

Dated: 23rd December, 2013

NOTIFICATION

**Subject: Preference to domestically manufactured electronic products
in Government procurement**

No. 33(3)/2013-IPHW – In supersession of the policy for providing preference to domestically manufactured electronic goods in procurement, notified vide the Department of Electronics and Information Technology (DeitY) Notification No. 8(78)/2010-IPHW dated 10 February 2012, the Government of India has laid down the following policy for providing preference to domestically manufactured electronic products in Government procurement for its own use and not with a view to commercial resale or with a view to use in the production of goods for commercial sale.

2.1 Scope

2.1.1 The policy will be applicable to all Ministries/ Departments (except Ministry of Defence) and their agencies for electronic products purchased for Governmental purposes and not with a view to commercial resale or with a view to use in goods for commercial sale. This would also be applicable for procurement of electronic products made under all Centrally Sponsored Schemes and grants made by Central Government. Subject to the provisions of para 2.2 each Ministry/ Department would notify the sector specific electronic product(s) for which preference would be accorded to domestically manufactured electronic product(s). Generic products, which are procured across sectors, such as, computers, communication equipment etc., would be notified by the Departments of Electronics and Information Technology/ Telecommunications, as the case may be.

2.1.2 The notification issued by each Ministry/ Department for providing preference to domestically manufactured electronic product(s) would specify the percentage of procurement to be made from domestically manufactured electronic product(s), which shall not be less than 30% of the total

procurement value of that electronic product(s). Further each Ministry/ Department would also specify the domestic value addition requirement which the electronic product should satisfy for the product to qualify as domestically manufactured electronic product. However, such specification should not be below the generic definition of domestically manufactured electronic products provided in para 2.3 below.

2.2 Governance Mechanism

2.2.1 A two-tiered governance mechanism shall be established to oversee the implementation of the policy.

Tier 1: There shall be a National Planning and Monitoring Council for Electronics Products (NPMC-EP) comprising of the following:

- i. Secretary, DeitY Chairman
- ii. Secretary, Department of Telecommunications (DoT) or representative
- iii. Secretary, Department of Expenditure or representative
- iv. Secretary, Department of Industrial Policy and Promotion (DIPP), or representative
- v. Secretary of Ministry/ Department proposing to notify electronic product(s) under the Policy, or representative
- vi. Director General, Directorate General of Supplies & Disposals (DGS&D)
- vii. Joint Secretary, DeitY – Member-Convener

2.2.2 The mandate of the NPMC-EP shall be as follows:

- a. Design a 10-year road map for electronic products identified for notification under the policy.
- b. Approval of notifications proposed to be issued by Ministries / Departments of Government of India

- c. Monitoring the implementation of the policy
- d. Establishing a Grievance Redressal System

2.2.3 **Tier 2:** Line Ministries/ Departments will notify electronic products together with the necessary compliance requirements for electronic products being procured for Government use, based on the approval of NPMC-EP.

2.2.4 The notifications/ guidelines issued thus far, under the earlier policy notified on 10th February 2012, shall be reviewed by the NPMC-EP, based on this policy. The notifications for Government procurement issued under earlier policy will continue till these are reviewed under the revised policy.

2.3 Domestically Manufactured Electronic Products: The Domestically Manufactured Electronic Products are products manufactured by companies registered in India and engaged in manufacture in India and including Contract Manufacturers, but excluding traders. The electronic products to be notified under this policy shall meet the following graded domestic value-addition in terms of Bill of Material (BOM) from domestic manufacturers.

| Percentage domestic value addition in terms of BOM of domestic manufacturers | Year |
|---|--------|
| 25% | Year 1 |
| 30% | Year 2 |
| 35% | Year 3 |
| 40% | Year 4 |
| 45% | Year 5 |

2.4 Domestic Value Addition

2.4.1 Percentage of domestic value-addition = $\frac{\text{Domestic BOM} \times 100}{\text{Total-BOM}}$

2.4.2 Bill of Material sourced from domestic manufacturers (Domestic BOM) may be calculated based on one of the following methodologies depending on the data available for each product.

a. sum of the costs of all inputs which go into the product (including duties and taxes levied on procurement of inputs except those for which credit / set-off can be taken) which have not been imported directly or through a domestic trader or an intermediary.

b. Ex-Factory Price of product minus profit after tax minus sum of imported Bill of Material used (directly or indirectly) as inputs in producing the product (including duties and taxes levied on procurement of inputs except those for which credit / set-off can be taken) minus warranty costs.

c. Market price minus post-production freight, insurance and other handling costs minus profit after tax minus warranty costs minus sum of Imported Bill of Material used as inputs in producing the product (including duties and taxes levied on procurement of inputs except those for which credit / set-off can be taken) minus sales and marketing expenses.

2.4.3 Total Bill of Material (Total-BOM) may be calculated based on one of the following methodologies depending on data available.

a. sum of the costs of all inputs which go into the product (including duties and taxes levied on procurement of inputs except those for which credit / set-off can be taken).

b. Ex-Factory Price of product minus profit after tax, minus warranty costs.

c. Market price minus post-production freight, insurance and other handling costs minus profit after tax, minus warranty costs minus sales and marketing expenses.

3. Eligibility: All companies registered in India and engaged in manufacture of electronic products in India are eligible for consideration under the policy.

4. Procurement: The procuring agencies shall follow their own procurement procedures, subject to meeting the requirement that specified percentage of procurement shall be of domestically manufactured electronic products.

4.1 Aggregation of annual requirements and such other procurement practices, which facilitate the implementation of this policy, may be adopted by procuring agencies.

4.2 Procurement by Government Ministry/ Department or agencies under their administrative control

4.2.1 Wherever the domestically manufactured electronic products are procured under this policy by a Government Ministry/ Department or an agency thereof, such procurement shall be subject to matching of L1 price and on satisfying technical specifications of the tender.

4.2.2 For procurement by Government Ministries/ Departments and agencies under their administrative control, the tender for procuring electronic products would normally specify that specified percentage of the procurement value would be awarded to the lowest-priced technically qualified domestic manufacturer of electronic products, subject to matching with L1, if such bidders are available. The remaining will be awarded to L1, irrespective of whether he is a domestic manufacturer or not. In case L1 is quoted by a domestic manufacturer, the entire order quantity will be awarded to such domestic manufacturer, subject to the other conditions of the tender, if any, relating to splitting of the order.

4.2.3 It is not necessary that each tender for the procurement of electronic product is split. If a tender cannot be split, either because the unit of procurement is small or because of technical reasons, or because no domestic manufacturer is available for the product, the procuring agency may ensure that the annual requirement of procuring the specified extent of electronic products from domestically manufactured products is achieved through suitable enhancements in other tenders.

4.2.4 The tender conditions would ensure that domestically manufactured electronic products are encouraged and are not subject to restrictive mandatory requirement of prior experience. However, procuring Department/ Agency may incorporate such stipulations as may be considered necessary to satisfy themselves of the security, production capability and product quality of the domestic manufacturer.

5. Compliance

5.1 A suitable self-certification system would be devised to declare domestic value addition by the vendor. The system would also provide for checks by Standardization, Testing and Quality Certification (STQC)/ Telecommunications Engineering Centre (TEC) (for telecom products) and other testing laboratories or technical auditors accredited by the Department of Electronics and Information Technology/ Department of Telecommunications for the purpose. In cases of false declaration of domestic value addition, suitable penalties will be imposed.

5.2 Each Ministry/ Department shall annually obtain a declaration indicating the extent of compliance to the policy and reasons for non-compliance thereof from all procuring agencies under its administrative control.

5.3 Individual Ministries/ Departments may provide for suitable incentives/ disincentives for compliance of the policy.

6. Electronic products: In case of a question whether an item being procured is an electronic product to be covered under the proposed policy, the matter would be referred to the Department of Electronics and Information Technology for clarification.

7. Time period: The policy will be valid for 10 years from the date of its notification. The policy will be reviewed at regular intervals of time.

8. Guidelines: Detailed guidelines shall be issued for operationalizing the policy which would, *inter alia*, provide for modalities of self-certification by the vendor and the procuring agencies.

9. Some examples of typical procurement scenarios are illustrated in Appendix.



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New Delhi, Dated 23rd December, 2013

Copy to:

1. All concerned Ministries/ Departments of Government of India
2. Cabinet Secretariat
3. PMO
4. Planning Commission
5. Comptroller & Auditor General of India
6. JS&FA, Department of Electronics and Information Technology
7. Internal distribution



(Dr. Ajay Kumar)

Joint Secretary to the Government of India

EXAMPLES OF TYPICAL PROCUREMENT SCENARIOS**Example 1****Procurement of 1 lakh Laptops**

Under a Government project, it is intended to procure 100,000 laptops, notified under the policy. In order to fulfill the norm of the proposed policy, they have to procure 30,000 laptops (30%) from domestic manufacturer. The bid documents should specifically provide preference to domestically manufactured electronic products in terms of 30% of procurement value subject to matching of L1 price and on satisfying technical specifications of the tender. Suppose there are five bids. Consider DM as Domestic Manufacturer and NDM as Non Domestic Manufacturer.

Case 1: After opening of commercial bids, position is like L1: DM1, L2: NDM1, L3: NDM2, L4: NDM3 and L5: DM2. Then the entire quantity shall be awarded to DM1.

Case 2A: After opening of commercial bids, position is like L1: NDM1, L2: NDM2, L3: NDM3, L4: DM1 and L5: DM2. NDM1 qualifies as L1, and DM1 is the lowest-priced domestic manufacturer. Then NDM1 shall be given purchase order for 70% and 30% of the purchase order shall be given to DM1, subject to the later matching the L1 price.

Case 2B: If DM1 declines to undertake the tendered work at L1 price, DM2 should be given the offer to supply the 30% at L1 prices.

Case 3: After opening of commercial bids, position is like L1: NDM1, L2: NDM2, L3: NDM3, L4: NDM4 and L5: NDM5. In this case, no domestic electronic product manufacturer is available; hence the full order will be awarded to NDM1.

Example 2

Procurement of Super Computer

Procuring agency desires to procure a Super Computer with prescribed specification for Rs. 50 crore. The order cannot be split between two parties. The procuring agency is not able to apply 70:30 norm. Hence this policy cannot be implemented in this tender. Therefore, in subsequent procurement of electronic products by the said agency, it should reserve an additional value of Rs. 15 crore (30% of the value of the earlier tender) for domestic manufactured electronic products.
