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Budgeting for Defence: Beyond Mere ‘Apportioning’ of Financial Resources

Anil Ahuja*

“Keeping in view the increasing threat perception, which includes various occurrences of external strife and internal dissidence such as Doklam, increased external activities in Tibet over a year(sic), rampant cross border firing, militant activities etc., the current budget is not supportive to the inevitable needs of the Army (Armed forces)...”

- Extract from the Report of the
Standing Committee of Parliament on Defence– March 2018¹

Introduction

Lamenting inadequate allocations for defence in the yearly budgets has become a permanent discourse in India and the sentiment is echoed by the armed forces and the Parliamentary Committees alike.² This is ironical in a country which is the fifth largest spender on defence, behind only US, China, Saudi Arabia and Russia³. India also has remained the top global importer of arms for nearly a decade⁴. Despite such large expenditure on arms imports all services continue to report inadequacies of arms, ammunitions and equipment, often referred to as ‘hollowness’. A logical deduction is that the process of planning capability development, acquisitions and defence budgeting is functioning sub optimally and needs a serious overhaul. This analysis is not about reiterating inadequacies of budget allocations, in real terms or as a percentage of the GDP but about identifying and addressing the systemic- disconnect that exists in provisioning financially for desired national defence capabilities.

The System – As It Exists

From the perspective of those vested with the responsibility of formulating budget allocations, allotment of Rs 2.95 lakh crore (USD 43.4 billion approximately) to defence, in the year 2018-19, though only 1.58% of the GDP, constitutes 12.1% of the Central government’s total expenditure. In a developing country with competing demands, it seems, to them, to be a fair apportioning of meagre resources available. The allocation however is perceived to be inadequate from the perspective of those vested with the responsibility of securing India’s disputed borders in a challenging nuclear neighbourhood, maintaining internal security as well as by those assigned the responsibility of placing India, the USD 2.5 trillion⁵, sixth largest global economy at an appropriate pedestal of national power in the Indo-Pacific and globally. The complexity is compounded due to the nonexistence of a robust defence industrial base, creating which remains a work in progress! It is for reasons such as these that The Economist, in its March 28, 2018 edition chose to (obliquely)

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dub India as a 'Paper Elephant', an unenviable title⁶!

This dichotomy exists primarily because of the budget allocations being planned (or apportioned) at the bureaucratic level, in the Ministry of Finance, rather than by the Parliament, which would have the macro perspective. A simplistic solution would be to suggest scaling down of the 1.5 million third largest armed forces, coupled with reasonable increase in defence budget allocation. This will also seemingly correct the skewed Revenue: Capital budget ratios reduce pension burdens in the long run, spare more money for modernisation. Alas! Only if it was such a simple quick fix in a complex security environment!

The Dilemma of Planning and Budgeting for Defence

The Indian Armed forces have a well-structured system of perspective planning, wherein a 15 years Long Term Integrated Perspective Plan (LTIPP) is made for capacity building and capability development. The current LTIPP, under implementation is for the period 2012 – 2027. This plan is set in the backdrop of the prevailing security scenario and an analysis of the current & visualised threats. While LTIPP needs to factor in the National Security Strategy and the National Defence Strategy but on account of nonexistence of these documents, the services rely on the 'Raksha Mantri's (Defence Minister's) Operational Directive'. The Perspective planning document (LTIPP) includes the capability development and acquisition plans of the three services and for infrastructure development. The

document is prepared by the HQ Integrated Defence Staff, with inputs from the services and is approved by the Defence Acquisition Council (DAC), headed by the *Raksha Mantri*. Although, costing is carried out for all the schemes included and a chapter is included on financial planning, no budgetary support is assured for this plan at any stage, either by the Ministry of Defence, or by the Ministry of Finance. Drawing parallels, similar exercise in the US system is approved by the Congress and signed into law by the President, providing it the required sanctity and parliamentary commitment.

While from the perspective of services, it is a comprehensive document containing long term projection of their operational needs, to meet the current and visualised security challenges, for the planners at the national level, this is perceived to be a 'wish list'. This disconnect is at the root of the entire problem of capability development of services, technology development by the DRDO/ industry and in creation of an indigenous defence industrial base. It needs to be appreciated that the LTIPP forms the 'mother document' for formulating capability development and force structuring plans of the services; while the LTTPP (Long Term Technology Perspective Plan) of DRDO and the TPCR (Technology Perspective and Capability Road Map) forms the base document on which the entire defence industry bases its planning. Its sanctity therefore needs to be maintained to keep the system robust.

For the services, any attempt to restrict the inclusion of schemes in LTIPP to likely budget allocations, would seriously undermine their 'threat based' capability development plans, in

view of uncertain gestation period for maturing of procurement proposals. For the financial planners however, these projections remain un-supportable, financially. The impasse thus continues!

Further down in the process of defence planning, the 15 years LTIPP includes within its ambit three five years defence plans (also referred to as SCAP – Services Capital Acquisition Plans). The current LTIPP, for instance, included the 12th, 13th and the 14th Defence Plans. The 12th Defence Plan coincided with the national Plan period and terminated in 2017. The 13th Defence Plan was formulated for the period 2017 – 2022 and the 14th was to cover the period 2022 – 2027, till these were done away with. Although, the 2016 directive of the Prime Minister, to the NITI Aayog to evolve ‘15 Years National Development Agenda’⁷, with subsets of 7 years strategy and 3 years action plan, to replace the five-years plan model had to include defence and internal security, the same is yet to be implemented in the planning process. Either way, whether it was the five year Defence plans or the visualised seven years strategy, even these, like the LTIPP, though approved by the DAC, remain un-aligned to the national budgeting process and no financial support is assured to the projects contained therein.

The draft 13th Defence Plan prepared by the services after a deliberate yearlong exercise, projected a requirement of Rs 26.84 lakh crore (USD 416 billion) for the armed forces for the period 2017-2022⁸. These projections however still remain unapproved. Also, the defence budget allocations made for the years 2017-18 and 2018-19, two of the five years of this plan period, seem

to bear no relationship to the projections made.

The only step in the planning process that seems to work partially is the Annual Acquisition Plan (AAP), which is a two years roll-on plan drawn up on yearly basis. This tends to work because in practice, it translates to some acquisition schemes, maturing in the normal course, getting accommodated even within the meagre budget allocations received.

Besides the impediments in ‘Planning’, problems also exist in implementing the ‘Procurement Procedure’, further compounding the paradox of defence budget allocations. According to the revised Defence Procurement Procedure (DPP) – 2016, the capital acquisition process, post approval of the DAC should take approximately 74 to 114 weeks (under different scenarios of single / multi-vendor, with additional 12 weeks permitted where winter trials may be required to be carried out)⁹. A period of one and a half to two and a half years to maturity is thus a realistic planning parameter. In practice however, not more than 30% acquisitions get completed in up to three years and there are instances of acquisition schemes getting prolonged to 8-10 years or even more. The uncertainty in the time likely to be taken for the scheme to mature results in the inability to realistically budget for it. An analysis of the e-books of MOD published in July 2016¹⁰ and May 2018¹¹ suggests that there are likely to be over 300 DAC approved schemes (referred to as AONs – Acceptance of Necessity) valued at approximately 5 to 6 lakh crore (USD 73–88 billion) which are likely to be still in the pipeline, awaiting contract conclusion. Clearance of this back log is a ‘national problem’ of immense

magnitude, for which the budget allocations need to be planned deliberately.

The dilemma of budgeting for defence can thus be summarised to identifying what to align the defence budget to? The schemes to be sanctioned by the DAC in the ensuing year? The schemes likely to mature during the financial year? To the prevailing critical operational voids? To the capabilities sought to be created for the future? In our inability to find an answer to this dilemma, we merely 'Apportion' whatever is considered appropriate from the overall financial resources available. This has been and would continue to remain the bane of our 'hollowness', lack of defence technological & industrial base and our inability to prepare for future wars.

Managing the Imbroglia and Getting Out of It

The inadequacies in the planning process and budget allocations, as stated above have resulted in inadequate force levels and capabilities to meet the perceived security challenges. There are reports of Army considering foreclosing the project for Battlefield Management System (BMS)¹² to save Rs 5000 crore and putting on hold the raising of the additional Mountain (Strike) Corps¹³. Operational voids are also repeatedly highlighted by the Navy and the Air Force. There is also a persistent criticism of large sums being utilised under the 'Revenue head', leaving little for capital acquisitions. Even within Capital budget, bulk of the resources get utilised for meeting 'carry-over' liabilities, leaving meagre amounts for new schemes. There is thus a growing gap between the national aspirations and the

capability of the armed forces.

Addressing this by systematic planning is well within the capabilities of the nation. Some measures towards giving a strategic sense of direction to capability development are:

- **Identifying What We Need:** The size and capability of the armed forces is a function of National Aim and National aspirations, taking cognisance of the prevailing security environment. These need to be defined in the National Security Strategy and the National Defence Strategy. Presumably, these basic policy documents are under formulation with the newly constituted Defence Planning Committee. In their absence an updated 'Raksha Mantri's' operational directive' should provide the requisite guidance, although with no mandate over the other ministries.
- **Addressing a Two-Front, Multi-domain Threat:** Disputed Northern and Western borders with China and Pakistan present a perpetual commitment of armed forces for preserving sovereignty and territorial integrity. These threats manifest primarily in terrestrial and maritime domain, presenting a two-front security challenge for which adequate force levels need to be created and maintained. Related capabilities also need to be created in other asymmetric warfare domains to effectively address the two front threat.
- **Approach to Two- Front Threat:** While preserving territorial integrity is a *sine qua non*, this threat, in the Indian context, can

be addressed by adopting two alternative approaches. It can either be by pre-positioning (deploying) acclimatised troops along the LoC (Line of Control) in the West and LAC (Line of Actual Control) in the North, as being done hither to. This provides an advantage of having favourable force ratios at the point of application of force by the adversary and mitigates the possibility of any loss of territory (even temporarily/ tactically). This arrangement proved its utility during the Doklam standoff in 2017. On the flip side however, it entails maintaining higher overall force levels and resultant higher 'Revenue Expenditure' on pay, allowances, pensions and sustaining operational deployments. Alternatively, the responsibilities along two borders can also be fulfilled by maintaining centralised reserves and high level of inter theatre strategic mobility. This would entail procuring additional strategic mobility platforms like IL- 76 or C- 17 (through Capital Budget) and maintaining these (through Revenue Budget). This may also result in temporary loss of territory till the application of reserves. The advantages of reduced manpower and reduced pre-deployments would however accrue. Choosing appropriate course of action and funding the manpower and equipment inherent in it has to be a national-call.

- **Concept of Maritime Capability Development.** India is considered to be the most significant maritime power in the Indo-Pacific. Countries of the region, US

and other nations look at India to maintain a free and open Indian Ocean and rules based regional order. India needs to define its primary and secondary areas of interest and build its capabilities accordingly. The policy decisions of whether the desired area of influence remains confined up to the Straits of Malacca or extends to Western Pacific and of how far does it extend in the Western and Southern Indian Ocean should be a function of how much capability development and financial support can the country afford. Likewise, well deliberated policy decisions need to be taken on whether or not the country requires additional aircraft carrier(s) and to what extent do the island territories need to be developed as forward operating platforms.

- **Development of Air Power:** While 42 squadrons of combat aircraft is often stated as the optimum requirement for a two front war, it would be prudent to further analyse the requirement of platforms considered appropriate for the Northern and Western borders. The replacements for ageing Migs could well be a mix of single and twin engine aircraft, optimising on acquisition and operating costs. Also, the requirements of UAVs/ RPAs (remotely piloted aircraft) and helicopters, including attack / armed helicopters need to be optimised between the three services avoiding wasteful overlaps. The strategic mobility capability would need to be acquired according to the overall concept of two front war and

regional responsibilities sought to be shouldered.

- **Asymmetric Warfare Capability:** Cyber, space, electronic warfare, information warfare and operations in other non-conventional domains have become an integral part of warfare. Capabilities need to be developed in these domains, without the luxury of reducing capability substantially in other spheres, at least in the Indian context. This entails preparing simultaneously for the second to fifth generation warfare.¹⁴

Generations of Warfare

- The essential overlap and induction of technology at a pace comfortable to the Indian soldiers need to be considered for capability development and budget allocations.
- **Border Infrastructure Development:** Development of infrastructure - roads, air fields/ helipads, strategic railways, ammunition storage, habitat constitute an essential part of the capability development and need to be budgeted for since all force developments would come to a naught in the absence of the ability to apply these effectively.

A consideration of the above mentioned factors would enable us to carry out a comparative 'threat' and 'capability' audit and identify the voids that need to be provisioned for, financially. The pace of capability development and realisation of national aspirations would thereafter be a function of the pace and quantum of allocation of

funds. A fundamental understanding of this imperative would be the first step towards getting out of this imbroglio.

Optimising Defence Budget Allocation - Beyond the 3% Solution

The budget allocation of 1.6% of the GDP (approximately) to defence seems inadequate for the size of forces that India maintains and for the aspirations that it nurtures. There is however no conclusive 'alternative figure', which, if allotted consistently over a few years would enable the desired force structuring and capability to be achieved. It would thus be appropriate to define parameters on which the defence budget allocations could be worked out year on year rather than one side justifying current allocations and the other insisting on allocation of 3% of GDP, with both sides being bereft of concrete logic.

One possible way could be to collate the value of the old schemes that have reached the Competent Financial Authority (CFA) approval stage – final stage of approval for acquisition) or advanced CNC stage (Cost Negotiation Committee stage- the penultimate stage of approval), since there would be a likelihood of these maturing in the ensuing financial year. Add to this the cost of most critical new acquisitions that must materialise during the year, to fill operational voids. The total cash outgo for this consolidated amount (approximately 15% of the value) should then be added to the existing carry over liabilities to arrive at the desired Capital budget allocation for acquisitions. Estimated requirements for infrastructure development and works would also need to be added thereafter. This

process of determining Capital budget may continue till the existing backlog of DAC approved schemes is cleared. Thereafter, the approvals by the DAC must be prioritised and supported by firm budget allocations, modalities for which would need to be worked out. For the Revenue expenditure, adequate funding must be calculated to sustain the size of the respective Service approved on considerations given earlier in this paper. This should cater for the cost of the personnel and maintenance & upkeep of the in-service weapons and equipment. Determining levels of 'War Wastage Reserves (WWR)' is a function of the national policy on how many days of war to prepare for. Appropriate funding for these reserves would need to be planned on recurring basis, to cater for the wastages, past their respective shelf – life.

Having approved the basic planning parameters and the force levels to be maintained, the onus of maintaining optimum Capital: Revenue budget ratios must thereafter rest on those making budget allocations and not the services.

In the context of defence Capital budget, to make allowance for the delays due to imponderables in the acquisition process (delays in conclusion of user trials, general staff evaluation, deliberations on transfer of technology, cost negotiations etc) the Standing Committee on Defence has in the past recommended allotting Capital budget as 'non-lapsable' and 'roll-on' budget. While MOD has, after years of reluctance, agreed in December 2016 to the creation of 'Non-Lapsable Defence Capital Modernisation Fund', the Ministry of Finance continues to oppose this claiming it to be violative of Article 266 (1) of the

Constitution¹⁵. This perception needs to be shed and the idea needs to be experimented with, even by seeking necessary amendments to existing regulations, if required. Not aligning the defence budget to proposed acquisitions, as stated earlier, will not only impede all efforts at building capable armed forces, it will also impede indigenisation and creation of defence industrial base.

It is well appreciated that even the most advanced economies cannot afford to fund the entire defence and security requirements and that these need to be prioritised. This needs to be a coordinated exercise between the national leadership and the services and within the services themselves. The UK Joint Concept Note 1/17 on Future Force Concept¹⁶ suggests categorisation of force (*for evolving concepts and allocation of resources*) to: Current Force (5 years planning), Funded Force (10 years), Future Force (10–20 years) and Conceptual Force (30 years planning). A similar exercise in the Indian context would help determine the prioritised budgeting requirements for sustaining current equipment, funding for design & development of future inductions and for funding defence industry. Likewise, the yearly National Defence Authorisation Act (NDAA) passed by the US is an exhaustive defence planning and budgeting exercise and needs to be studied to reform our own system. Approval of LTIPP and five / seven year defence plans by the CCS (Cabinet Committee on Security) merits consideration to accord this process necessary sanctity and budgetary support.

Alignment of defence budgets to GDP is a yardstick used by external agencies like SIPRI to estimate the proportionate national resources

being allotted for defence and assess potential military capability. This yardstick is also used by the US and NATO to set targets of defence spending for member nations. Adding pensions to defence budget, as done by UK since 2014 was to meet the NATO targets of 2% spending on defence and was considered to be a 'smoke screen' for capability cuts. China on the other hand rarely declares its entire defence spending! It would thus do well for us not to be overly concerned with the figures indicated in relation to the GDP but to logically address the nation's particular needs, irrespective of the percentages it translates into.

Conclusion

Budget allocations for defence are not about 'budgeting' alone! A country's defence spending is generally considered as a measure of its

'potential military capability' and of the relative importance of its armed forces with other organs of the state. However, no matter how much a country spends on military, it still has to find ways to "translate its potential capability into power"¹⁷ For a leading power and a growing economy like India, the national security strategy should shape defence spending and the defence spending, in turn, should shape the security strategy. This relationship however remains dysfunctional and needs to be corrected. An inconsistent defence budget allocation puts the entire process of perspective planning to naughts. It also has a snowballing effect on capability of armed forces, technology development and on establishment of indigenous defence industrial base. It is thus an issue of national concern which needs to be addressed with utmost seriousness.

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- *Second Generation Warfare*:. Primarily, attrition warfare developed by the French Army, during and after, World War I. It emphasises on coordinated employment of infantry, tanks and artillery and on application of mass firepower, primarily indirect artillery. This is the primary pattern of defence along LC and LAC in the Indian context.
 - *Third Generation Warfare*:. Non linear manoeuvre warfare, as against second generation, attrition warfare. Adopted primarily on our Western borders in desert and semi desert terrain.
 - *Fourth Generation Warfare*: Absence of monopoly of state as prosecutor of war. Use of non- state actors as instruments of war, in concert with or independent of the state forces. Religion and ideology, as against a nation may be the unifying glue for these combatants. Terrorism is used as a tool of warfare and the targets are not soldiers alone, even the civilian population is considered to be a legitimate target. Nature of war being waged by Pakistan against India.
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