

C is the expected payoff at a period mentioned by the subscript n.
r is the rate of interest.
t is the period after which the payment is done.
n is payment schedule as per the payment terms and conditions.

10.10.2 The alternative with the smallest payment of net present value in the procurement is the obvious choice. The DCF may be made use of to facilitate determination of L1 in following procurement situations: -

(a) To compare different payment terms of the vendors to a common denomination for determining L1 status.

(b) To deal with the cases where entering into AMC over a period of 10 to 11 years is part of the contract for evaluating for L1 status.

10.10.3 Ministry of Finance has also clarified that determination of L1 by merely adding arithmetic values spread over 12 to 13 years (2 years warranty and 10 to 11 year AMC) would be an incorrect procedure for determining L1 and the correct procedure would be reduced cash out flows into present values through the DCF technique for which the discount rate to be adopted should form part of the tender enquiry.

10.11 **DISCOUNTING RATE**: The cost of borrowing to the Government is the relevant discounting rate for the purpose of evaluation. The Ministry of Finance and Company Affairs prescribes the lending rates of the loans to be charged by the Central Government from State Governments, Public Sector Undertakings and Financial Institutions etc. At present this rate is 9%.

10.11.1 In the tender enquiry, where DCF method is to be used, a clause may be incorporated in the tender enquiry as follows: -

"The buyer reserves the right to evaluate the offers received by using Discounted Cash Flow method at a discounting rate of ______%".

10.11.2 In case cash flow involves more than one currency, the same to be brought to a common denomination, say Rupees by adopting exchange rate as on the date of the opening of price bids. "Excel" or any standard spreadsheet has the features for carrying out this exercise.

10.11.3 Ministry of Finance & Company Affairs letter dated 11 Nov 2002 placed as Appendix 'B' (at the end of chapter) also clarifies the position on DCF.

10.12 **PRICE VARIATION CLAUSES/PRICE ADJUSTMEN**T: Normally contract should be entered into on firm price basis. Nevertheless in the fluctuating market conditions, supplier often quotes variable prices, particularly when contract period exceed 12 months. DGS&D Manual has provided Standardised Price Variation Clauses. These clauses should be indicated in the tender enquiry. A sample clause is indicated below:-

$P1 = P0\ (a+b\ L1/\ L0 + c\ M1/M0) - P0$

Where P1 = Adjustment amount payable to the contractor
P0 = Contract Price (Base Price)
a = Fixed element representing Profit & Overloads

in contract price

b = Estimated % of labour component

c = Estimated % of Material component

L0 & L1 = Labour indicates applicable to appropriate Industry on the base date & date of adjustment respectively.

M0 & M1 = Material indicates for raw material on base date & date of adjustment.

The sum of the three coefficients a, b & c shall be (1)

10.13 **CONDITIONS APPLICABLE TO PRICE ADJUSTMENT**:

(a) Base dates shall be due dates of opening of Tenders

(b) Date of adjustment shall be midpoint of Manufacture.

(c) Price adjustment will be applied only if the resulting increase or decrease is more than 2% of contract price

(d) No price increase is allowed beyond original DP unless the delay is attributable to the buyer

(e) Total adjustment will be a maximum of 10% of contract price

(f) No price adjustment shall be payable on the portion of contract price paid to the contractor as an advance payment. The Price Variation Clause and its implication should be got vetted by IF(R&D)/CDA(R&D) (for cases above Rs 5 lakh).

10.14 **EXCHANGE RATE VARIATION (ERV) :** In case delivery period exceeding one year from the date of contract involving import (foreign exchange), ERV clause is to be provided. The offer should indicate import content. In case DP is re-fixed / extended, ERV will not be admissible if this is due to default of supplier. Base exchange rate of each major currency used for calculating FE content of the contract is to be indicated. The base date for ERV would be contract date and variation on the base date can be given upto the midpoint manufacture unless firm has already indicated the time schedule within which material will be exported by the firm. Other conditions as above for price adjustment would be applicable.

10.15 **DOCUMENTATION FOR CLAIMING ERV:**

(a) A bill of ERV claim enclosing worksheet

(b) Banker’s Certificate / debit advice detailing FE paid & Exchange rate.

(c) Copies of import orders placed on the suppliers

(d) Invoice of supplier for the relevant import orders

10.16 **SINGLE TENDER/NONCOMPETITIVE CONTRACTS – INDIGENOUS PROCUREMENT:**

Where after the analysis of technical bids only one party remains competing for a contract for supply of a product or service or where one vendor has been nominated including Defence Public Sector Undertakings, such a case becomes a non-competitive contract or a single vendor/tender contract. The cost and the price offered by the vendor in such cases, particularly when, in the recent past reasonable quantities of such items have not been procured which will facilitate any comparison, needs to be scrutinized to assess that the price offered is reasonable and economical. To assess the reasonable price the following steps could be considered for the projects supplied in the past indigenously or by an Indian vendor.

(a) In case of products, which have been supplied in the past, the actual cost of production of the completed contract or supplies may be obtained in addition to the price quotation. The current Cost of Production may be assessed keeping in view the actual cost of production duly updated to current rates.

(b) The break up of the material cost into the imported and indigenous material. In case of imported material, break down of Foreign Exchange content, foreign currencies involved, exchange rate adopted and other costs to be obtained. In respect of Direct Material, various types of material used, their spec(s), unit rates and usage factor and credit for scrap arising should be assessed by a Technical Team and rates vetted by IF (R&D)/CDA (R&D) (for the cases above Rs 5 lakh).

(c) The man-hour rate (MHR) rate and Total Standard man-hours (SMH) should be assessed.

(d) Cost Break up should be obtained as per format placed at **Appendix 'A'** (at the end of the chapter).

(e) Balance sheets and profit and loss accounts during the last three years should be analysed, wherever made available.

(f) In case where advance or progressive payments are required to be paid, the advantage of advance in terms of lower cost of production should be considered.

(g) Where the order is for larger quantity, the benefit of economy of scale due to higher capacity utilisation and reduction of overheads particularly fixed overheads should be taken into account.

(h) There should be clear linkage between price negotiated and quantum of advance.

WEB SITES

(j) In regard to price indices of indigenous items, website of Ministry of Industry **www.eaindustry.nic.in** should be accessed for the latest indices/trends. For metals and other minerals access **www.mmr.online. com** for updates. The other useful sites are **www.tradintelligence.com** and **www.cmie.com**. The monthly report of CMIE (Centre for Monitoring Indian Economy). Prowess Package of CMIE giving updates on performance of listed Indian companies, RBI monthly bulletin, Economic survey and its Appendix containing statistical tables are excellent reference material for market trends. The World Economic Outlook – a monthly report from IMF, gives inputs on price trends of different countries. LME (London Metal

Exchange) gives price trends of nonferrous details, which often show volatile trends. Indices of electronic items often show lower trends. Instructions issued by Ministry of Finance on its web site **www.finmin.nic.in** should be assessed as also CVC's site **www.cvc.nic.in**.

(k) The price should normally be on 'Firm Price' basis. When contracts are concluded with provisions for variation in price, the formula on which price variation is based should be clearly spelt out indicating the base price of the raw material, labour, overheads and duties etc., on which price variation is to be allowed. Price variation should be considered up to the schedule date of delivery. Escalations beyond scheduled dates may be considered when the delay in execution of contract is attributed to the buyer.

(l) Tender enquiry should invariably contain a book examination clause in addition to the clauses on Agents and Agency Commission & Undue Influence. Costing expert should be associated in the TPC/NC for cost assessment etc. For cases beyond Rs 20 crores (single vendor cases) in addition to DRDO's costing expertise.; Adviser (Cost) under MOD (Fin) can be consulted who could be made a part of TPC/NC to render advice on cost examination till such time a full time cost expert is available as a part of DRDO HQ.

10.16.1 The format in which data is to be sought from single vendor is placed at Appendix 'A' (at the end of chapter). Validation of total Standard man-hour SMH figures could be a time consuming affair. These are indicative guidelines and should not hold up finalisation of TPC/NC negotiations.

10.17 **SINGLE TENDER / NONCOMPETITIVE CONTRACTS – FOREIGN PROCUREMENT:**(for cases above Rs. 20 Cr) Apart from the parameters enumerated at Para 10.16 regarding analysis cost break up and price indices wherever feasible, efforts should be made to analyse.

(a) The price fixation procedure/methodology prevailing in the country of the vendor.

(b) Compare with the prices of similar products, systems and subsystems wherever available should be referred. The database maintained in the respective division connected with the procurement of such type of stores should be accessed.

(c) Other Production Agencies (if any) would be involved in assessing the reasonability of prices in such cases of high value.

(d) The foreign vendor may be asked, to provide the details of past supplies and contract rates if any of similar kind of product to other buyers.

10.18 **DATA BASE ON COST & PRICES:**

10.18.1 DRDO should have costing expert as part of Directorate of Materials Management. Costing expert would advise on reasonableness of price, escalation clauses, cost verification where prices are fixed subject to a ceiling price. DRDO should maintain data base on past contracts showing details of items procured, their essential spec(s), unit rate, quantity, total value, mode of TE, number of tenders received, number of tenders considered acceptable, reasons of exclusion of overlooked tenders, un-negotiated rate of L1 and contract rates in order to help in ascertaining reasonableness of prices of future procurements. In case of DRDO HQ, the costing expert would function under the overall administrative jurisdiction of Director of Materials Management and Chief Controller Research & Development (Resources & Management) and would also provide required costing expertise to Integrated Finance.

10.18.2 For price indices, Internet facility should be accessed by officers dealing with purchases/associated with TPC/NC from important sites as enumerated at para 10.16(i) above. The Directorate of Material Management (DMM) and IF(R&D) should subscribe to important publications like RBI Monthly Bulletin, CMIE'S monthly report, Economic Times/Financial Express, MMR etc.

10.18.3 Expert agencies should be approached for market intelligence forecasting trends and best practices. Public Sector Banks, particularly SBI, should be consulted before firming up major payments involving LC, Performance Bank Guarantee, reputation of foreign banks etc.

10.18.4 In assessing the reasonableness, general analysis of Financial/Cost ratios from published accounts and evaluation of Commercial/Technical information of the Vendor/Bidder may be undertaken. The allocation of overheads should be as per established principles of costing. Assessment should be made on the vendor's approach to controlling cost, adherence to delivery schedule, Cost Accounting System and other factors affecting contractor's ability to meet cost/schedule targets.

10.18.5 Even when only one bid is submitted, it may be considered valid if the bid is satisfactorily advertised and price quoted is reasonable in comparison to market value and assessed price.

10.18.6 Assessing of reasonability may be an arduous task, especially where price data is not available or in case of overseas purchases. In such cases it is important to place on record efforts made for arriving at a price and taking procurement decision.

APPENDIX-A

FORMAT OF COST ANALYSIS

<table>
<tr><td>Dept / Wing</td><td>Break- Up of Fixed Price Quotation

(Rs. in Lakhs)</td><td>Appendix-I
Produce
Base Year of Quote
Quantity:</td></tr>
</table>

S.N.O	Particulars	Previous Year Rs.	Year of Quote Rs.	Remarks
1 1.1	MATERIAL Imported i) Raw Materials Rejection (% on (i) ii)Bought Out items Rejection (% on (ii) Sub-total-1.1			
1.2	Indigenous i) Raw Materials Rejection (% on (i) ii)Bought Out items Rejection (% on (ii) iii)ATF Sub-total-1.2 Total – 1.1 + 1.2			
1.3	Freight & Insurance Charges (% of (1.1 + 1.2)			
1.4	Storage & Handling Charges (% of (1.1 + 1.2) Material Cost sub- Total-1			
2	CONVERSION COST Manhours x MHR Sub-Total – 2			
3	NON-RECURRING COST Sub-Total – 3			
4	SUNDRY DIRECT CHARGES Sub-Total – 4			
5	FINANCING COST Sub-Total 5			
6	Total of Sub-totals (1 to 5)			
7	Warranty Cost (% of 6)			
8.	Total Cost (6+7)			
9.	Profit (% of 8)			
10.	Selling Price (8+9)			

Appendix 'B'

No.8 (6)/CAB/2002
Ministry of Finance & Company Affairs
Department of Expenditure
Cost Accounts Branch

Lok Nayak Bhawan,
2nd Floor "C" Wing,
New Delhi – 110003
Dated 11th November 2002

OFFICE MEMORANDUM

The undersigned is directed to refer to I.D. No. 2376/DFA (Acq)/2002, dated 9th September 2002 on the subject "Adoption of Discounted Cash Flow (DCF) Technique for Defence Procurement".

In this connection, the paragraph-wise views of this office are as under:-

(a) & (b): Generally the technique of DCF is adopted to evaluate the projects, when the outflow/inflow of cash is over a period of time. In the instant case, the charges for AMC are to be paid over a period of 13 to 14 years. Consequently the total outflow of cash won't be in one year but in installments over a period of time. Hence in such circumstances, it is always advisable to evaluate the project under DCF. As regards the question of whether DCF for determining the lowest tender is being adopted in all cases universally by the DOE, this office is not in a position to respond. DOE may kindly be addressed in this regard.

(c) It can be conveyed to the vendors at the time of inviting the bids itself. However, there is no harm in applying this technique even at the time of evaluation of tenders uniformly in respect of all the bids.

(d) The lending rate prevailing at the time of evaluating the project can be adopted as discounting factor.

(e) Yes, keeping in view the outflow/inflow of cash over a period of time, it is always desirable to apply the discounting factor to arrive at Net Present Value (NPV) for the preparation of Comparative Statement Table (CST) to take a decision.

Ministry of Defence may refer to this office for any clarification/Price fixation or Book examination leading to determination of the cost of production/Fair Selling prices or any other assistance relating to Costing/Financial analysis as and when the need for the same arises.

Sd/-
(RK Paul)
Adviser(Cost)
Tel: 4618913
Fax : 4698179

Shri Bulbul Ghosh
Additional Financial Advisor & JS,
Ministry of Defence,
R.No. 134-A, South Block,
New Delhi-110001

Chapter 11

PROCUREMENT OF MATERIALS: CENTRAL PURCHASE

11.1 **GENERAL:** In compliance with the latest Government policies, the purchases of all Government departments have been decentralised. Consequent to this, the DRDO Labs/Estts have been authorised to process their own purchases based on their respective purchase procedures.

11.1.1 Due to dilution of the purchase activity in the DGS&D, they have been relieved of the responsibility of making central purchases for the Government departments. They, however, conclude rate contracts for general use items required by Government departments, against which DRDO Labs/Estts can place direct orders as per the procedure defined in Para 7.30.

11.2 **AVENUES FOR CENTRAL PURCHASE:** The eventualities and avenues open for effecting central purchase are:

(a) Restricted items of supply such as ammunition, propellants, small arms, weapons or components/sub-systems of defence hardware required for R&D work.
(b) In cases where Labs/Estts feel it convenient to procure their requirements of certain category of items through inter-service channels.
(c) Where specific Government instructions exist to procure certain items through inter-service channels, e.g., standard MT vehicles, FOL, medical supplies, other ASC/Military Farm supplies.
(d) Option to procure common office equipment, general purpose and special stationery items and certain category of publications through DMR&F.

11.2.1 Various sources of procurement for central purchase in respect of above category of stores are as follows:

(a) Central Ordnance Depots/Ordnance Depots,
(b) Naval Stores Depots,
(c) Air Force Depots,
(d) Armed Forces Medical Stores Depots/Govt. Medical Stores Depots,
(e) ASC Supply/Petroleum Depots/Military Farms,
(f) Ordnance Factories, and
(g) DMR&F.

11.3 **PROCEDURE FOR PROCUREMENT**: The following procedure shall be adapted for procurement of stores from the three Services Depots/Ordnance Factories, etc:

(a) The requirement will be based on standard scales or on actual requirements, duly approved by CFA.

(b) The demand will be prepared in proper form duly signed by an authorised officer and submitted to Services Depots/Ordnance Factories.

(c) Controlled/census category of stores contained in the master list of control/ census for the Army and equivalent publications in the Navy/ Air Force, will not be demanded by the Labs/Estts directly from the Services Depots but got released from the respective service HQrs by concerned Technical Directorate by submitting proper statement of case justifying the necessity.

11.3.1 **Ordnance Factories**: Certain stores peculiar to Ordnance Factories either stocked by them or manufactured by them, shall be procured from the factories in the following manner:

(a) **Factory Stocked Stores (FSS)**: Demands for such items shall be raised directly on the factories concerned, with a copy to Ordnance Factories Board (OFB).

(b) **Factory Manufactured Stores (FMS**): Such items shall be procured by raising Syllabus Work Order Demand (SWOD) on OFB with copies to concerned factory and their respective accounts office.

(c) For unrestricted items/stores/fabrication work, the Labs/Estts may place supply orders/contracts after negotiating the price and other terms.

11.3.2 Copies of all demands placed on OFB may be endorsed to DRDO HQrs (DBFA) and the concerned pay office. For all central purchases, Labs/Estts will send a quarterly report to DBFA along with payment details, if any.

11.4 **DMR&F**: Procurement of common office equipment, e.g., electronic typewriters, photo-copying machines, ammonia printing machines, ammonia rolls, general purpose and special stationery items and certain category of publications, under central purchase can be made by placing a demand on the DMR&F directly.

11.5 **LOAN ISSUES**: Requirements of loan issues from other services will be taken up with the appropriate controlling authorities at Service HQrs. The approval of such issues will be taken by the concerned Technical Directorate through DBFA at DRDO HQrs. Loan issues are made by services for a specified period. Action for timely return or extension of loan period will be taken promptly to avoid objections.

Chapter 12

PAYMENT/CLEARANCE OF BILLS

12.1 **GENERAL**: After the stores have been received in good condition, inspected to the satisfaction of the user and Brought on Charge (BOC), it becomes obligatory on the part of Lab/Estt to clear the contractor's bills promptly. It is the responsibility of the officer who signs the supply order/contract to ensure that the contractor's bills are paid as per terms and conditions stipulated in the supply order/contract.

To prevent any misuse, all payments will be made by A/c payee cheque indicating banker's name, branch and A/C No of the supplier. The supply orders/contracts may include a clause asking the suppliers to quote their banker’s name, branch and A/C No in their bills as a measure of safety so as to enable the paying authority to draw /issue payment cheque accordingly.

12.2 **PROCESSING OF BILLS:** All bills received will be registered centrally and processed for payment. The following checks will be carried out:

(a) Prompt action should be taken with the suppliers for any discrepancy detected in the contractor's bills.
(b) Bills prepared on prescribed form are pre-receipted bearing revenue stamp on all bills exceeding Rs. 500/- in value.
(c) Amounts are shown both in words and figures and are rounded off to the nearest rupee.
(d) The nomenclature of the items and the quantities are in accordance with the supply order.
(e) The amounts claimed on account of incidental charges are admissible as per terms and conditions of the order.
(f) Cash receipts/certificates are enclosed in support of packing and forwarding charges and original cash receipts for postage and insurance are enclosed wherever applicable.
(g) The Sales Tax Certificate is enclosed wherever Sales Tax is claimed.
(h) No Sales Tax is claimed on forwarding charges.
(j) E.D., wherever it is necessary to be paid should be supported by the E.D invoice duly signed by the authorized signatory of the company in terms of E.D. notification.
(k) Original supply order is enclosed along with the bill. In case the original supply order is lost, a certificate to that effect may be demanded from the supplier. In case of any amendment to the supply order, the original copy will be enclosed along with the bill.
(l) CRV/Inspection Report (IR) should invariably accompany the bills being sent after accepting of goods without waiting. Nomenclature of the items on CRV/IR should exactly correspond to those shown in the supply order and the contractor's bill. Rates and total value of all items, should be shown in the CRV/IR.
(m) Receipted copy of the delivery challan is enclosed with the bill.
(n) The arithmetical accuracy of the bills will be thoroughly checked before clearance.
(o) Deductions will be made from the bills on account of demurrage/wharfage paid by Labs/Estts on consignments due to late receipt of RR/LR (Railway Receipt/Lorry Receipt).
(p) Income tax will be deducted, where leviable.

12.2.1 **Time Schedule for Clearance of Bills**: Expeditious processing of bills, after acceptance of stores, is essential to ensure the payment to the supplier to avoid legal repercussions leading to payment of penal interest on delayed payments. For this purpose, the Directors of Labs/Estts will issue local orders fixing time schedules for completion of inspection, accounting and clearance of bills to the paying authority for release of payment.

12.2.2 The bills for accepted stores along with copies of receipt voucher, original purchase order and approved CST, shall be forwarded by Lab/Estt (MMG) to local CDA(R&D)/ paying authority for issuing the cheque directly to the contractor with bank A/C details under intimation to the Labs/Estts. On the receipt of the cheque slip/intimation from the paying authority, the cheque number, date and amount will be entered in the bill register and cheque slip inserted in the purchase file.

12.2.3 **Balance Payment***:* Necessary entries in this regard will be made in the progress register for advance payment. All advance payments of 95 or 100 per cent shall be entered in the progress register. The bills for the balance of 5 per cent payments to the contractors shall be supported by CRV/IR and other connected documents and linked with the advance drawn before forwarding to local CDA(R&D)/paying authority for settlement.

12.2.4 **Adjustment to Advances**: All advances are to be settled within six months from the date of receipt of stores. In the event of delay on the part of vendor in claiming balance 5 per cent payment, such settlement of advances (95 per cent), and bills along with CRV/IR will be sent to paying authority for settlement.

12.2.5. Advance payments made to the vendors, will be entered in the Advance Payment Register and submission of the adjustment /final claims regulated with reference to this register.

12.2.6. All Labs/Estts will maintain a Register of Bank Guarantees, Security Deposits, etc., accredited by the firms to the Labs/Estts, to ensure their validity during currency of the contracts/supply orders and release at appropriate time under the instructions of an authorised officer not below the rank of Scientist E/equivalent, entrusted with such responsibility by the Directors.

12.3 **LOST/MISPLACED CHEQUES AND ISSUE OF FRESH CHEQUES:** In the event of loss/misplacement of cheques, the following procedure will be followed:

(a) The beneficiary must lodge a written complaint to the Lab/Estt regarding loss/misplacement of the cheque issued in his favour and non-realisation of payment against a legitimate supply/service rendered by him within the validity period of the cheque. After expiry of validity period, the Lab/Estt will obtain a Non-Payment Certificate (NPC) from the bank stating that the cheque has not been honoured and no payment released to the beneficiary.

(b) The contractor/supplier will execute an indemnity bond on the appropriate non-judicial stamp paper stating the fact of loss/misplacement of the cheque (No. __________Date_______ Amount___________) and non-encashment during the period of validity.

(d) The original document at sub-para (a) and an attested copy of sub-para (b) above will be forwarded to the concerned paying authority for onward transmission to the CDA (R&D) with a request to issue a non-payment certificate.

(e) The CDA(R&D), after verification and confirmation that the cheque in question has not been encashed, will issue NPC to the paying authority for issue of a fresh cheque.

(f) If, after verification, the CDA(R&D) finds that the cheque has been paid, they (CDA, R&D) will send a photocopy of the cheque to the paying authority concerned to take up the matter with the bank for reconciliation and settlement.

12.4 **PREPARATION OF CRVs:** Labs/Estts will prepare CRVs immediately after receipt, inspection and acceptance of stores. All efforts will be made to prepare CRVs within 15 days of inspection and acceptance of stores at Lab/Estt. Such CRVs will be sent immediately to paying authority (i.e. local CDA) for settlement of advance, if any. In cases where bill for 5-10% payments are received later, CRV No. and CRV date should be mentioned while sending these bills for payment for linking by paying authority.

Chapter 13

PROGRESS REPORT ON PROCUREMENT, UTILISATION OF STORES AND DISPOSAL OF OBSOLETE STORES

Plant, equipment and material are the vital inputs for research and development activities of DRDO Laboratories/Establishments and the cost of their procurement constitutes a significant portion of the R&D Budget. It is, therefore, imperative that timely action is initiated and appropriate monitoring mechanism is put in place in each and every case of procurement, installation and commissioning of equipment/machine. As such an Annual Action Plan for procurement, installation and commissioning of equipment/machine should be meticulously drawn well in advance. Annual Actions Plans must also be quarterly reviewed (as on 31st March, 30th June, 31st October and 31st December) by Lab/Project Director with a view to ensuring that timely procurement of stores helps in completing the objectives of projects without any cost and time over runs.

13.1 **ANNUAL REPORT BY LABS/ESTTS:** Labs/Estts would forward reports to DMM/DRDO HQrs at the close of each financial year covering instances of abnormal delay adversely affecting completion of R&D Projects. Annual reports while covering the following instances or delay should also incorporate the reasons for delay and recommend reasons for minimizing adverse effects of delay on completion of R&D project.

(a) All cases, where internal lead-time is more than one year i.e. where more than one year is taken from demand initiation for procurement of stores and issue of supply order.

(b) Instances of abnormal delay of more than one year in installation after the receipt of machine/equipment in Lab/Estt.

(c) Any abnormal under utilization of equipment due to delay in repair/servicing/upgradation etc.

(d) Any equipment lying unused for a period exceeding six months.

(e) All cases where machines/equipment costing more than Rs. 5 Lakh are received after the closure of the project or at the fag end of the project i.e. 3 months ahead of PDC.

(f) Delay of more than six months in disposal of surplus/obsolete equipment after being recommended for disposal.

13.2 **REVIEW OF ANNUAL REPORT BY DRDO HQRS:** DRDO HQrs will review the annual report during first quarter of next financial year and submit the same to the Secretary Defence R&D. Recommendations and remedial measures suggested are to be scrupulously adhered to by the Laboratory Director/Project Directors.

Chapter 14

MAINTENANCE/WEEDING OUT OF OLD RECORDS: CONTRACTS/SUPPLY ORDERS

14.1 Constant review of old records/files will help to distinguish between the documents essentially required to be maintained and those to be destroyed. Weeding out of unwanted old records/files makes available valuable space and helps in prompt retrieval of the desired files.

14.2 While undertaking the weeding out of records/files, it will be ensured that the following types of files are not destroyed:

(a) Files containing Government sanctions, important policy decisions, precedents, audit rulings, till they cease to have relevance.

(b) Files having historical value of information.

(c) Records pertaining to court cases and audit objections till their finalisation/settlement.

(d) Registers for EMD/Security Deposits, Bank Guarantee Bonds, Indemnity Bonds, Insurance Policies, etc.

(e) Contracts and supply orders files/documents not completing a period of 7 years after materialisation or till completion of the test audit, whichever is earlier.

14.3 All old records/files will be maintained in the Central Record Room by Labs/Estts and access facilitated by feeding their location details into Central Computerised Management Information System.

14.4 Destruction/weeding out will be approved by the Director, based on the recommendation of a committee appointed for this purpose; certification will be made by the head of the respective user group that the records intended for destruction are no longer required.

14.5 A list of all files weeded out will be retained for record for a further period of 5 years from the date of actual destruction.

14.6 All contracts/supply orders files weeded out, will be destroyed by burning or shredding and will not be disposed off as waste paper to any private party.

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7. Purchase Manual of Ordnance Factories Board.

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10. Buying Made Safer, Selling Made Simpler by Government of India, Department of Supply, Ministry of Commerce.

11. Australian Government Purchasing Policies: First Report, 1995.

12. Export/Import Trade Control Policy, 1992-97 by Government of India, Ministry of Commerce.

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16. Central Vigilance Commission directive No. 8(1) (h)/98(1) dated. 18 November 1998 and 08 March 1999.

17. MoD; DDP&S letter No.4 (3)/89/D(S-II) dated 17 June 1999.

18. INCOTERMS-2000 - Export, Costing & Pricing by Shri Paras Ram.

19. Defence Procurement Manual- 2005 (Revenue Procurement)

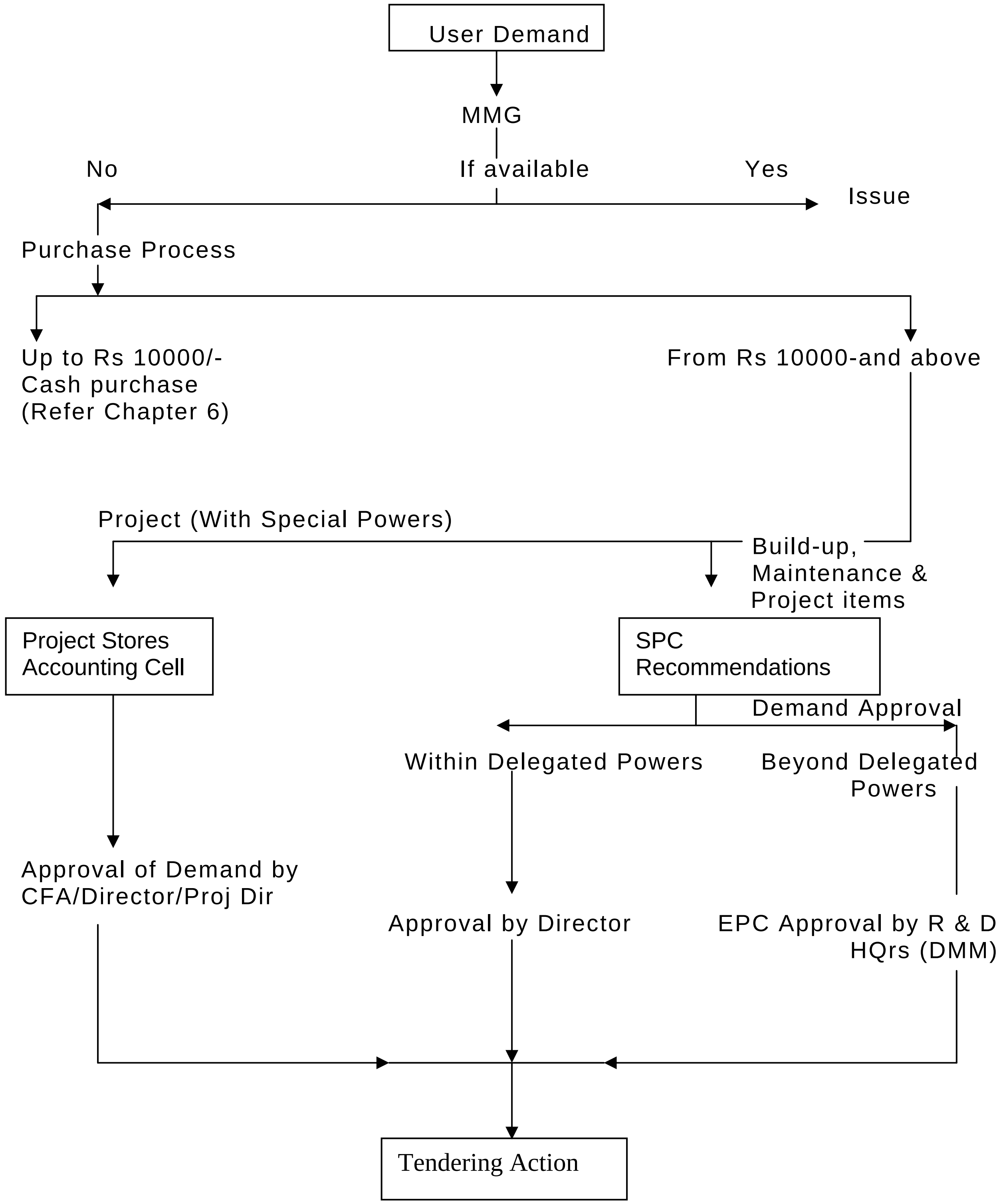
ABBREVIATIONS

1.	A/c No	Account Number
2.	AD	Acknowledgement Due
3.	ADA	Aeronautical Development Agency
4.	Addl FA	Additional Financial Advisor
5.	Addl FA&AS	Additional Financial Advisor & Additional Secretary
6.	AFMSD	Armed Forces Medical Stores Depot
7.	AS	Additional Secretary
8.	ASC	Army Supply Corps
9.	A/U	Accounting Unit
10.	AWB	Air Way Bill
11.	BER	Beyond Economic Repairs
12.	BG	Bank Guarantee
13.	BIS	Bureau of Indian Standards
14.	BOC	Brought On Charge
15.	CCPA	Cabinet Committee for Political Affairs
16.	CDA	Controller of Defence Accounts
17.	CCR&D	Chief Controller Research & Development
18.	CDA(R&D)	Controller of Defence Accounts (Research & Development)
19.	CDEC	Customs Duty Exemption Certificate
20.	CEGAT	Central Excise & Gold (Control) Appellate Tribunal
21.	CFA	Competent Financial Authority
22.	CGDA	Controller General Defence Accounts
23.	CIF	Cost, Insurance and Freight
24	CIP	Carriage and Insurance Paid
25.	CMC	Computer Maintenance Corporation
26.	CNC	Contract Negotiation Committee
27.	CRV	Certified Receipt Voucher
28	CSD	Canteen Stores Department
29.	CST	Comparative Statement of Tenders
30.	CSIR	Council of Scientific and Industrial Research
31.	CVC	Central Vigilance Commission
32.	DECS	Directorate of Electronic and Computer Science
33.	DARL	Defence Agriculture Research Laboratory
34.	DAVP	Director of Advertising and Visual Publicity
35.	DBF&A	Directorate of Budget Finance and Accounts
36.	DBT	Direct Bank Transfer
37.	DCF	Discounted Cash Flow Technique
38.	DD	Demand Draft
39.	DDO	Direct Demanding Officer
40.	DEF	Defence
41.	DFA	Deputy Financial Advisor
42.	DFRL	Defence Food Research Laboratory
43.	DG	Director General
44.	DGFT	Directorate General of Foreign Trade
45.	DGS&D	Director General Supplies and Disposals
46.	DGQA	Director General Quality Assurance
47.	DMM	Directorate of Materials Management
48.	DMR&F	Director Military Regulations & Forms
49.	DP	Delivery Period
50.	DRDO	Defence Research & Development Organisation
51.	DRL	Defence Research Laboratory
52.	DTD&P (Air)	Directorate of Technical Development & Production (Air)

53.	DV	Debit Voucher
54.	ECIL	Electronics Corporation of India Limited
55.	EDEC	Excise Duty Exemption Certificate
56.	EMD	Earnest Money Deposit
57.	EPC	Equipment Procurement Committee
58.	ERV	Exchange Rate Variation
59.	ESTT	Establishment
60.	FBE	Forecast Budget Estimates
61.	FCA	Free up to Customs Area
62.	FE	Foreign Exchange
63.	FIFO	First In First Out
64.	FIN	Finance
65.	FMS	Factory Manufactured Stores
66.	FOB	Free On Board
67.	FOL	Fuel Oil & Lubricants
68.	FOR	Free on Rail
69.	FRI	Financial Regulations of India
70.	FRL	Food Research Laboratory
71.	FSS	Factory Stocked Stores
72.	GOI	Government of India
73.	GST	Government Sales Tax (State)
74.	HAL	Hindustan Aeronautics limited
75.	HAWB	House Air Way Bill
76.	HCI	High Commission of India
77.	IB	Indemnity Bond
78.	IBD	International Banking Division
79.	I/C	In charge
80.	IIT	Indian Institute of Technology
81.	IF(R&D)	Integrated Finance (R&D)
82.	IR	Inspection Report
83.	IS	Indian Standard
84.	ISI	Indian Standards Institution
85	ISMs	Indian Supply Missions
86.	ISO	International Standards Organisation
87.	ISRO	Indian Space Research Organisation
88.	JCDA	Joint Controller of Defence Accounts
89.	JSG	Joint Services Guide
90.	KVIC	Khadi and Village Industries Commission
91.	L1	Lowest Acceptable Bidder
92.	LAB	Laboratory
93.	LAO	Local Audit Office
94.	LC	Letter of Credit
95.	LCA	Light Combat Aircraft
96.	LD	Liquidated Damages
97.	LP	Local Purchase
98.	LIBOR	London Inter Bank Offer Rate
99.	LPP	Last Purchase Price
100.	LR	Lorry Receipt
101.	MES	Military Engineering Service
102	MHR	Man Hour Rate
103.	MI ROOM	Medical Inspection Room
104.	MM	Materials Management
105.	MMG	Materials Management Group
106.	MMTC	Mineral and Metal Trading Corporation
107.	MOD	Ministry of Defence
108.	MT	Mechanical Transport

109.	MSTC	Metal Scrap Trading Corporation
110.	M/s	Messrs
111	NA	Not Applicable
112.	NB	Please Note
113.	NC	Negotiation Committee
114.	NPC	Non Payment Certificate
115.	NPV	Net Rate Variation
116.	NSIC	National Small Industries Corporation
117	OEM	Original Equipment Manufacturer
118.	OFB	Ordnance Factories Board
119.	OGL	Open General Licence
120.	QTY	Quantity
121.	PABX	Private Automatic Branch Exchange
122.	PAC	Proprietary Article Certificate
123.	P/B/M	Project/Build-up/Maintenance
124.	PC	Personal Computer
125.	PDC	Probable Date of Completion
126.	PBG	Performance Bank Transfer
127.	PSU	Public Sector Undertaking
128.	R&D	Research & Development
129.	RBI	Reserve Bank of India
130.	RE	Rupee Exchange
131.	RR	Railway Receipt
132.	SASE	Snow & Avalanche Study Establishment
133.	SBI	State Bank of India
134.	S/L/O/P	Single/Limited/Open/ Proprietary
135.	SPC	Stores Procurement Committee
136.	SSU	Small Scale Unit
137.	STC	State Trading Corporation
138.	SWOD	Syllabus Work Order Demand
139.	TA's	Technical Advisor's
140.	TEC	Technical Evaluation Committee
141.	TPC	Tender Purchase Committee
142.	VPP	Value Post Parcel
143.	WDC	Women Development Corporation

FLOW CHART – PROCUREMENT PROCEDURE



Tendering Action

Up to Rs 5 lakh

a) Techno Commercial/Price CST
b) User Recommendations
c) Acceptance by CFA/Director

> Rs 5 lakh

a) Techno Commercial CST with TEC approval
b) Price bid Opening & Negotiations by TPC/NC With L1
c) TPC/NC Minutes & its acceptance

Issue of Financial Sanction, Release of FE (if required)

Director of Lab/Estt/ Project Director

DRDO HQrs (DMM)

a) Issue of Supply Order
b) Order Acknowledgement
c) Opening of LC (if required)

Levels of TPC

<= 1.00 Cr

Standing TPC/NC

a) From Rs. 5 lakh upto Rs. 50 lakh
Chairman: Sc ‘F’/equivalent or above

b) Above Rs. 50 lakh upto 1.00 Cr
Chairman Director of Lab/Estt or
Sc ‘G’/equivalent

>1.00 Cr

Case to case by DRDO HQrs (DMM)

a) Above Rs.1.00 Cr upto Rs 3.00 Cr
Chairman- Director of Lab/Estt

b) Rs. 3.00 Cr and above
Chairman- CCR&D

INCOTERMS 2000

(In force from 01 Jan 2000)

EX WORKS (EXW)

(.......................named place)

"Ex Works" means that the seller delivers when he places the goods at the disposal of the buyer at the seller's premises or another named place (i.e., works, factory, warehouse, etc.) not cleared for export and not loaded on any collecting vehicle.

This term thus represents the minimum obligation for the seller, and the buyer has to bear all costs and risks involved in taking the goods from the seller's premises.

However, if the parties wish the seller to be responsible for the loading of the goods on departure and to bear the risks and all the costs of such loading, this should be made clear by adding explicit wording to this effect in the contract of sale. This term should not be used when the buyer cannot carry out the export formalities directly or indirectly. In such circumstances, the FCA term should be used provided the seller agrees that he will load at his cost and risk.

FREE CARRIER (FCA)

(.......................named place)

"Free Carrier" means that the seller delivers the goods, cleared for export, to the carrier nominated by the buyer at the named place. It should be noted that the chosen place of delivery has an impact on the obligations of loading and unloading the goods at that place. If delivery occurs at the seller's premises, the seller is responsible for loading. If delivery occurs at any other place, the seller is not responsible for unloading.

This term may be used irrespective of the mode of transport, including multimodal transport.

"Carrier" means any person who, in a contract of carriage, undertakes to perform or to procure the performance of transport by rail, road, air, sea, inland waterway or by a combination of such modes.

If the buyer nominates a person other than a carrier to receive the goods, the seller is deemed to have fulfilled his obligation to deliver the goods when they are delivered to that person.

FREE ALONGSIDE SHIP (FAS)

(.......................named port of shipment)

"Free Alongside Ship" means that the seller delivers when the goods are placed alongside the vessel at the named port of shipment. This means

that the buyer has to bear all costs and risks of loss of or damage to the goods from that moment.

The FAS term requires the buyer to clear the goods for export.

This is a reversal from previous Incoterms versions, which required the buyer to arrange for export clearance.

However, if the parties wish the buyer to clear the goods for export, this should be made clear by adding explicit wording to this effect in the contract of sale.

This term can only be used for sea or inland waterway transport.

FREE ON BOARD (FOB)
(......................named port of shipment)

"Free on Board" means that the seller delivers when the goods pass the ship's rail at the named port of shipment. This means that the buyer has to bear all costs and risks of loss of or damage to the goods from that point. The FOB term requires the seller to clear the goods for export. This term can be used only for sea or inland waterway transport. If the parties do not intend to deliver the goods across the ship's rail, the FCA term should be used.

COST AND FREIGHT (CFR)
(......................named port of shipment)

"Cost and Freight" means that the seller delivers when the goods pass the ship's rail in the port of shipment.

The seller must pay the cost and freight necessary to bring the goods to the named port of destination BUT the risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time of delivery, are transferred from the seller to the buyer.

The CFR term requires the seller to clear the goods for export.

This term can be used only for sea and inland waterway transport. If the parties do not intend to deliver the goods across the ship's rail, the CPT term should be used.

COST, INSURANCE AND FREIGHT (CIF)
(......................named port of destination)

"Cost, Insurance and Freight" means that the seller delivers when the goods pass the ship's rail in the port of shipment.

The seller must pay the costs and freight necessary to bring the goods to the named port of destination BUT the risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time of delivery, are transferred from the seller to the buyer. However, in CIF the seller also has to procure marine insurance against the buyer's risk of loss of or damage to the goods during the carriage.

Consequently, the seller contracts for insurance and pays the insurance premium. The buyer should note that under the CIF term the seller is required to obtain insurance only on minimum cover. Should the buyer wish to have the protection of greater cover, he would either need to agree as much expressly with the seller or to make his own extra insurance arrangements.

The CIF term requires the seller to clear and goods for export.

This term can be used only for sea and inland waterway transport. If the parties do not intend to deliver the goods across the ship's rail, the CIP term should be used.

CARRIAGE PAID TO (CPT)
(......................named port of destination)

"Carriage Paid To..." means that the seller delivers the goods to the carrier nominated by him but the seller must in addition pay the cost of carriage necessary to bring the goods to be named destination. This means that the buyer bears all risks and any other cost occurring after the goods have been so delivered.

"*Carrier"* means any person who, in a contract of carriage, undertakes to perform or to procure the performance of transport by rail, road, air, sea, inland waterway or by a combination of such modes.

If subsequent carriers are used for the carriage to the agreed destination, the risk passes when the goods have been delivered to the first carrier.

The CPT term requires the seller to clear the goods for export.

The term may be used irrespective of the mode of transport including multimodal transport.

CARRIAGE AND INSURANCE PAID TO (CIP)
(......................named port of destination)

"Carriage and Insurance Paid To" means that the seller delivers the goods to the carrier nominated by him, but the seller must in addition pay the cost of carriage necessary to bring the goods to be named destination. This means that the buyer bears all risks and any additional cost occurring after the goods have been so delivered. However, in CIP the seller also has to procure insurance against the buyer's risk of loss of or damage to the goods during the carriage.

Consequently, the seller contracts for insurance and pays the insurance premium.

The buyer should note that under the CIP term, the seller is required to obtain insurance only on minimum cover. Should the buyer wish to have the protection of greater cover, he would either need to agree as much expressly with the seller or to make his own extra insurance arrangements.

"*Carrier"* means any person who, in a contract of carriage, undertakes to perform or to procure the performance of transport by rail, road, air, sea, inland waterway or by a combination of such modes.

If subsequent carriers are used for the carriage to the agreed destination, the risk passes when the goods have been delivered to the first carrier.

The CIP requires the seller to clear the goods for export.

This term may be used irrespective of the mode of transport including multimodal transport.

DELIVERED AT FRONTIER (DAF)
(......................named place)

"Delivered At Frontier" means that the seller delivers when the goods are at the disposal of the buyer on the arriving means of transport not unloaded, cleared for export, but not cleared for import at the named point and place at the frontier, but before the Customs border of the adjoining country. The term *"frontier"* may be used for any frontier including that of the country of export. Therefore, it is of vital importance that the frontier in question be defined precisely by always naming the point and place in the term.

However, if the parties wish the seller to be responsible for the unloading of the goods from the arriving means of transport and bear the risks and costs of unloading, this should be made clear by adding explicit wording to this effect in the contract of sale.

This term should not be used irrespective of the mode of transport when goods are to be delivered at a land frontier. When delivery is to take place in the port of destination, on board a vessel or on the quay (wharf), the DES or DEQ terms should be used.

DELIVERED EX-SHIP (DES)
(......................named port of destination)

"Delivered Ex-Ship" means that the seller fulfils his obligation to deliver when the goods have been made available to the buyer on board the ship uncleared for import at the named port of destination. The seller has to bear all the costs and risk involved in bringing the goods to the named port of destination before discharging. If the parties wish the seller to bear the costs and risks of discharging the goods, then the DEQ term should be used.

The term can only be used only when the goods are to be delivered by sea or inland waterway transport on a vessel in the port of destination.

DELIVERED EX-QUAY (DUTY PAID) (DEQ)
(.......................named port of destination)

"*Delivered Ex-Quay (duty paid)"* means that the seller fulfils his obligation to deliver when he has made the goods available to the buyer on the quay (wharf) at the named port of destination, cleared for importation. The seller has to bear all risks and costs including duties, taxes and other charges of delivering the goods thereto.

This term should not be used if the seller is unable directly or indirectly to obtain the import license. If the parties wish the buyer to clear the goods for importation and pay the duty, the words "duty unpaid" should be used instead of "duty paid".

If the parties wish to exclude from the seller's obligations some of the costs payable upon importation of the goods (such as Value Added Tax (VAT)), this should be made clear by adding words to this effect: "Delivered Ex-Quay, VAT unpaid (... named port of destination)".

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DMM/II/PP/0000206/P-2
MINISTRY OF DEFENCE
RESEARCH & DEVELOPMENT ORGN
DTE OF MATERIALS MANAGEMENT
DRDO BHAWAN
RAJAJI MARG
NEW DELHI-110011
07 Dec 2006

To

The Director
(All Labs/Estts of DRDO)

Sub: **Clarifications - Purchase Management 2006 and DPM 2006**

DRDO Purchase Management Document (PM-2006) was issued in March 2006. The various provisions of DPM 2005 were incorporated in PM 2006.

2. DPM 2006 has since been issued by MOD as an updated version of DPM 2005. The following provisions of DPM 2006 were required to be included in PM-2006.

(i) Incorporation of GFR -2005 provisions relating to Limited Tender Enquiry, Cash purchase limit, purchase limit through a Board of Officers and limits for advance payments.

(ii) Apportioning quantity to L 2 ' at L1's rate and should the need arise to lower than L-2, when L-1, does not have the capacity to supply as per RFP requirement.

(iii) Refloating tenders, when the Tender Evaluation Committee shortlists only one vendor, after reformulating Services Qualitative Requirement with a view to ensuring competitive bidding.

(iv) Providing level playing field to indigenous vendors vis-a-vis foreign vendors.

(v) Rate contract for common user items for three years with a view to ensuring economy of scale while providing safeguard provisions like fall clause and short closure in the event of fall in prices.

(vi) Reduction in repeat order quantity to 50% with such orders to be placed within six months while certifying no downward trend in prices.

(vii) Details of award of tenders and contracts to be placed on the Website of MOD/concerned organizations as per CVC's Order dated 16.3.2005.

(viii) Deletion of Token L/D provisions.

3. In view of above DRDO PM 2006 is being amended on following lines:

(i) Cash Purchase limit vide Para 6 (a) of PM 2006

Cash purchase limit is being enhanced to Rs 15,000/- per items under provisions of Para 6(a) of PM-2006.

(ii) Para 7.18.1 of PM 2006 will be amended as follows: -

(a) TPC/NC members will thoroughly scrutinize the techno commercially acceptable offers of the vendors in relation to all points mentioned in Para 7.18 above, with a view to derive maximum advantage for successful materialization of the procurement within time schedule at the most favorable rate and payment terms. In order to determine L1 **(from all Indian bidders)** the financial implication should be considered on the basis of all inclusive cost (viz. Basic price, taxes, freights, insurance etc. payable by the DRDO Lab/Estt after availing various benefits of exemptions from taxes/duties as applicable to DRDO from time to time) to the State on delivery to the designated consignee i.e. L1 determined on the basis of total cash out flow from Lab/Estt.

(b) In case of foreign supplier, the basic cost (CIF) quoted by him should be the basis for the comparison of various tenders. Incase of indigenous suppliers., ED on fully formed equipment be offloaded. ST and other local levies would be ignored in case of indigenous supplier and Defence PSUs/OFs. The payment conditions/terms should be similar for domestic private supplier, Defence PSUs/OF and the foreign supplier.

(iii) **Purchase of goods by Purchase Committee:** Purchase of goods costing above Rs 15,000/- only and upto Rs 1,00,000/- only on each occasion may be made on the recommendation of a duly constituted Local Purchase Committee consisting of three members of an appropriate level as decided by the Head of the Department. The Committee will survey the market to ascertain the reasonableness of rate, quality and specifications and identify the appropriate supplier. Before recommending placement of purchase order, the member of the committee will jointly record a certificate as under:

"Certified that we -------------------------, members of the purchase committee are jointly and individually satisfied the goods recommended for purchase are of the requisite specifications and quality, priced at the prevailing market rate and the supplier recommended is reliable and competent to supply the goods in question."

(iv) Apportionment of quantity to L-2 can be done at L1's rate only, if desired. Therefore, Para 7.17.2(e) and (f) are being deleted.

(v) Para 7.32.4 of PM-2006 is being amended as follows;

Normally the duration of a rate or running contract should be for a period not exceeding **three years**. In special cases, with the approval of CFA, a shorter or longer period of contract may be entered into. No extension to validity of the contract is required when deliveries against outstanding supply orders continue after expiry of the validity period. The contract will remain alive for the purpose of delivery for all the stores ordered during the validity of the contract until deliveries are completed.

(vi) Provision of Repeat order: Para 7.29 (d) of PM-2006 is being amended as follows:

The repeat order is placed within six months from the date of supply and only once by the Lab/Estt.. the total quantity to be ordered /purchased on repeat order does not exceed 50% of original order.

(vii) Refloating of tenders:

Refloating of tenders, when the Tender Evaluation Committee shortlists only one vendor, after reformulating Services Qualitative Requirement with a view to ensuring competitive bidding.

In this regard it is mentioned that proposal has been submitted to waive requirement of re-tendering when TEC short-list only one vendor against Open/Global Tenders. However, till the approval is obtained re-tendering may be done to ensure competitive bidding after reformulating specifications.

4. The above mentioned provisions as indicated in DPM 2006 are to be followed till corrigendum to PM-2006 is being issued.

(CM Dhawan)
Dir (MM)
For DG R&D

DMM/II/PP/0000206/P-2
MINISTRY OF DEFENCE
RESEARCH & DEVELOPMENT ORGN
DTE OF MATERIALS MANAGEMENT
DRDO BHAWAN
RAJAJI MARG
NEW DELHI-110011
12 Jan 2007

To

The Director
(All Labs/Estts of DRDO)

Sub: **Clarifications - Purchase Management 2006 and DPM 2006**

Reference this HQ letter No DMM/II/PP/0000206/P-2 dated 07 Dec 2006.

The above-cited letter is amended as under: -

Para 3 (vii) : Refloating of tenders

Add the following lines:

"If TEC short lists one vendor against Open/Global tenders and where reformulation of specification is not possible due to unique requirement of Lab, single tender approval may be taken from CFA for such procurement."

(CM Dhawan)
Dir (MM)
For DG R&D