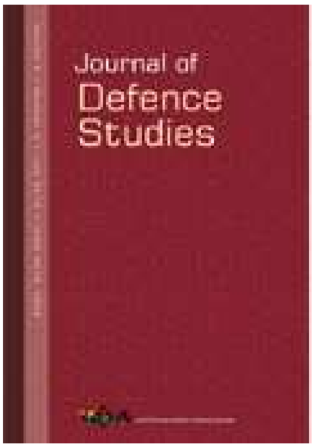

Journal of Defence Studies

Publication details, including instructions for authors and subscription information:
http://www.idsa.in/journalofdefencestudies

Impact of the Recommendations of the Standing Committee on Defence (14th Lok Sabha) on the Defence Budget

Amit Cowshish

Impact of the Recommendations of the Standing Committee on Defence (14th Lok Sabha) on the Defence Budget

*Amit Cowshish**

In the run-up to the voting on the budget, detailed demands for grant (DDGs) presented by various ministries to the Parliament are examined by the departmentally-related standing committees. As Parliament cannot possibly examine more than 100 DDGs presented to it every year, these committees are required to examine them in detail and report back to the Parliament. One such committee is the Standing Committee on Defence. This article looks at the manner in which this Committee examined the DDGs of the Ministry of Defence (MoD) over a 10-year period from 2004-05 to 2013-14, and the impact of its recommendations on the trajectory of the overall defence budget. This is the first of two articles which focuses on the tenure of the 14th Lok Sabha from 2004-05 to 2008-09. The second part would cover the tenure of the 15th Lok Sabha from 2008-09 to 2013-14.

Introduction

The Kargil conflict of 1999 with Pakistan brought out the need to fix the problem of voids in ammunition holding, replacement of the ageing equipment, and generally modernizing the armed forces into sharper focus. Apart from other things, this called for substantial increase in the defence budget. However, after a jump of 28.22 per cent in the allocation for 2000–01, following the conflict, the increase in defence budget plummeted to 5.83 per cent in 2001–02. This was followed by Budget

* The author is a Distinguished Fellow with the Institute for Defence Studies and Analyses (IDSA), New Delhi.

ISSN 0976-1004 print

Journal of Defence Studies, Vol. 8, No. 4, October–December 2014, pp. 7-26

Estimate (BE)-to-BE increase of 4.84 and 0.46 per cent respectively during the next two years.[1]

There were expectations of a substantial increase in the defence outlay when the first union budget was presented by the new United Progressive Alliance (UPA) government which came to power after the general elections held in April–May 2004.

The new government also had to confront the problem of repeated underutilization of the defence budget. In just two years before the 14th Lok Sabha was constituted, approximately 11.18 per cent of the defence budget had remained underutilized.

These were the two macro issues of immediate relevance in 2004–05 when the newly constituted standing committee on defence met for examining the budget for 2004–05.

There are no defined parameters on which the DDGs are required to be examined by the standing committees. No such parameters were evolved by the standing committee on defence of the 14th Lok Sabha also, as indeed by the earlier committees. However, perusal of the first report of the committee on defence budget for 2004–05 shows that these were the two basic issues that the committee focused on. On the basis of their examination, the committee also made recommendations to fix these problems.

The objective of this article is to analyse the reports of the committee to see how far it was able to grasp the nuances of these two macro issues and to assess the impact of the recommendations made by the committee on the trajectory of the defence budget in the coming years.

Defence Budget

The Ministry of Defence (MoD) presents eight DDGs to the Parliament, six of which are collectively called the Defence Services Estimates (DSE). Five of these demands relate to the revenue expenditure of the three services, department of defence production (which controls the ordnance factories) and the department of defence research and development (Defence Research and Development Organisation [DRDO]). The sixth DDG provides for capital expenditure of all organizations covered by the first five DDGs. What is commonly referred to as the defence budget is the sum total of the allocation made in all these DDGs, net of receipts and recoveries. The other two DDGs pertain to the civil estimates of MoD and defence pensions. The allocation made in these two DDGs is not included in the 'defence budget'.

The capital budget is divided into two notional categories—capital acquisition and other-than-capital acquisition. The capital acquisition budget is that part of the capital outlay which is spent on buying equipment, weapon systems and other platforms for the armed forces. This term is often used synonymously with 'modernization budget'. The focus of this article is not on the capital acquisition budget but on the defence budget as a whole without going into the service or department-wise nuances.

The initial allocation of budget for a given financial year (April–March) is referred to as BE. This is reviewed by the Ministry of Finance (MoF), usually towards the end of the third quarter of the financial year, and revised ceilings are fixed for various ministries and departments. These are known as the Revised Estimates (RE), which could be higher, lower or the same as the BE. The spending authorities are required to contain expenditure within the RE. All figures relating to underutilization of budget in this article are with reference to BE of the relevant year.

Every year, the committee submits a report in the beginning of the year that is exclusively devoted to examination of the DDGs for that year. Another action taken report is submitted later on the basis of the response from MoD to the observations and recommendations made by the committee. The analysis in this article is based on the examination of these reports.

Budget Estimates 2004–05

The new government that swept to power in 2004 did not belie the expectation of a substantial increase in the defence budget. The allocation for 2004–05 was increased by 17.92 per cent over the previous year's budget. However, the high expectations had probably also made MoD ask for an enormous increase of 57.96 per cent over previous year's BE of ₹ 65,300 crore.[2] Judged with reference to what had been projected by MoD, the allocation naturally fell short of the expectations by a huge margin (see Table 1).

Table 1

2004–05	*Projection*	*Allocation*	*Shortfall*	*Percentage*
Revenue	52,983.31	33,482.85	19,500.46	36.80
Capital	50,167.39	43,517.15	6,650.24	13.26
Total	1,03,150.70	77,000.00	26,150.70	25.35

The shortfall in the revenue budget was 36.80 per cent of the projection, but what caught the attention of the committee was the shortfall in allocation for capital expenditure, which was just 13.26 per cent of the projection and ₹ 6,650.24 crore in absolute terms.

While commenting on inadequacy of the capital budget, the committee took note of, but did not give due weightage to, the fact that the capital budget for 2004–05 had been increased from ₹ 20,953 crore in 2003–04 to ₹ 33,483 crore in 2004–05, amounting to a whopping increase of 59.80 per cent.

The committee also did not take cognizance of the fact that MoD had communicated to it two different figures regarding the projection made to MoF in the run-up to finalization of the budget for 2004–05. Paragraph 27 of the report refers to a figure of ₹ 86,457 crore, which is different from the figure of ₹ 1,03,150.70 crore mentioned in paragraph 24 of the report. Overlooking this, the committee made the following observation on the difference between projection and allocation:

> The Minister has, in a press statement, expressed the inadequacy of Defence Budget and has stated that the Ministry of Defence may have to seek additional funds from the Ministry of Finance later in the year...the Ministry of Defence has in their written reply stated that...(it) had projected a requirement of ₹ 86,457 crore to Ministry of Finance for providing for obligatory charges, essential maintenance needs, committed liabilities and prioritised new schemes of the Defence Services. Ministry of Finance have, however, allocated ₹ 77,000 crore in BE 2004–05. During the current financial year, progress of defence expenditure and status of ongoing/new schemes would be kept under constant review and Ministry of Finance would be approached for additional funds, if required.[3]

The committee did not seek any clarification from MoD as to how the figure had gone up from ₹ 86,457 crore to ₹ 1,03,150.70 crore and what was the breakup of the lesser of the two figures into revenue and capital segments. Probing this aspect could have provided a better understanding of whether the requirement, initially assessed as ₹ 86,457, had jumped to ₹ 1,03,150.70 crore, because of some last-minute increase in the estimates for revenue expenditure or for capital acquisitions.

The committee also did not examine whether the budgetary support sought by MoD was based on a realistic assessment of how much money could be spent during the year. This assumes significance in the light of the fact that the final allocation and utilization figures for 2004–05 do

Table 2

2004–05	*BE*	*RE*	*Actual*	*Utilization*
Revenue	43,517.15	44,852.30	43,862.13	990.17
Capital	33,482.85	32,147.70	31,993.80	153.90
Total	77,000.00	77,000.00	75,855.93	1,144.07

not indicate that MoD had to face any major crisis because of the shortfall in allocation at the BE stage. This is evident from Table 2, which shows that under the revenue segment, allocation was marginally increased at the RE stage but the actual expenditure was closer to the BE.

Under the capital segment, the allocation was decreased at the RE stage but the actual expenditure was less than even the RE. It is difficult to imagine how MoD, which barely managed to spend ₹ 31,993.80 crore under the capital segment, could have spent ₹ 50,167.39 that it had sought. This was a pertinent question to ask while reviewing utilization of budget—normally done at the time of examining DDGs for the ensuing year—but the committee did not ask this question.

The picture projected by MoD to the committee influenced its understanding of the implications of not getting the full amount it had asked for under the capital budget. This comes out clearly from the following observation made by the committee in its report.

> 31. The Committee also note that notwithstanding the higher allocation the Ministry of Defence has stated that his Ministry may have to seek additional funds from the Ministry of Finance later in the year...The projection included an amount of ₹ 6,918 crore for prioritized new schemes/projects. The Committee were informed during the evidence that almost the entire amount allocated for Capital expenditure will be spent on committed liabilities due to arrangements signed recently for procurement of defence equipments leaving only about ₹ 1,000 crore for the new schemes/acquisitions.[4]

Normally, only an advance payment of up to 15 per cent is made on signing of a procurement contract, unless the final delivery is also expected during the same year, which would then warrant the entire payment to be made during the year. But this is a rare occurrence. There is no indication in the report of whether the amount of ₹ 6,918 crore related to the total value of the new schemes/projects which were expected to be signed during 2004–05, or was on account of the advance payment to be made on signing of the contracts. In the former case, the cash flow on account of advance payment for schemes for a total value of ₹ 6,918 crore would have been approximately ₹ 1,038 crore (15 per cent of ₹ 6,918 crore) against availability of ₹ 1,000 crore for new schemes. If, however, ₹ 6,918 crore was the actual cash required for making advance payments, MoD was obviously expecting new schemes/projects of the total value of approximately ₹ 46,000 crore (15 per cent of which would be ₹ 6,900 crore) to be signed during the year. Without seeking any clarification from MoD on this, the committee concluded as follows:

> 32. The Committee are extremely concerned that not only the amount available with the Ministry on account of Capital expenditure after adjusting the committed liabilities is hardly adequate for taking up any new projects/schemes but several schemes/projects which are at various stages of finalization would also have to be deferred.[5]

This remark was not based on any objective analysis of whether the allocation was inadequate or whether MoD would have been able to utilize the funds it had sought. It was important to examine this aspect as, in the same report, the committee had also noted with concern that during the previous five years from 1999–2000 to 2003–04, funds meant for capital acquisition had lapsed to the extent of ₹ 32,740.26 crore.[6] The committee nevertheless went ahead and made the following recommendation:

> 33. The Committee, therefore, recommend the Ministry to assess the situation in the light of likely impact of reduced allocation on the new schemes and ongoing acquisition proposals and approach the Ministry of Finance for supplementary allocations at the earliest to ensure that the modernization plans and procurement of essential equipments do not suffer or are delayed merely because of squeezing of funds.[7]

This recommendation was nothing more than what is routinely done by MoD. In fact, this is what had already been stated by the Defence Minister and taken note of by the committee. In its action taken report, MoD made light of the committee's concern by stating:

> The modernization of the defence forces is an ongoing process and the Finance Minister in his budget speech has also stated that the Government is determined to eliminate all delays in modernization of Defence Forces...Ministry of Defence will also continue to progress modernization schemes up to the points where it needs financial approval of the Government. If some delays on the part of the suppliers or some slippage takes place, the Ministry would progress

> new projects/schemes out of available allocation. The progress of defence expenditure and the status of ongoing new schemes would, however, also be kept under constant review during the financial year and the Ministry of Finance would be approached for additional funds, as and when required.[8]

The committee reacted angrily to this response from MoD, though MoD's action was in conformity with what the committee itself had recommended, with the following comments:

> The Committee are unhappy to note that instead of approaching the Ministry of Finance for supplementary allocation the Ministry of Defence has felt contended to bank on delays in the part of suppliers or some slippage taking place in already concluded contracts so that Ministry could progress new projects out of available allocation. This shows a casual approach on the part of the Ministry to pursue for higher allocation with the Ministry of Finance and goes contrary to Government resolve to eliminate all delays in Defence Modernization.
>
> The Ministry should assess their demand and formulate a long term perspective plan and work out a schedule for upgradation/ modernization of their hardware including procurement and purchases adhering to the time schedule.[9]

The preliminary expenditure figures for the year 2004–05 would have been available when this report was submitted by the committee. But while expressing its unhappiness, the committee did not take into account that the actual capital expenditure for 2004–05 had been lower than BE as well as the reduced RE (see Table 2).[10] The committee also did not obviously ask MoD as to which schemes/projects had to be deferred by it on account of non-availability of funds in 2004–05.

The committee had another opportunity to quiz MoD on the impact of less-than-projected allocation made in 2004–05 on new schemes/ projects when it examined the DDG for the year 2005–06 in April 2005, but the report[11] does not show that the committee went into this issue. At this stage, the committee could have also asked how MoD had planned to spend ₹ 50,167.39, considering that it was able to spend barely ₹ 31,993.80 crore under the capital segment, but the committee did not do so.

What emerges from this is that the committee relied only on what MoD had stated in coming to the conclusion that the allocation was inadequate, overlooking that budget for 2004–05 had been increased by 17.92 per cent over the previous year, as also MoD's subsequent hint that the situation could be managed with the available funds and that it will approach MoF for additional funds, if required. Without taking cognizance of the pace of expenditure and the actual capital expenditure incurred during the year, the committee persisted with the line that MoD should pursue for higher allocation, making recommendations in the process that lacked specificity.

Budget Estimates 2005–06

Examination of the DDG for 2005–06 was on the same lines as was the case the previous year. The position regarding projection and allocation, as recorded in the committee's report, is captured in Table 3.[12]

At ₹ 83,000 crore, BE 2005–06 represented an increase of 7.79 per cent over the previous year's BE, which had been increased by 17.92 per cent over BE of 2003–04. The underutilization during 2004–05 was ₹ 1,144 crore, which was much lower than the underutilization of ₹ 5,234 crore during the preceding year.

The shortfall under the revenue segment was quite insignificant. Under the capital segment, the shortfall was much higher than the previous year's shortfall in percentage terms, despite the fact that against ₹ 50,167.39, asked for in 2004–05, MoD had projected a more modest requirement of ₹ 44,123.86 crore for 2005–06. This irony was compounded by a small increase of only ₹ 2,381.34 crore over the previous year's actual expenditure.

According to the report, the committee was informed by MoD that the allocation of ₹ 34,375.14 crore fully caters for the committed liabilities and provides over ₹ 7,000 crore for new capital acquisition schemes.[13] This indicates that MoD was more or less satisfied with the overall allocation for capital expenditure.

The committee did not enquire whether the amount of ₹ 1,000 crore, available during the previous year for new schemes, had got fully utilized or whether the amount of ₹ 7,000 crore available for new schemes in 2005–06 also catered for the schemes rolled over from the

Table 3

2005–06	*Projection*	*Allocation*	*Shortfall*	*Percentage*
Revenue	50,444.03	48,624.86	1,819.17	3.61
Capital	44,123.86	34,375.14	9,748.72	22.09
Total	94,567.89	83,000.00	11,567.89	12.23

previous year because of inadequacy of funds. Since the allocation for capital expenditure for 2005–06 was ₹ 9,748.72 less than the projection, the committee would have been justified in asking which specific new schemes would get adversely affected because of paucity of funds. The report on committee's examination of the budget for 2005–06[14] does not show that any such inquiries were made.

As pointed out earlier, the shortfall of ₹ 1,819.17 crore for revenue expenditure was too insignificant to cause any major concern. Insofar as the capital expenditure is concerned, the committee's analysis did not point to any serious implication of the shortfall in allocation. Neither had any alarm been raised by MoD. In the circumstances, it is inexplicable how the committee came to the conclusion that the

> budgetary ceilings imposed by the Ministry of Finance in the year 2005–06 have led to the downsizing of the total projected capital requirement of the Defence Services from adequately [*sic*] ₹ 44,123.86 crore to ₹ 34,275.14 crore which fails to address the security concerns of the nation.[15]

While examining BE 2005–06, the committee was more concerned about the austerity measures announced by MoF which involved a cut of 10 per cent on non-salary segment of the allocated revenue budget of all the ministries and departments. This concern was misplaced as the austerity cut had not affected MoD in 2005–06. Interestingly, in 2004–05 also, MoF had imposed no cut on revenue budget of MoD and had, in fact, raised it from ₹ 43,517.15 crore at the BE stage to ₹ 44,852 crore in RE (see Table 2).

In coming to the conclusion, and strongly recommending, that '10 [per cent] cut applied by Ministry of Finance across the board over the years should be immediately reviewed to check further depletions in our Military assets',[16] the committee overlooked the fact that reduction in allocation in the past was not on account of cuts imposed by MoF. Similarly, the committee's view that MoD had been 'compelled to surrender funds to the tune of ₹ 5,000 crore, ₹ 9,000 crore and ₹ 5,000 crore at the Revised Estimate stage of 2001–02, 2002–03 and 2003–04 respectively, to meet the deficits'[17] was more of an opinion than a conclusion drawn from facts.

The committee's observations were contrary to the empirical evidence. The reduction in the revenue allocation during those years was much lower than 10 per cent (see Table 4), which clearly indicates that the defence budget was not being subjected to the mandatory cut. Deposing

Table 4

Year	*BE (Revenue)*	*RE (Revenue)*	*Reduction*
2001–02	42,041.48	40,043.37	4.75%
2002–03	43,589.37	41,088.45	5.74%
2003–04	44,347.24	43,393.68	2.15%

before the committee, this was confirmed by a representative of MoF. He categorically stated that 'whenever a mandatory cut of 10% on budgetary allocations is effected, Defence Expenditure is invariably excluded from the cut.'[18]

The reduction was mostly in the capital budget but this too was not on account of the austerity measures which anyway did not apply to capital outlays. The committee was also informed by the MoF representative that they 'had been providing adequate funds at BE stage for the years 2001–02 to 2003–04 for Defence Services Expenditure despite the fact that the Ministry of Defence had not been able to spend the funds provided in the RE of these years' and that

> scaling down of provisions in RE stages in a year is not due to any cut applied in expenditure but on the basis of the capacity of the Department to absorb expenditure during the fiscal year, so that scarce resources are properly distributed among different sectors of Government expenditure.[19]

This is also borne out by the data for those years (see Table 5).

The committee dismissed the evidence of the MoF representative and, instead, based on inadequate and faulty understanding of facts, passed the following scathing remarks:

> The Committee are not convinced with the reasons furnished by the Ministry of Finance in regard to cut made in Defence Budget at RE stage...Any cut in defence budget at RE stage would only further delay the acquisition process...The Committee therefore reiterate their recommendation that Government should not impose any cut in defence budget any stage. At the same time, the Committee,

Table 5

Year	*BE (Capital)*	*RE (Capital)*	*Actual*	*Reduction*
2001–02	19,958.52	16,956.63	16,206.90	15.04
2002–03	21,410.63	14,911.55	14,952.85	30.35
2003–04	20,952.76	16,906.32	16,862.61	19.31

> desire that the Ministry of Defence should strive to complete all procedural formalities involved in the acquisition process before the month of December. The Ministry should make advance planning in order to submit a calendar for acquisition during the year with firm commitment to the Ministry of Finance so that it may facilitate the Ministry of Defence in procurement process. This will not only ensure timely completion of schemes/projects envisaged by the Ministry of Defence but also help in Defence preparedness and achieving self-reliance. The Committee also desire that Ministry of Finance at fag end of the year should not make reduction on revenue expenditure of the Ministry which mainly deals with the consumable items including well being of Jawans.[20]

The committee not only dismissed MoF's point of view peremptorily but also made recommendations that disregarded the facts. It did not recognize that reduction is invariably effected by MoF at the end of the third quarter of the year or beginning of the last quarter based on a realistic assessment of how much MoD will be able to spend in the remaining months of the financial year. This assessment is made by MoF in consultation with MoD. The conclusions drawn by the committee were thus clearly based on a flawed analysis—if at all it could be called that—of the facts and inadequate understanding of the budgetary process.

Going by the percentage increase in BE 2005–06 over the previous year and the shortfall in allocation with reference to the projection, it is evident that the recommendation made by the committee the previous year had little impact. The underutilization in 2004–05 was less than the previous year, but no clear link could be established between this and any recommendation made by the committee that might have led to it.

BUDGET ESTIMATES 2006–07

At ₹ 89,000 crore, BE 2006–07 represented an increase of 7.23 per cent over the previous year's BE, which had been increased by 7.79 per cent over BE of 2004–05. The underutilization during 2005–06 was ₹ 2,199.74 crore, which was almost double the underutilization of ₹ 1,144.08 crore during the preceding year.

However, the committee continued in the same vein when it examined the defence budget for 2006–07. Beginning with a comment on the 2005–06 budget, the committee noted 'with serious concern that B.E. (2005–06) of ₹ 83,000 crore was reduced to ₹ 81,700 crore in RE (2005–06) stage thereby showing a reduction of ₹ 1,300 crore.'[21] Reduction of

1.5 per cent in the defence budget was hardly a matter of serious concern. The entire cut had been on the capital budget which was brought down from ₹ 34,375.14 crore to ₹ 33,075.14 crore. But, at ₹ 32,337.87 crore, the actual capital expenditure was even less than the RE.

As for the defence budget for 2006–07, the committee made the following observation:

> 1.22 The Committee observe that despite an increase of 7.23 per cent in the BE 2006–07 against the BE 2005–06 and 8.94 per cent increase over the RE 2005–06, there is still a gap of ₹ 5,183.17 crore between the projections made by the Ministry of Defence and the allocation made in the Defence Budget [*sic*] Estimates for the year 2006–07. The Committee note that the projections for funds flow from the Services Acquisition Plan, which are examined thoroughly in the Ministry of Defence and are based on the changing security environment and threat perception. The Committee, therefore, desire that the Government should take immediate steps to bridge the gap between the projections and budgetary allocation, so that there is no compromise on defence preparedness due to shortfall in defence acquisition programme.[22]

This observation is remarkable for four reasons. One, the shortfall of ₹ 5,183.17 crore works out to a mere 5.50 per cent of the projection. The main burden of this shortfall was borne by DRDO (12.60 per cent of the projection). The shortfall in the case of Army, Navy and Air Force was 6.00 per cent, 3.08 per cent and 6.66 per cent, respectively.[23]

There is no uniformity in preparation of budgetary projections by the services and other departments. Often, there is also an element of over-projection because they believe that MoF is bound to cut down the projection while fixing budgetary ceilings and that by over-pitching the requirement, they can make sure that the final allocation meets their actual requirement. Therefore, a 5–10 per cent cut on the projected requirement could not be a matter of serious concern, especially in view of the past trend of underutilization.

Two, it is not correct that the entire projections flow from the Services Acquisition Plan. These plans relate to capital acquisition for the three services, which is only one of the segments of the entire defence budget. The funds required for those acquisitions form part of the capital budget, which had had a history of underutilization.

Three, while the committee expressed the 'desire' that the government should 'take immediate steps to bridge the gap between the projections and budgetary allocation, so that there is no compromise on defence preparedness due to shortfall in defence acquisition programme', it did not point out, much less analyse, how real was the problem of shortfall under capital acquisition segment of the capital budget and what was the actual impact of such shortfall.

It may be worth mentioning that the capital acquisition budget for 2006–07 was ₹ 29,990.83 crore, which was reduced to ₹ 26,774.39 crore at the RE stage and the actual expenditure that year was ₹ 26,900.44 crore.[24]

Four, despite being aware of MoD's inability to utilize the allocated budget in full, committee's insistence that MoD should get whatever it asks for was not in sync with its own observation:

> ...there is a need for better financial planning and management in the Ministry of Defence. The Large scale surrender of funds at the end of the year has eroded their credibility and ability to utilize the allocated funds which are so much required for modernization/upgradation of defence forces...[25]

The main, and more immediate, issue at that point of time was ensuring full utilization of the allocated funds for capital acquisition rather than bridging the gap between projection and allocation, which was being routinely raised by the committee. The committee seems to have realized this because in the action taken report, it did not press this point, emphasizing instead only the need to ensure utilization of fund. While doing so, however, the committee made the following recommendation:

> ... The Committee strongly feel that it is the sole responsibility of the Ministry of Defence to fully utilize the allocation made to them and they may not escape from the responsibility of not incurring full expenditure. Therefore, the Committee wish to reiterate their earlier recommendation and desire that the Ministry should have done advance planning in order to ensure timely completion of all procedural formalities and optimum utilization of scarce resources.[26]

This recommendation was based on the assumption that either MoD did not follow any plan of expenditure or, if it did, it was not good enough. Neither of these assumptions was based on any analysis of the system being followed by MoD to ensure utilization of funds and what was wrong with that system. The 'earlier recommendation', referred to in the committee's observation, was 'to submit a calendar for acquisition during the year with firm commitment to the Ministry of Finance' which could ‘ facilitate optimum utilization of scarce resources allocated for “Defence” and timely completion of schemes/projects envisaged by the Ministry of Defence to maintain highest level of preparedness’.[27]

The committee did not elaborate on what submitting ‘a calendar for acquisition during the year with firm commitment to Ministry of Defence’ actually meant and how was this to solve the problem of underutilization. The recommendation was, at best, perfunctory, if not downright naive.

These facts also indicate that the committee’s observations/recommendations had had no effect on the allocation for 2006–07 or underutilization during 2005–06, which, in fact, doubled with reference to the previous year’s figures.

Budget Estimates 2007–08

At ₹ 96,000 crore, BE 2007–08 represented an increase of 7.86 per cent over the previous year’s BE, which had been increased by 7.23 per cent over BE of 2005–06. The underutilization during 2006–07 was ₹ 3,238.26 crore, much higher than underutilization of ₹ 2,199.74 crore during the preceding year.

The committee was back to its earlier line of inquiry while examining the defence budget for 2007–08. It lamented the inadequacy of allocation on the one hand, and the inability of MoD to utilize the allocated sums on the other.

The gap between projection and allocation during 2007–08 is given in Table 6.[28]

The committee had apparently taken up this matter with MoF and got the response that ‘...allocation of budgetary resources is made keeping in view the overall resources position of the Government as also the various competing needs of different sectors...’.[29] Dismissing this as application of the ‘general rule for resource allocations to various sectors’, the committee observed that ‘the defence sector needs a different treatment’ and strongly recommended that the government ‘must allocate the amount as projected by the Defence Services, so that the defence acquisition programme and

Table 6

2007–08	*Projection*	*Allocation*	*Shortfall*	*Percentage*
Revenue	58,900.35	54,078.00	4,822.35	4.64
Capital	45,040.12	41,922.00	3,118.12	5.29
Total	1,03,940.47	96,000.00	7,940.47	7.64

modernization of the Armed Forces may not face any resource crunch and adversely affect the country's defence preparedness in any manner'.[30]

This observation implied that in the committee's view: (a) the requirement worked out by MoD was always accurate; (b) there was no justification for MoF to subject MoD's projections to the same scrutiny as the projections made by other ministries and departments; (c) the main impact of lesser allocation was always on defence acquisition and the modernization programme, and (d) most importantly, it was imperative to meet the requirement in full irrespective of the state of economy and the resources that the government was able to generate in a given year. These assumptions are questionable.

In fact, the committee went a step further and strongly recommended that MoD should ask MoF to provide 'a minimum of 3 per cent of GDP for Defence Services every year in order to ensure a fixed amount to carry out modernization, Capital acquisition and R&D programme and fulfil the need based requirements of the Defence Forces'.[31]

This recommendation was in complete rejection of what the representative of MoF had stated before the committee which was reproduced in the committee's report as follows:

> There are many arguments in this regard. This is a matter which has been debated over several years. The argument is that what is the relationship of defence expenditure with the external parameter like GDP? GDP shows you the rate of growth. The defence expenditure is related to your threat perception, really. This debate is not settled. I am only putting the pros and cons of the situation. It can be argued that, in a country like India which has a large segments of disadvantaged, not included in the growth process, as the GDP grows a larger amount should be allocated to the welfare of those people rather than spending it more on arms and ammunitions. That is the argument. It may not go well with the Armed Forces. It is a political choice. It is a guns versus butter choice. With this perspective in mind, this debate remains unresolved as to whether the defence expenditure should be fixed as a percentage of the GDP. This argument can be extended to other sectors. But this is a political choice. It is a matter not really left to bureaucrats like us.[32]

The committee did not analyse MoF's point of view or explain how it had come to the conclusion that 3 per cent of the gross domestic product (GDP) was the ideal benchmark for determining yearly allocation for defence. This recommendation also presupposes that, somehow, it is possible for MoF to deal with defence budget in complete isolation, delinking it from the issue of resource generation by the government.

Taking the familiar position that MoD must plan its expenditure more efficiently to ensure full utilization and deny MoF an opportunity to withdraw funds at the RE stage,[33] the committee also came up with a somewhat novel idea of a committee being set up by MoD consisting of representatives of MoD, MoF and the Comptroller & Auditor General (C&AG), 'not below the rank of Additional Secretary in the acquisition process and clear the proposals, timely'.[34] The C&AG is a constitutional authority primarily responsible for audit of government accounts. The C&AG's (Duties, Powers and Conditions of Service) Act, 1971 (56 of 1971) does not envisage the kind of role for him or his officers as recommended by the committee.

No wonder MoD was silent on this recommendation while furnishing the action taken report.[35] It was too far-fetched an idea to comment on. Other recommendations of the committee were not specific enough for MoD to take any concrete action. The committee seems to have realized this as it was content with making the following kindly remarks in the action taken report:

> ...The Committee had also desired the Ministry to carry out advance planning and process the case, so as to bring proposals to the concluding stage before the month of December of every year. The committee note that the Ministry of Defence have taken a number of steps including adherence to DPP 2006 to improve pace of expenditure to ensure full utilization of the allotted funds. The Committee, however, feel that these measures have not yet yielded the desired results and there have been surrender of funds allocated for Defence Modernization. The Committee hope that the Ministry of Defence will make concerted efforts to implement these steps in order to reduce time frame in defence acquisition. The Committee would like to be apprised of the progress made by the Ministry in this regard.[36]

There was nothing ingenious about these observations. These observations give the impression that the committee was relieved at being told by MoD that steps had been taken to ensure utilization of funds. It did not probe too much into what steps had been taken.

Given the fact that MoD did not actually get what it had asked for in spite of an increase of 7.86 per cent and that the underutilization in 2006–07 that was higher than the preceding two years, no different conclusion can be drawn regarding the impact of the committee's recommendations on defence budget.

Budget Estimates 2008–09

At ₹ 1,05,600 crore, BE 2008–09 represented an increase of 10 per cent over the previous year's BE, which had been increased by 7.86 per cent over BE of 2006–07. Most of the increase was under the revenue segment on account of higher allocation for pay and allowances, necessitated by implementation of the recommendations of the Sixth Central Pay Commission. The underutilization during 2007–08 was ₹ 4,082.21 crore, which was the highest since 2004–05.

By the time DDGs for 2008–09 were taken up for examination, the committee seems to have reached the state of extreme fatigue. There was the usual bemoaning of reduction in previous year's allocation at the RE stage and how it had 'reportedly affected all the Services'.[37] It is, of course, not clear who had reported this and how were the services adversely affected by it. This observation also did not take into account the fact that MoD had, in fact, expressed satisfaction with the allocation for 2008–09 'at this stage',[38] which implied that sufficient funds were available in 2008–09 to cater for whatever MoD had planned for, including any programme/scheme/activity that had to be rolled over on account of reduction of allocation at the RE stage during the previous year.

There was also the usual reference to the slow pace of expenditure by MoD, surrender of funds by MoD/reduction of allocation by MoF, MoF's explanation of how and why the allocation is refixed at the RE stage and MoD's efforts to prevent underutilization of funds.[39]

As regards the allocation for 2008–09, there was the usual, and rather incorrect, observation that 'Projection of funds flow from the Services Capital Acquisition Plan, which are [*sic*] examined thoroughly in the Ministry of Defence and are based on the requirements to meet the changing security environment and threat perception'.[40] This is incorrect because, as pointed out earlier, the totality of the projection made by the services and other departments of MoD does not flow out of the 'Services Capital Acquisition Plan'.

The allocation of ₹ 1,05,600 crore for 2008–09 was short of the projection of ₹ 1,12,087 crore by ₹ 6,487 crore, which works out to just about 5.79 per cent of the projection. Perhaps, the committee had by now realized that shortfall of this extent cannot be a cause for great concern. In not commenting on this shortfall, the committee also seems to have been influenced by what MoF had conveyed to it in writing, which was as follows:

> Based on the overall availability of resources and the competing needs of various sectors and the absorption capacity to fully utilize the funds within the given financial year, funds are allocated to various Ministries/Departments. Defence expenditure being the single largest item of non-plan expenditure, after 'interest payments' approximately 20.8 [per cent] of the non-Plan expenditure budget is allocated for the Defence Services in the year 2008–09, excluding Defence Pensions and Defence–Civil which are provided for separately.[41]

The usual didacticism about the need for allocation of funds by MoF as per the projection made by MoD was missing. So were the unusual recommendations, such as involving representatives of C&AG in processing of procurement cases. Instead, the committee went on to talk about issues like creation of non-lapsable defence modernization fund (resurrected from the past reports of the committee), curbing of wasteful expenditure and preparation of outcome budget by MoD.[42]

The committee wrapped up the report by saying that 'although budgeted allocation has been revised downwards every year (except during 2004–05), the Ministry of Defence could not fully utilize even the reduced allocation'[43] and highlighting the 'need to make realistic projections of fund requirements by the Defence Forces keeping in view all relevant factors.'[44]

In the subsequent action taken report, the committee reiterated the need for MoD to prepare outcome budget (although MoD is exempted from preparing it as per the MoF instructions) and advised the ministry to ensure 'realistic projections of funds in future', as also to simplify the 'existing procedure to minimise instances of slippages in procurement schedule'.[45]

Conclusion

During the tenure of the 14th Lok Sabha, the year-on-year increase from 2005–06 to 2008–09 did not match the increase in 2004–05. The allocations were invariably less than the projections and the extent of underutilization of funds kept on increasing progressively after coming down in 2004–05, which cannot be attributed to the labours of the committee.

The recommendations of the committee were either very general or too far-fetched to be implemented. The defence budget was not pegged at 3 per cent of the GDP, no lapsable fund was set up and no committee was set up with representation of the C&AG on the committee.[46]

It was a rather tame finale to five years of efforts by the committee to influence the trajectory of defence budget and its utilization. This also brought down the curtain on the Standing Committee on Defence of the 14th Lok Sabha as the country went into general elections in April–May of 2009.

Notes

1. All budget-related figures quoted in this article have been worked out by the author on the basis of the Defence Services Estimates of the relevant years, unless specified otherwise.
2. All figures are shown in Indian rupee (INR) in crore (1 crore is equal to 10 million). INR is denoted by the symbol '₹'.
3. Standing Committee on Defence (14th Lok Sabha), 'First Report', Lok Sabha Secretariat, August 2004, pp. 9–10.
4. Ibid., p. 11.
5. Ibid.
6. Ibid., p. 14.
7. Ibid., p. 11.
8. Standing Committee on Defence (14th Lok Sabha), 'Third Report', Lok Sabha Secretariat, April 2005, p. 4.
9. Ibid., pp. 4–5.
10. The actual expenditure gets compiled by June/July of the year following the financial year to which it pertains. Therefore, the actual expenditure shown in Table 2 would not have been available when the report was submitted by the committee. However, the initial figures for the financial year 2004–05, compiled by the Controller General of Defence Accounts, would have been available by that time. Those figures would not have been much different from the final figures.
11. Standing Committee on Defence (14th Lok Sabha), 'Second Report', Lok Sabha Secretariat, April 2005.
12. Ibid., p. 9.
13. Standing Committee on Defence (14th Lok Sabha), 'Eighth Report', Lok Sabha Secretariat, March 2006, p. 4.
14. Standing Committee on Defence (14th Lok Sabha), 'Second Report' .
15. Ibid., p. 16.

16. Ibid., p. 17.
17. Ibid., p. 16.
18. Standing Committee on Defence (14th Lok Sabha), 'Eighth Report', Lok Sabha Secretariat, April 2005, p. 6.
19. Ibid., p. 6.
20. Ibid., p. 7.
21. Standing Committee on Defence (14th Lok Sabha), 'Eleventh Report', Lok Sabha Secretariat, May 2006, p. 17.
22. Ibid., p. 9.
23. Ibid., p. 8.
24. Worked out on the basis of the DSEs for the relevant years
25. Ibid., p. 18.
26. Standing Committee on Defence (14th Lok Sabha), 'Fifteenth Report', Lok Sabha Secretariat, April 2007, p. 10.
27. Standing Committee on Defence (14th Lok Sabha), 'Eleventh Report', p. 18.
28. Standing Committee on Defence (14th Lok Sabha), 'Sixteenth Report', Lok Sabha Secretariat, April 2007, p. 11.
29. Ibid., p. 12.
30. Ibid., p. 13.
31. Ibid., p. 11.
32. Ibid., p. 10.
33. Ibid., p. 21.
34. Ibid., p. 28.
35. Standing Committee on Defence (14th Lok Sabha), 'Twenty Sixth Report', Lok Sabha Secretariat, March 2008, p. 6.
36. Ibid., pp. 6–7.
37. Standing Committee on Defence (14th Lok Sabha), 'Twenty Ninth Report', Lok Sabha Secretariat, April 2008, p. 10.
38. Ibid.
39. Ibid., pp. 11–13.
40. Ibid., p. 13.
41. Ibid., p. 14.
42. Ibid., pp. 15, 16, 18–20.
43. Ibid., p. 15.
44. Ibid., p. 79.
45. Standing Committee on Defence (14th Lok Sabha), 'Twenty Ninth Report', Lok Sabha Secretariat, Febuary 2009, pp. 4–5.