Delhi Policy Group
Advancing India's Rise as a Leading Power

DPG POLICY BRIEF

India's Defence Budget: Beyond the Numbers

Authors
Anil Ahuja
Arun Sahgal

Volume VI, Issue 4

FEBRUARY 10, 2021

Delhi Policy Group
Core 5A, 1st Floor, India Habitat Centre, Lodhi Road, New Delhi- 110003
www.delhipolicygroup.org

Delhi Policy Group
Advancing India's Rise as a Leading Power

DPG Policy Brief Vol. VI, Issue 4
February 10, 2021

ABOUT US

Founded in 1994, the Delhi Policy Group (DPG) is among India's oldest think tanks with its primary focus on strategic and international issues of critical national interest. DPG is a non-partisan institution and is independently funded by a non-profit Trust. Over past decades, DPG has established itself in both domestic and international circles and is widely recognised today among the top security think tanks of India and of Asia's major powers.

Since 2016, in keeping with India's increasing global profile, DPG has expanded its focus areas to include India's regional and global role and its policies in the Indo-Pacific. In a realist environment, DPG remains mindful of the need to align India's ambitions with matching strategies and capabilities, from diplomatic initiatives to security policy and military modernisation.

At a time of disruptive change in the global order, DPG aims to deliver research based, relevant, reliable and realist policy perspectives to an actively engaged public, both at home and abroad. DPG is deeply committed to the growth of India's national power and purpose, the security and prosperity of the people of India and India's contributions to the global public good. We remain firmly anchored within these foundational principles which have defined DPG since its inception.

Authors

Lt. Gen. Anil Ahuja (Retd.), PVSM, UYSM, AVSM, SM, VSM & Bar, Senior Adjunct Fellow for Defence Policy, Delhi Policy Group
Brig. Arun Sahgal (Retd.), Ph.D., Senior Fellow for Strategic and Regional Security, Delhi Policy Group

The views expressed in this publication are those of the authors and should not be attributed to the Delhi Policy Group as an Institution.

Cover Photographs:

Prime Minister Narendra Modi addressing Indian troops at Nimu in Ladakh, July 3, 2020. Source: The Indian Express

Defence Minister Rajnath Singh addressing troops at the Lukung post in Ladakh on July 17, 2020. Source: Twitter/@Rajnath Singh

Indian Chief of Defence Staff General Bipin Rawat reviewing military preparedness in Eastern Ladakh on January 12, 2021. Source: Twitter/@NorthernComd_IA

Delhi Policy Group
Core 5A, 1st Floor,
India Habitat Centre,
Lodhi Road, New Delhi- 110003.
www.delhipolicygroup.org

India’s Defence Budget: Beyond the Numbers

By

Anil Ahuja & Arun Sahgal

Contents

India's Defence Budget: Beyond the Numbers

by

Anil Ahuja & Arun Sahgal

Introduction

The Union Budget for the Financial Year (FY) 2021-2022, including the Defence Budget, was presented by the Finance Minister in Parliament on February 01, 2021. This budget comes at the most difficult time in our recent history. As India confronts the dual challenge of the Covid-19 pandemic and an economic downturn, the nation also faces a serious military threat from China's intrusion in Eastern Ladakh. Enhanced troop deployments along our northern borders, akin to the long-standing deployments along the Line of Control with Pakistan, is becoming the new normal, placing the military's material and financial resources under stress

Prime Minister Narendra Modi addressing Indian troops at Nimu in Ladakh, July 3, 2020. Source: The Indian Express

Without the luxury of meeting the economic and security challenges sequentially, India is faced with the daunting task of allocating adequate resources for national defence against the competing demands for health, education, job creation, infrastructure development and agriculture. Seen from another perspective, the serious security challenges confronting the country also present an opportunity to test the efficacy of the newly created higher defence organisation structure of the Chief of Defence Staff (CDS) and the Department of Military Affairs (DMA) in planning for the most optimal utilisation of available resources for defence capability enhancement in the face of major threat to our territorial integrity. This responsibility is inherent in the charter of the CDS.

Within the above backdrop, this analysis is directed beyond the "numbers" in the demands for grants for the defence services, as these are self-evident. Our aim here is to identify some defining parameters for the formulation of annual defence budgets which can support the Defence Integrated Capability Development and Acquisition Plans of the services over the next 5-10 years, within the constraints of available resources.

Defence Budget 2021-22

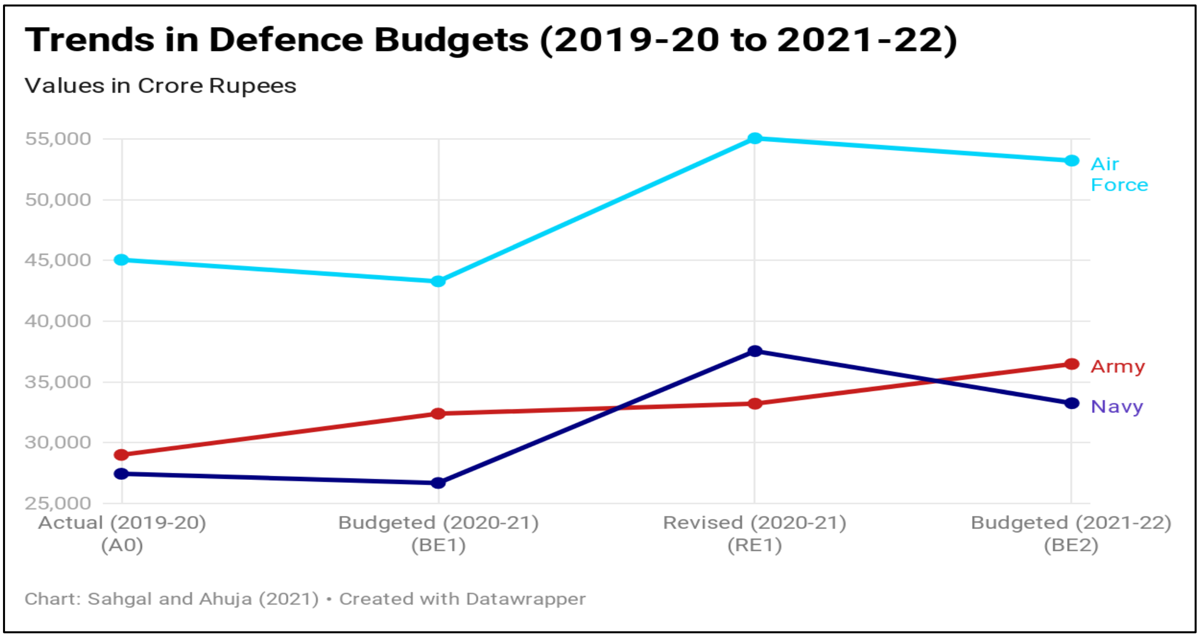
For ready reference, the salient details of the defence budget allocations for FY 2021-2022 are summarised below.

The overall defence expenditure planned for FY 2021-2022 is Rs.3,62,345.62 Crore (US$ 49.6 billion), an increase of Rs.24,792.62 Crore (US$ 3.4 billion) over the Budget Estimates of FY 2020-2021. Clubbing defence pensions, the current allocations become Rs.4.78 Lakh Crore (US$ 65.5 billion) as against Rs.4.71 Lakh Crore (US$ 64.5 billion) in the previous FY, a year-on-year increase of 1.4%. These allocations, including pensions, constitute approximately 2.15% of GDP and excluding pensions, approximately 1.63% of India's projected GDP[1]. The capital outlay for the services can be seen in Table 1.

TABLE 1

	Actual (2019-20) (A0) Crore Rupees	Budgeted (2020-21) (BE1)	Revised (2020-21) (RE1)	Budgeted (2021-22) (BE2)	Change from BE 21 (BE2 - BE1)	Change from RE 21 (BE2 - RE1)	% Change from BE 21	% Change from RE 21
Overall Allocation	111092.43	113734.00	134510.00	135060.72	21326.72	550.72	18.8	0.4
Army	29000.88	32392.38	33213.28	36481.9	4089.52	3268.62	12.6	9.8
Navy	27446.68	26688.28	37542.88	33253.55	6565.27	-4289.33	24.6	-11.4
Air Force	45056.01	43281.91	55055.41	53214.77	9932.86	-1840.64	22.9	-3.3

[1] Pandit Rajat. Union Budget: Defence budget hiked by just 1.4%, but more money for military modernization. The Times of India. February 01, 2021. https://timesofindia.indiatimes.com/india/union-budget-defence-budget-hiked-by-just-1-4-but-more-money-for-military-modernization/articleshow/80631424.cms



The capital allocation for the DRDO has been increased by 8% (Rs.11375.50 Crore, US$ 1.6 billion) and for Border Roads by 7.5% (Rs.6004.08 Crore, US$ 0.8 billion).

As can be seen from Table 1, an additional expenditure of Rs.20776.00 Crore (US$ 2.84 billion) had to be incurred to meet operational requirements during the FY 2020-21. Approximately 90% of the capital budget allotted for the coming year is likely to be utilised to meet the committed liabilities[2].

Is it Enough?

According to the report of the 15th Finance Commission, the overall defence expenditure as a proportion of total Union Government expenditure has varied between 15.5% to 17.8% during the period 2011-12 to 2020-21[3]. The defence budget for this FY, however, is approximately 13.7% of the Union Government expenditure. The capital expenditure on defence, during the same period (2011-2020) has ranged between 23.8% to 31.8% of the total planned defence expenditure, including pensions[4]. The current allotment for capital expenditure constitutes 28.2% of the total planned defence expenditure. This is

[2] Raghuvanshi Vivek. India releases details of new defense budget. Defense News.February 03, 2021. https://www.defensenews.com/global/asia-pacific/2021/02/02/india-releases-details-of-new-defense-budget/

[3] Finance Commission in Covid Times, Report for 2021-2026. Vol 1, Main Report. Oct 2020. Table 11.1, Pg 335.

[4] Ibid.

nearly at par with the Capital allocations for the Revised Estimates (RE) for the FY 2020-21. These expenditures are in line with the pre-Ladakh standoff trends.

Factual figures apart, there has been a prevailing perception that the defence budget allocations should be pitched at around 3% of the GDP to adequately meet India's defence needs. There is no quantified rationale either for the allocation of 1.63% of GDP or the expectation of 3%. The bane of prolonged delays in acquisition lies in the inability to align defence budgets to acquisition plans. Since defence capability development is a hugely expensive proposition and remains an ongoing process, the challenge is to arrive at what is enough and what should be an optimum yearly defence budget allocation?

What is Enough?

The dilemma of budgeting for defence lies in identifying what to align the defence budget to? In a process where the ideal procurement time, post-approval of the Defence Acquisition Council (DAC), is approximately two years (74-106 weeks), with only a negligible few scheme meeting this timeline, should the allocations be aligned to the schemes to be sanctioned by the Defence Acquisition Council (DAC) and put into the "acquisition funnel" during the financial year, with no certainty of when this procurement may fructify? Or, with the schemes likely to mature during the financial year, which itself may at best be a reasonable guess? Or, budgeted on the basis of prevailing critical operational voids? Or, to the capabilities sought to be created over a stipulated period of time as part of the "Long Term Integrated Capability Development Plan"?

Given our manifest inability to find an answer to this dilemma, we continue to merely "apportion" whatever is politically perceived to be appropriate merely from a financial resource availability perspective. This has resulted in the allocations (or the amount apportioned) hovering around 1.6% of the GDP, which is neither adequate for capability enhancement nor for meeting the prevailing security challenges. Revised budgetary estimates, year on year, are testimony to this.

The fact is that the adequacy of the defence budget must not be assessed from the perspective of the quantum of funds allotted but in terms of threat mitigation, through both capability creation and the needs of force modernisation across multiple domains.

The Delhi Policy Group recently carried out a limited sample survey to evaluate what should be the inter se weightage for different domains, in the context of the prevailing security challenges for India. As per the survey, desirable inter se allocations should be: land forces (24%), Navy (19%), Air Force (17%), situational awareness (ISR, maritime domain awareness, space) (11%), asymmetric domains (cyber, information warfare, legal warfare, etc.) (11%), R&D (10%), and strategic (CBRN) capabilities (8%). These figures are at best indicative and need to be carefully validated by our defence planners. They do, however, serve as a broad guideline for planning and prioritising acquisitions, through the mechanisms of the "Ten Year Integrated Capability Development Plan" or the "Five Year Defence Capability Acquisition Plan", which are formulated according to the provisions of the Defence Acquisition Procedure (DAP) 2020[5].

Defence Minister Rajnath Singh addressing troops at the Lukung post in Ladakh on July 17, 2020. Source: Twitter/@Rajnath Singh

A possible way to streamline capital budget projections could be to identify intra and inter-service prioritised acquisitions from the pending list of acquisitions already approved by the Defence Acquisition Council, which are lingering in the acquisition funnel well beyond stipulated timelines but have now matured nearly to the contract negotiation stage, and add to these the urgent operational requirements which are expected to be materialised. The estimated cash outflow for these, added to the committed liabilities carried over could give an indicative capital budget projection.

These, of course, have to be within a pragmatic ceiling, based on the availability of resources for defence spending. Taking a baseline of say the capital budget allocation of each service in the last five years and assuming the Trend Growth

[5] Defence Acquisition Procedure- 2020.Chapter 1, Para 24. Pp 6-7. https://www.mod.gov.in/dod/sites/default/files/DAP2030new.pdf

Rate (TGR) of 6.1, as indicated by the 15th Finance Commission[6], and projecting this for ten years, can give a clear idea of the funds likely to be made available and the capabilities that can be created over identified timelines. Implications of delay in capability generation due to slippages in fund allocation can also be made evident.

A budget allocation, formulated over a ten-year horizon, linked to prioritised acquisitions across each service and each domain, and creating identified capabilities to mitigate anticipated threats, could be considered as an "optimum" budget allocation. The onus of undertaking this inescapable exercise rests with the CDS and the DMA.

Creating Predictability

Creating an environment of predictability in budget allocations is imperative both for the capability enhancement of the Defence forces and for the development and stabilisation of the indigenous Defence industrial base. Towards this, the Standing Committee on Defence had in the past recommended allotting a capital budget as a "non-lapsable" and "roll-on" budget. Whereas the MOD, after years of reluctance, agreed in December 2016 to the creation of 'Non-Lapsable Defence Capital Modernisation Fund', the Ministry of Finance continued to resist this, stating it to be violative of Article 266 (1) of the Constitution[7] as it entailed moving general revenue out of the Consolidated Fund and parking it in a corpus fund.

The 15th Finance Commission has now recommended the creation of a dedicated, non-lapsable, Modernisation Fund for Defence and Internal Security (MFDIS), to bridge the gap between projected budgetary requirements and budget allocation for both defence and internal security. The proceeds of the fund have been recommended to be utilised for the following three purposes: (i) capital investment for modernisation of defence services; (ii) capital investment for CAPFs and modernisation of state police forces, as projected by MHA; and (iii) a small component as a welfare fund for soldiers and para-military personnel. This fund is proposed to be pegged at Rs.2,38,354 Crore (US$ 32.7 billion) over the period 2021-2026, with the corpus being made available

[6] Finance Commission Report for 2021-2026. Vol 1, Main Report.Table 11.1, Pg 335.

[7] STANDING COMMITTEE ON DEFENCE (2017-2018), (SIXTEENTH LOK SABHA) MINISTRY OF DEFENCE DEMANDS FOR GRANTS (2018-19), CAPITAL OUTLAY ON DEFENCE SERVICES, PROCUREMENT POLICY AND DEFENCE PLANNING (DEMAND NO. 21). FORTY-SECOND REPORT. March 2018. Paras 1.23 – 1.25. Pp 20- 21.
http://164.100.47.193/lsscommittee/Defence/16_Defence_42.pdf

as an additionality over and above the normal budgetary capital outlay for defence from proceeds of monetisation or transfer of surplus defence land and disinvestment proceeds of Defence PSUs[8]. Once created, this fund, coupled with ten-year perspective planning, will remove the biggest impediment to predictability in capability development. The government should now ensure that this fund gets created during FY 2021-2022.

Reconciling Perceptions

Besides the inadequacies in the planning process highlighted above, there are some existing perceptions that impact allocation of resources for the Defence. These create room for shifting the onus of perpetuating a dysfunctional system between the Services, the MOD and the Ministry of Finance. Shedding these perceptions would help refine the system. Some of these are outlined below:

a. The very large size of standing armed forces. Till the recent standoff with China, there existed a strong narrative in academic and policy circles that the two-front threat was a myth created by the armed forces in their quest for larger resource allocations. Our current predicament with China and the continued hostility with Pakistan should set these arguments at rest.

b. Archaic military thinking. It is perceived, rightly so to some extent, that we continue with our force development plans based on an outdated attritional war model. Doctrinally, we have yet to take cognisance of "limited wars under nuclear overhang" or the concept of non-contact or hybrid wars. Consequently, our organisational structures and force deployments remain manpower-intensive, entailing huge revenue expenditure. The Indian security environment, however, is also characterised by the existence of long disputed boundaries with China and Pakistan which entail the physical deployment of troops along borders. A detailed doctrinal review, entailing technology backed deployments along settled borders (IB) in the plains, while retaining "boots on the ground" to safeguard disputed borders with Pakistan and China in mountainous terrain, has been carried out by the authors in their paper "Informationised Warfare with Boots on Ground: A Concept for the Defence of India in the Continental Domain"[9]. An "India specific" model needs to be accepted and financially provisioned for.

---

[8] Op.Cit. Finance Commission. Pp 350-351. Paras 11.54 to 11.61.

[9] Delhi Policy Group Policy Paper Volume V, Issue 32, dated August 22, 2020. https://www.delhipolicygroup.org/publication/policy-papers/informationised-warfare-with-boots-on-ground-a-concept-for-the-defence-of-india-in-the-continental-domain.html

c. The Services prefer weapons and equipment of foreign origin. There is also a perception of the Services' preference for foreign weapon systems over indigenously developed systems, causing additional financial strain and long-term maintenance and repair problems. This is simply an unsubstantiated myth. The acquisition of foreign origin weapons and equipment is only resorted to when indigenous technology or manufacturing capability is not available. Furthermore, indigenous weapon systems, at least initially, are inherently more expensive (on account of cost amortisation) than similar systems acquired from established manufacturers who have both the technology IPR and economies of scales.

d. Armed forces' perspective plans are "bloated wish lists" which are not backed by any budgetary support. A suggested approach to addressing this has already been discussed above.

e. Periodic increases in pay, allowances and pensions, which impinges on resources available for capital acquisitions, modernisation and payment of committed liabilities.

In reconciling some of these issues, a concept of "**Core-defence" and "whole of defence"** needs to be considered. "**Core-defence"** should include efforts to determine the size, structures and capabilities of the armed forces for operations in multiple domains. Quite like the "committed liability" in the capital acquisitions, the "committed revenue liability" of pay, allowances and pensions should be accepted for the approved force structure. The modernisation and capital acquisition budgets should thereafter be allocated independently of this commitment. This would help end the perpetual debate of "revenue budgets" eating into the capital fund allocations. The "**whole of defence"** on the other hand could include the allocations for pensions and other expenditure on veterans' affairs. This would enable spelling out the obligations being met by the government towards the terms of engagement of erstwhile active soldiers (present-day veterans) and the social responsibility being fulfilled. Also, it would project a clearer picture of India's core defence allocations, without unduly alarming its neighbours.

Industry, Indigenisation and International Relations

The Indian Defence budget is watched closely, not only by the Services but also by indigenous and global industry. These allocations are deemed to be indicators for strengthening the defence capability; for the implementation of Atmanirbharta (self-reliance); a lifeline for the indigenous Defence industry, start-ups and innovators; and a resource for the periodic reinvigoration of close relations with strategic partners (who consider defence trade as integral to strategic ties). Even the recent Defence Acquisition Procedure (DAP-2020) endeavours to achieve all of the above. In August 2020, the government created a negative list that restricts the import of 101 weapon systems and equipment in a phased manner[10]. The list includes assault rifles, light machine guns, sniper rifles, bullet-proof jackets, ballistic helmets, ultralight howitzers, mini-UAVs, light combat aircraft, helicopters, short-range surface-to-air missiles, shipborne cruise missiles etc. The MOD also bifurcated the capital procurement budget for FY 2020-2021 between domestic and foreign purchases, earmarking Rs.52,000 crores (45% of the initially allocated Rs.1,13,734 Crore) for the domestic sector.

Indian Chief of Defence Staff General Bipin Rawat reviewing military preparedness in Eastern Ladakh on January 12, 2021. Source: Twitter/@NorthernComd_IA

While the intent is laudable, the implementation needs to be pragmatic. With an overriding emphasis on multi-domain capability building, the priority acquisitions would not always be from amongst the items included in the negative list. Thus a "sense of commitment to Atmanirbharta" towards domestic industry may not always converge with the operational needs of the armed forces. Meagre budget allocations should not be frittered away on achieving multiple (optical) aims at the expense of inadequate availability of cutting-edge defence needs. These aspects merit nuanced consideration.

The quantum of Defence budget allocations and the methodology adopted for capability development over the long run also impact strategic partnerships

[10] MoD's big push to Atmanirbhar Bharat initiative. Import embargo on 101 items beyond given timelines to boost indigenisation of defence production. Press Information Bureau. August 09, 2020. https://pib.gov.in/PressReleasePage.aspx?PRID=1644570

with friendly foreign countries. The Defence manufacturers in these countries look at the share of Indian defence market that may become available to them through "strategic reciprocity". Such acquisitions, planned on strategic considerations, also need to be factored in the budget planning.

Refining Methodology

Challenges for budgeting for Defence are not unique to India. Budget sequestrations have been adopted the world over in varying forms and defence budget allocations provide a barometer of the country's security policies and operational priorities. Refinement of defence budget planning is an ongoing process. Towards optimising the interplay between policy planning for force development and fiscal management, a detailed examination of the following may be helpful:

a. The practice of the UK Ministry of Defence of carrying out an "Integrated Security, Defence and Foreign Policy Review"'[11].
b. The system of the yearly passage of the National Defence Authorisation Act (NDAA), a US federal law specifying the annual budget and expenditures of the US Department of Defence, being followed since 1961[12].

A study of the NDAA suggests that the process gets initiated within the services about a year ahead of the President's budget request to the Congress, made in early February each year, for the fiscal year commencing October 01. It would be evident that for the services to make a meaningful budget projection and for the CDS and the DMA to carry out appropriate prioritisation (with an inbuilt cushion for slippages), the preparatory work must commence at least 18 months ahead of the financial year. In India's case this would mean that for the defence budget of FY 2023-24, the Services and MOD must commence work at least by October 2021. To be meaningful, this should be preceded by scenario building exercises, through net assessments, of the likely pattern of threat

[11] Ministry of Defence UK. The Defence Equipment Plan2019. February 27, 2020. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/868076/20200218_EP19_v1_1-O.PDF

[12] Defense Primer: The NDAA Process. Congressional Research service. January 06, 2021. https://fas.org/sgp/crs/natsec/IF10515.pdf

Montgomery. Monica. The NDAA process explained. Centre for Arms Control and Non-Proliferation. https://armscontrolcenter.org/the-ndaa-process-explained/

https://en.wikipedia.org/wiki/National_Defense_Authorization_Act#:~:text=3304%3B%20NDAA%202014)%20was%20a,signed%20the%20bill%20into%20law.

manifestation in the ensuing years, an aspect which bears importance when we face a two-front multiple domain threat scenario.

Conclusion

It is a commonly held belief within policymaking circles that India is allocating adequate financial resources for its defence and security needs, even in the face of competing priorities for health, socio-economic progress and infrastructure development. India is the third-largest military spender and the largest (or occasionally, the second largest) importer of global arms, in an endeavour to equip its armed forces with advanced weapons systems. Despite this, a perception persists that the armed forces are being inadequately armed and provisioned for. The answer lies in going into the nuances of force planning and refining the system of resource allocation to generate the desired operational capabilities. While much can be debated about the current defence budget, the need is to begin planning now for the next year and thereafter.

***

DPG

Delhi Policy Group
Core 5A, 1st Floor,
India Habitat Centre, Lodhi Road
New Delhi - 110003
India

www.delhipolicygroup.org