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IDSA COMMENT

What is choking the Indian defence budget?

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With the economic growth for the current fiscal likely to be below 5% and the next year's projection being equally modest, any fanciful increase in the allocation for defence for the coming year (2014-15) seems unlikely. The suspense will be over shortly when the interim budget for 2014-15 is presented next week.

Modest increase in allocation is, however, less worrisome than the fact that the defence allocation/expenditure has been steadily going down as a percentage of the Central Government Expenditure (CGE) - from 15.24 per cent in 2004-05 it came down to 12.23 per cent (based on the BE figures) in 2013-14.

The Services and the strategic community in India have long been complaining of inadequate allocation for defence. For the year 2013-14, the projection made by the Ministry of Defence and the actual allocation at the BE stage were as follows[1]:

Rupees in crore

Revenue	Projection	Allocation	Difference	%age
Army	93355.38	81119.20	12236.18	13.11
Navy	19164.69	12194.43	6970.26	36.37
Air Force	25922.64	18295.10	7627.54	29.42
DGOF	-273.13	-944.62	671.49	-245.85
R&D	7313.40	5552.57	1760.83	24.08
DGQA	788.05	714.73	73.32	9.30
Total	146271.03	116931.41	29339.62	20.06

Capital	Projection	Allocation	Difference	%age
Army	25528.08	17883.83	7644.25	29.94
Navy	33775.53	24149.03	9626.50	28.50
Air Force	64607.84	39208.84	25399.00	39.31
DGOF	973.40	435.96	537.44	55.21
R&D	9169.80	5057.60	4112.20	44.85
DGQA	15.53	5.45	10.08	64.91
Total	134070.18	86740.71	47329.47	35.30

[1] Standing Committee on Defence (2012-13), Fifteenth Lok Sabha, Twentieth Report on Demands for Grant for 2013-14, accessible at http://164.100.47.134/lsscommittee/Defence/15_Defence_20.pdf

The total allocation under revenue and capital segments works out to INR 2,03,672.12 crore as against the projection of INR 2,80,341.21 crore, leaving a yawning gap of INR 76,669.09 crore. This means that the MoD got just about 72.65 per cent of what it had asked for.

Though the allocation was evidently less than the projection, the difference between the two does not necessarily represent the extent of inadequacy as there is no uniform method of assessing the requirement and converting it into financial terms. There is no coordination among the services and other departments and the MoD itself is hardly involved in budget formulation or detailed scrutiny of the projections. Consequently, at times the projections are not quite accurate and realistic. This is one of the causes of underutilization under some heads and excess expenditure under others.

The problem of making realistic assessment is less acute in regard to the revenue budget. Most of the revenue expenditure - be it related to the pay and allowances, rations, clothing, stocking of spares, petrol, oil and lubricants, maintenance works, etc. - is linked to laid down scales, entitlements and authorizations. Therefore, greater and more efficient use of information and communication technology can throw up quite accurate budget estimates. Not that this is not happening at present but it is not as systematic as it needs to be. Also missing is the commonalty of approach and, more importantly, realistic planning.

Projecting a demand which cannot be met is as pointless as allocating budget that is barely sufficient to sustain the armed forces and other departments of the MoD. The persistent neglect of this aspect of defence management is taking its toll not only on the stock of ammunition held by the armed forces, notably the Army, but also on serviceability levels of the equipment, weapon systems and other platforms.

The unimaginative defence planning and budgeting have tranquilized the system into overlooking a clear and present danger in the context of the revenue budget - the rising expenditure on pay and allowances (P&A).

In BE 2013-14, P&A accounted for 61.75% of the revenue budget and 36.61% of the total defence budget. The actual proportion would be higher if one also takes into account the salary and wages which are embedded in the works budget. In the case of Army, P&A account for more than 70% of the total revenue budget of 2013-14.

Just before the implementation of the recommendations of the sixth Pay Commission (in 2008-09), P&A accounted for 46.16% of the revenue budget and 25.18% of the total budget. This has now stabilized around 60-62% of the revenue budget and more than 1/3rd of the total budget.

With the setting up of the 7th Pay Commission, the prospects of this expenditure witnessing another spurt cannot be ruled out. If the spurt is similar to what happened in the past, P&A could possibly account for more than 75% of the revenue budget and around 50% of the total defence budget, unless, of course, the outlays go up significantly.

What makes it a matter of serious concern is the fact that the brunt of this skewed budget has to be borne by the allocation for stores and equipment and, to some extent, maintenance works. In 2008-09, i.e. before the sixth Pay Commission, the share of stores & equipment was 34.62% in the revenue budget and 18.88% in the total budget. It came down to 18.94% and 10.87% respectively in 2013-14.

On the capital side, the problem has been less acute but it now seems to be going out of hand, especially in regard to the capital acquisitions, as the major chunk of the allocation is being garnered by the committed liabilities.

In 2008-09, out of a total capital acquisition budget of INR 30,000 crore, the committed liabilities accounted for 59.49% of the allocation. In 2012-13, this jumped to 91.64% and during the current fiscal, the committed liabilities are slated to consume 95.98% of the capital acquisition budget, leaving, what appears, to be an embarrassingly low tranche for new schemes.

While it is not entirely, or mainly, on account of paucity of funds that the new schemes have not been going through, the diminishing tranche for such schemes in the capital acquisition budget acquires significance because of the growing extent of the committed liabilities, which could choke almost the entire capital acquisition budget at some point of time in future.

The way the availability of funds to meet the committed liabilities in the coming years is assessed is unrealistic. The MoD does not probably even have an account of the committed liabilities for the coming years. There is a need to address this impending crisis, failing which the schism between defence budgets and inescapable needs would continue to widen.

While budgets would come and go, from a long term perspective, it is important to give serious thought to financial planning, which involves addressing issues like how the requirement is to be assessed, how the allocations are to be utilized, how the liabilities are to be managed, how the allocations are to be related to the outcomes, and so on.

If the plans continue to be made on the basis of unrealistic assumptions about the resources likely to be available for defence and little attention is paid to financial management in defence, we will forever remain mired in a simple equation – mismatch between projection and allocation.

Views expressed are of the author and do not necessarily reflect the views of the IDSA or of the Government of India.