



Subject: C-DEP's representation on strengthening PPP-MII (Public Procurement - Preference to Make in India) Policy of 2017

The government's consistent supportive policies have driven the Indian industry to become increasingly robust, self-reliant and globally competitive.

In particular, Government of India's initiatives of Public Procurement Preference - Make in India Policy (PPP-MII) of 2017 (PPP-MII), has been very effective.

However, we find significant violations of the intent of the PPP-MII policy. The policy was made with the objective of boosting local industry and therefore it prescribed that government procurement shall give preference to local suppliers in all procurement.

The policy mandated a minimum local content requirement of 50% for Class-1 local suppliers and 20% for Class-II local suppliers. It further allowed the nodal Ministry/Department the flexibility to notify minimum local content requirement higher than 50% for any particular item. It was implied that the minimum local content requirement would be on the higher side for all items, unless notified to be lower for any particular item.

However, the provisions stipulated for the minimum requirement of local content under the PPP-MII policy are being routinely violated.

The most significant loophole that exists today with the implementation of the PPP-MII policy is that the percentages for the requirement of local content are calculated based on the total Project cost and are not based on the cost spent on the Product.

This provision is being exploited to violate the intent of the policy and thus import products rather than procure them locally.

The following scenario illustrates the exploitation of the loophole: A contractor is supposed to construct a conference room in a government office under an EPC contract, installing among other things an EPBAX system, Projector Data Wall, and an air-conditioning system. Although EPBAX and air-conditioners are mandatorily required to be sourced from local sources under the PPP-MII policy, the existing guidelines do not prevent the contractor from supplying and installing imported EPBAX and air-conditioners in the conference room. Despite importing the products, the EPC contractor can still qualify as a local supplier since out of the total project cost of say, INR 100 lakhs, the imported equipment may be costing only INR 30-40 lakhs. Having spent on civil construction – from cement to bricks and labour which are locally sourced – the contractor is still able to claim all the benefits of Class-1 local supplier with 60-70% local content.

The contractor benefits by side-stepping the provisions of the PPP-MII policy by importing products at a low price that are also likely to be of doubtful quality.

Needless to mention, the local industry undoubtedly suffers.



Such exploitation of the loopholes in the PPP-MII policy is continuing, and consequently, it is having an extremely adverse impact on various sectors of the Indian industry, including our Optical Fibre manufacturers in the digital economy.

We take Optical fibre industry as an example of an industry that is impacted by this loophole in the PPP-MII policy. Optical fibre is a crucial sector. As India forges ahead with one of the world's largest digital inclusion drive, broadband (BB) infrastructure is recognised as an essential infrastructure. World over, India included, large roll out of fibre networks is taking place in preparation of a hyper connected world.

India has the potential of becoming the Optical Fibre Cable capital of the world. The industry already employs around 20,000 people and this number is set to increase rapidly, given the capacity additions planned by Indian manufacturers in near future. Further, it impacts 1 to 1.1 lakh people, spread across manufacturing, deployment, and maintenance.

In optical fibre cable, optical fibre contributes approx. 65-70% of the value and India's annual optic fibre manufacturing capacity is over 90 million fibre Km (Mn FKM). As against India's optical fibre manufacturing capacity, domestic consumption is around 26 million fibre km, which also includes the demand for upcoming BharatNet Project. India's domestic manufacturing industry therefore is in a position not only to cater to the domestic demand, but it can also contribute significantly to exports.

A strict implementation in both letter and spirit of the PPI-MII policy can further boost India's optical fibre industry. However, in reality, companies are still importing optical fibre, though our country has sufficient manufacturing capacity.

As explained above, existing loopholes in the PPP-MII policy pertaining to the percentage requirement of local content is being exploited to the detriment of the domestic industry, with EPC contractors claiming the benefits of Class-1 local supplier despite deploying imported equipment in the projects.

A closer look at the typical cost break-up of Digital Infrastructure Projects and how it can be exploited by a contractor for his own benefit helps to highlight the existing loophole the best:

- Power Infra – 4%
- Passive materials (poles, ducts, etc.) – 18%
- Cable – 30%
- Active materials (OLT, ONT, G-PON, wireless equipment etc.) – 8%
- Services (digging, trenching, backfilling, etc.) -35%
- Active services (integration) – 5%

The above break-up of the actual spend shows that contractors selected for BharatNet projects can import 100% of cable and active materials, and still qualify under the existing PPP-MII policy. The contractor has wholly imported cable and active materials, but has spent locally enough – for civil construction and others – to meet the 50% local content benchmark.

Clearly, the objective of PPP-MII policy to promote local products is being defeated because



of the existing loophole.

In July 2021, DPIIT proposed amendments in its order, Changing the applicability of order from project to products. However, there is no progress till now on this front.

There is therefore **an urgent need to apply the PPP-MII policy criteria on products for which there is sufficient capacity rather than on entire project cost.**

There is also the need to ensure that products procured for a given project adhere to Indian standards. Streamlining and strengthening the PPP-MII police will without any doubt add momentum to the Make in India initiative and help Indian industry to flourish.

The issue at stake is an important one, and needs to redressed.