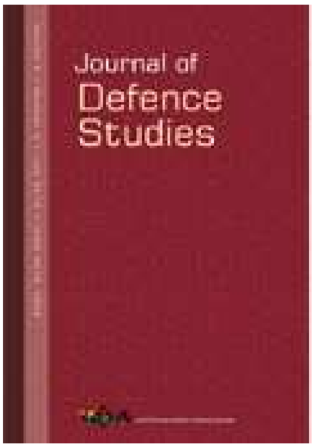

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Impact of the Recommendations of the Standing Committee on Defence (15th Lok Sabha) on the Defence Budget

*Amit Cowshish**

The examination of the detailed demands for grant (DDGs) of the Ministry of Defence (MoD) by the Standing Committee on Defence of the 14th Lok Sabha (2004–05 to 2008–09) and recommendations made by the committee had little impact on the country's defence budget. While the examination was generally perfunctory, the recommendations were either too general or too impractical to be implemented by MoD. This is the second of two articles that examines how the Standing Committee on Defence of the 15th Lok Sabha (2009–10 to 2013–14) followed the same pattern. Its examination was based on pre-conceived notions about the size of the defence budget and, similar to its predecessor, the recommendations were too general to make any impact on the trajectory of the defence budget.

The Standing Committee on Defence (hereafter the 'committee') of the 14th Lok Sabha, constituted after the general elections of 2004, which brought the United Progressive Alliance (UPA) to power, had largely focussed on issues and made recommendations that had little impact on the trajectory of the defence budget during the period 2004–09.[1]

The committee continuously bemoaned that the allocation of funds for defence was much lower than the requirement projected by the Ministry of Defence (MoD), without going into the accuracy of the

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projections, especially under the capital segment, and disregarding the fact that the capital budget was not getting fully utilized year after year. Theexhortation for higher allocation for defence did not lead tothe desired result as the defence budget continued to rise at a leisurely pace after the initial spurt in 2004–05. There was a steep rise in 2008–09 also, but that was primarily on account of implementation of the recommendations of the Sixth Central Pay Commission.

The year-on-year (YoY) increase in defence budget remained modest and the allocation actually kept coming down, both in terms of percentage of the total central government expenditure (CGE) and the gross domestic product (GDP), with the exception of 2008–09 when the allocation went up marginally in terms of percentage of the GDP (see Table 1).

There was a marginal change in the revenue-capital ratio (Table 1), but there is no evidence that it was a change for the better. In fact, the committee itself, at various places in its reports, commented on the impact of inadequate allocation under the revenue segment. In any case, underutilization of the capital acquisition budget, which constitutes more than two-thirds of the capital budget, negated any advantage that might have accrued from increased allocation for capital acquisition (see Table 2).

The recommendations made by the committee were either too general or impractical. The refrain that the gap between the projection and allocation should be bridged, and that the defence budget should be pegged at 3 per cent of the GDP, fell short of the specific recommendation as to how the requisite resources were to be raised. No non-lapsable fund for capital acquisition, as recommended by the committee, was created and the mechanism to expedite processing of capital acquisition proposals, involving the representatives of the Comptroller andAuditor General (C&AG), never came up.

Table 1 Defence Budget from 2004–05 to 2008–09

Year	*YoY Increase*	*Percentage of CGE*	*Percentage of GDP*	*Revenue–Capital Ratio*
2004–05	26.29	15.24	2.34	57:43
2005–06	6.19	15.91	2.18	59:41
2006–07	6.14	14.65	1.99	58:42
2007–08	7.23	12.86	1.84	56:44
2008–09	24.59	12.20	2.03	55:45

Source: Author's database.

Table 2 Utilization of Capital Acquisition Budget

(Rupees in crore[2])

Year	*Budget Estimate (BE)*	*Revised Estimate (RE)*	*Actual*	*BE to Actual*	*RE to Actual*
2004–05	26,840.05	27,255.94	27,208.57	–368.52	47.37
2005–06	26,933.41	26,185.28	25,490.53	1,442.88	694.75
2006–07	29,990.83	26,774.39	26,900.44	3,090.39	-126.05
2007–08	32,826.80	28,110.01	27,903.42	4,923.38	206.59
2008–09	37,482.77	30,614.64	30,000.42	7,482.35	614.22

Source: Author's database.

The trend discernible from the examination of MoD's detailed demands for grant by the committee during the period 2004–09 could be summarized as follows:

(a) Expressing concern over the gap between projection and allocation of funds, without analysing the accuracy of the projections and the impact of the shortfall in allocation.
(b) Expressing concern over under-utilization of the capital acquisition budget.
(c) Making repeated recommendation that more funds should be allocated for defence and that MoD should take steps to make sure that the funds, especially allocated for modernization of the armed forces, get fully utilized by streamlining the procedures and taking other appropriate measures.
(d) Making other recommendations, such as pegging the defence budget at 3 per cent of the GDP, setting up of a non-lapsable fund for capital acquisition and establishing a mechanism involving the representatives of MoD and C&AG to expedite processing of capital acquisition proposals.

As already pointed out, this had little impact on the course of the defence budget.

The Standing Committee on Defence (15th Lok Sabha) was reconstituted after the general elections held in 2009, which brought the UPA government back in power. The following analysis would show that the committee's examination of the defence budget for the years 2009–10 to 2013–14 followed the same trend as in the past.

Budget Estimates 2009–10[3]

The total requirement projected by MoD for the year 2009–10 was Rs 1,54,156.42 crore, against which the allocation made added up to Rs 1,41,703.00 crore. Thus, there was a gap of Rs 12,453.42 crore, which works out to approximately 8 per cent of the projection.

With reference to other parameters on which the adequacy of the defence budget is generally measured, the defence budget for 2009–10 did not fare too badly as compared with the previous year, as can be seen from Table 3.

Gap between Projection and Allocation

In keeping with the past trend, the starting point of the committee's examination of the defence budget for 2009–10 was the gap between projection and allocation, notwithstanding the fact that the MoD was apparently content with the growth in the defence budget and had taken the position that 'the co-relation of defence expenditure with GDP is just an indexation and has no bearing on defence expenditure'.[4] The committee did not buy this argument and went on to say that 'there are big challenges before the country and the declining share of defence as percentage of GDP as well as total Government expenditure are a matter of concern.' It also strongly recommended that 'adequate outlay should be provided for the defence sector'.[5]

The committee thus ignored not only MoD's assessment regarding adequacy of the allocation, but also the fact that the shortfall had been less than 8 per cent of the projection. It also overlooked the fact that in terms of YoY increase, as well as the percentage of CGE and GDP, the allocation for 2009–10 compared rather favourably with the previous year's allocation (see Table 3).

Underutilization of the Capital Budget

The revenue budget for 2008–09 had to be increased from Rs 57,593 crore to Rs 73,600 crore because of implementation of the recommendations

Table 3 Defence Budget for 2008–09 and 2009–10

Year	*YoY Increase*	*Percentage of CGE*	*Percentage of GDP*	*Revenue–Capital Ratio*
2008–09	24.59	12.20	2.03	55:45
2009–10	24.13	13.84	2.20	61:39

Source: Author's database.

of the Sixth Central Pay Commission. But the capital budget was reduced by Rs 7,007 crore. As in the past, the committee took serious note of this and commented as follows:

> ... The Committee are concerned to note that the outlay was reduced keeping in view the pace of expenditure at that time. The representative during course of oral evidence has acknowledged that there were slippages in delivery schedules due to certain contracts not getting finalised. The Committee are seriously concerned to note the incapacity of the Ministry to utilize the outlay provided under the Capital section which is primarily for the modernization of the Services. The Committee feel that apparently there are problems in execution of projects due to procedural bottlenecks. Therefore, the various shortcomings need to be identified and the corrective actions taken, so that the trend to reduce the outlay at RE stage does not repeat during the current year due to the inefficiency of the Ministry. The Committee would also like to recommend that the capital revenue ratio should be correctedso that more allocation is provided on the capital side. While recommending for higher outlay under the capital side, certainly the Committee expect the Ministry to increase the capacity to utilize the outlay since this is the area where no compromise can be made. The desired action on the suggested line should be taken and the Committee be apprised accordingly.[6]

It would be evident from the foregoing extract that the committee generally placed the onus of increasing the defence budget on the MoD itself.

Recommendations of the Committee

As in the past, the committee made several observations which were not based on any analysis/examination of facts and made recommendations which, at best, were routine. For example, the committee's observation that 'apparently there are problems in execution of projects due to procedural bottlenecks' had no basis, especially in view of the following observation:[7]

> ... the Ministry has introduced Procurement Policy since 2002 and the policy is being updated periodically, (but) the aforesaid findings indicate that still a lot needs to be done to streamline the procurement procedures. The Committee strongly recommend the Ministry to take all the desired actions to streamline the procurement procedures. Besides, the declining trend of percentage allocation for acquisition out of the capital outlay should be reversed. More outlay needs to be provided for the new projects.

The committee did not recommend any specific measures to be taken to remove the bottlenecks.

Similarly, the comment that 'various shortcomings need to be identified and the corrective actions taken, so that the trend to reduce the outlay at RE stage does not repeat during the current year due to the inefficiency of the Ministry', was more of a reprimand than a specific direction to MoD. So was the comment that 'the capital revenue ratio should be corrected so that more allocation is provided on the capital side.' The committee apparently assumed, without any analysis, that there was an ideal ratio to be achieved, and once that is done more funds will automatically be available for capital spending. The committee did not take into account the fact that increased capital spending also entails increased revenue spending on purchase of ammunition and spare parts, maintenance of the equipment, etc.

The committee also expected 'the Ministry to increase the capacity to utilize the outlay since this is the area where no compromise can be made' and directed MoD that 'the desired action on the suggested line should be taken and the Committee (should) be apprised accordingly.' Utilization of budget is not dependent on the MoD's 'capacity to utilize the outlay' but on a number of factors thatmay not necessarily be within MoD's control.

Some Other Miscellaneous Recommendations

Two other important recommendations made by the committee were that MoD should follow zero-based budgeting (ZBB) and prepare an outcome budget (OB). This was to be a continuous refrain throughout the period under review.

MoD had told the committee that it follows the principles of ZBB while formulating the five-year and annual plans, but this did not satisfy the committee which recommended as follows:

> Therefore, the Committee recommend that for all on-going schemes, Ministry of Defence should follow the principles of Zero Based Budgeting in time bound manner in the management of defence, as recommended by Group of Ministers. By following Zero Based Budgeting the Ministry will be able to comprehensively review its requirement of funds for different ongoing schemes and other activities.[8]

This recommendation was made without subjecting the exercise, that MoD claimed it was carrying out while formulating the plans, to any scrutiny and pointing out in specific terms how it fell short of what the committee had in mind.

As for OB, the committee's recommendation was as follows:

> To begin with the Outcome Budget for the selected activities, viz., Ordnance Factories, PSUs, Naval Dockyards and depots and some other selected establishments as decided may be prepared on pilot basis followed by the comprehensive Outcome Budget. The Committee hope that the Outcome Budget of the Ministry would be presented to Parliament for the year 2010-11.[9]

The committee was dismissive of the fact that MoD is exempted from preparing OB[10] and had expressed conceptual and methodological difficulties in preparing it.[11] The committee peremptorily brushed aside these concerns and just reiterated the suggestion made in the past by the Standing Committee of the 14th Lok Sabha.

Action Taken by MoD on the Recommendations

Given the nature of observations and recommendations, it is not surprising that nothing much came out of it. The main observations made by the committee after examining the action by MoD on the recommendations made by it in its first report are as follows:[12]

(a) *Capital Outlay*: Noting that MoD had not commented on the committee's recommendation to increase its capacity to utilize the capital outlay, the committee again emphasized 'that the Ministry has to increase its capacity to utilize the outlay under the capital head to get the adequate allocation under the capital section and also to ensure that the outlay earmarked at BE stage is not reduced at RE stage. This would automatically result into correction in the existing revenue to capital ratio of the Ministry. ..'[13] As mentioned earlier, the utilization of budget does not depend entirely on MoD's 'capacity' to spend the money, whichever way the term 'capacity' is defined. To say that it would automatically result in 'correction' of the revenue–capital ratio also presupposes that there is a universally recognized standard of revenue–capital ratio, which is not the case. It is not surprising, therefore, that no concrete action could be taken by the MoD.

(b) *Capital Acquisition Expenditure*: MoD had told the committee that it had revised the capital acquisition procedures as recently as 2008.The committee took note of this but made the hackneyed comment that there was an urgent need to further streamline the procurement procedures. It also again emphasized that MoD should '… look into the matter and take the desired action to streamline the procurement procedures further' and that '… as recommended in Sixth Report of the Committee, the Committee would like to emphasize that urgent steps should be taken by the Ministry to ensure transparency and accountability in defence acquisition'.[14] These observations lacked specificity.

(c) *Outcome Budget*: The committee 'deplored' the way the presentation of the OB was 'being delayed by the Department without taking any concrete action as (had) consistently been recommended by the Committee and the Expenditure Review Committee'. The committee further asked MoD to ensure that OB is presented to the parliament in respect of the organizations identified by MoD, followed by a comprehensive budget in the coming years.[15] The committee obviously had little patience for MoD's plea that there were conceptual and methodological problems in preparing the OB. Instead of examining this, the committee took the easier route of berating MoD and just asking it to prepare and present the OB to the Parliament.

Budget Estimates 2010–11[16]

Against the projection for Rs 1,72,593.70 crore, the allocation for 2010–11was Rs 1,47,344 crore, leaving a gap of Rs 25,249.70 crore. The allocation under the capital andrevenue segments was Rs 60,000 and Rs 87,344, respectively.

After two years of double-digit growth in defence budget, mainly on account of implementation of the recommendations of the Sixth Central Pay Commission, the growth came down to a single digit, as can be seen from Table 4, which also shows the defence budget in terms of the percentage of CGE and GDP as well as in terms of the revenue–capital ratio.

Table 4 Defence Budget from 2008–09 to 2010–11

Year	*YoY Increase*	*Percentage of CGE*	*Percentage of GDP*	*Revenue–Capital Ratio*
2008–09	24.59	12.20	2.03	55:45
2009–10	24.13	13.84	2.20	61:39
2010–11	8.70	12.87	2.01	59:41

Source: Author's database.

Gap between Projection and Allocation

The committee reproduced in its report the following response from MoD regarding the impact of the gap between projection and allocation:

> Insofar as the revenue budget is concerned, after providing for obligatory payments on pay & allowances, the remaining allocation is made for purchase of ordnance and other stores, transportation, revenue works and maintenance, as also miscellaneous expenditure, etc. All of these are impacted by reduced allocation. In addition, there are other activities and schemes, such as new raisings, Ex-servicemen Health Scheme, etc. that are likely to be impacted.
>
> As regards capital budget, reduced allocation is likely to impact acquisition of land and capital works to varying extent. Some of the modernization schemes may also have to be deferred, though it is difficult to identify such schemes at this stage as reprioritization of acquisition schemes is a continuous process.[17]

This was by far the most candid explanation given by MoD to the committee on the impact of shortfall in allocations. The committee took note of this but could not come up with anything different from what it had been saying in the past. This will be evident from the following:

> ... In view of this the Committee strongly recommend that the allocations made by the Ministry of Finance should be commensurate to the projections made by the Ministry of Defence. As such the additionality sought by the Ministry for the year 2010–11 should be made available to the Ministry of Defence so that the modernization plan of the services do not suffer for want of resources.[18]

Underutilization of the Capital Budget

There had been a reduction of Rs 7,007 crore under the capital segment of the budget for 2009–10. The explanation given by MoD, as reproduced in the committee's report, was as follows:

> The Ministry of Finance reduced the allocation at the RE stage in January 2010 based on its own assessment of what the Ministry of Defence would be able to spend by the end of the financial year. This reduction would necessitate shifting of some schemes to the FY 2010–11.[19]

The committee did not enquire which schemes had to be shifted to 2010–11 and, instead, took the easy way out by making the following recommendation:

> The Committee strongly recommend that the allocation provided at Budget Estimates stage should not be reduced at RE stage particularly under the capital section. While recommending for not imposing any cut at RE stage, the committee would also like the Ministry to ensure utilization of resources in a phased manner during the year so that the Ministry can present their case effectively at the Revised Estimate Stage to avoid substantial reduction of outlay.[20]

Budget management is a dynamic process. It goes without saying that there cannot be any reduction at the RE stage if MoD is able to demonstrate to the Ministry of Finance (MoF) that it will be able to utilize the entire allocation by the end of the financial year. But the expenditure is dependent on contractual milestones being reached and new contracts being signed during the year as envisaged. There are slippages in both contractual milestones being reached and new contracts being signed as per the expectations. Most of the factors that account for this are beyond MoD's control. Therefore, utilization of capital budget, especially the capital acquisition budget, in a 'phased manner' cannot be ensured by MoD.

Recommendations of the Committee

The committee made the customary recommendation about OB by saying that in addition to National Cadet Corps (NCC) and MAP (for which MoD said the OB was being prepared), 'some other areas like ordnance factories, PSUs, Naval Dockyards and depots and some other selected establishments should also be identified and the Outcome Budget 2011-12, presented to the Parliament for the year on a pilot basis followed by the comprehensive Outcome Budget in the coming years.'[21]

Recommending that OB be prepared for 'some other areas' also, even before examining the quality and utility of the OB being prepared for the already identified organizations,indicates the committee's emphasis on form rather than substance.

As regards ZBB, MoD had taken up the matter with MoF in pursuance of the earlier recommendation of the committee, only to be told that 'the Zero Based Budgeting exercise is being done by the Planning Commission.'[22] Accordingly, MoD informed the committee that since defence budget was 'non-plan', it is not subject to scrutiny by the Planning Commission, in spite of which the budgetary projections were being finalized after a rigorous process of scrutiny at various levels.[23]

The committee was, however, not impressed. It berated MoD by saying:

> The Committee observe that the Ministry of Defence do not feel the need to follow Zero Based Budgeting a toll for defence planning. Earlier, the Committee were informed that due to complexity and size of the Defence Services, it was not possible. Now to the surprise of the Committee, the Ministry has changed its stand. The Committee have now been informed that the entire Defence Budget being non plan budget is not subject to any scrutiny by the Planning Commission … As such the Committee are not inclined to accept the plea of the Ministry that Zero Based Budgeting exercise is not necessary since the allocations are under the non-plan budget. The Committee strongly emphasize that the Ministry should adhere to Zero Based Budgeting in future.[24]

The committee's observation overlooked the fact, as pointed out by MoD after further examination of the matter following the committee's earlier recommendation, that ZBB is a tool used by the Planning Commission and, therefore, defence budget could not be subjected to ZBB in the same way as the developmental schemes were subjected to it by the Planning Commission. It was not a new excuse by MoD but that is how it was inexplicably perceived by the committee.

Action Taken by MoD on the Recommendations

The response of the committee after examining the action taken by MoD on the recommendations made by it in its sixth report was as follows:[25]

(a) It took note of the fact that its recommendation that allocation should 'commensurate' with the projections had been brought to the notice of MoF and that MoD had sought additional allocation for 2010–11. The committee made no further observation on this.[26]

(b) The MoD intimated the committee that in addition to the organizations already identified (NCC and MAP), it had been decided to attempt the OB of Naval Dockyards also, further adding that 'it may not be appropriate to place the Outcome Budgets in the public domain or present them to the Parliament till sufficient experience is gained to ensure that quality and contents of the Outcome Budgets have reached an acceptable level of excellence'.[27] The committee did not accept this argument and once again berated MoD by saying 'Outcome Budget of various Ministries/Departments of the Union Government are being prepared and laid on the table of the House as per the instructions of the Ministry of Finance/Planning Commission. As such preparation of Outcome Budget by the Ministry of Defence is not a new thing [*sic*].... The Committee, therefore, while reiterating their earlier recommendation would like the Ministry to start the practice of presenting the Outcome Budget at least for the selected items from the year 2011–12 onwards.'[28] It is another matter that MoD is exempted by MoF from preparing OB and the Planning Commission guidelines are not applicable to MoD.

(c) Strong refutation by the MoD of the committee's observations regarding ZBB and the MoD's general assurance that instructions had been issued 'to the Services and other Departments that while preparing the RE 2010–11 and BE 2011–12, the on-going schemes (both under Revenue and Capital) should be subjected to scrutiny based on the concept of zero-based budgeting' led the committee to decide not to pursue the matter further.[29]

Budget Estimates 2011–12[30]

The requirement projected by MoD for 2011–12 and the allocation made for the year were Rs 2,15,015.08 crore and Rs 1,64,415.49 crore respectively.[31] Though the YoY increase in the defence budget for 2011–12 was more than the YoY increase of the previous year's budget, the shortfall in allocation was a staggering Rs 50,600 crore, accounting for 23.53 per cent of the allocation. In percentage terms, the defence budget once again fell below 2 per cent of the GDP (see Table 5).

Table 5 Defence Budget from 2009–10 to 2011–12

Year	*YoY Increase*	*Percentage of CGE*	*Percentage of GDP*	*Revenue–Capital Ratio*
2009–10	24.13	13.84	2.20	61:39
2010–11	8.70	12.87	2.01	59:41
2011–12	10.90	12.96	1.92	58:42

Source: Author's database.

Gap between Projection and Allocation

The shortfall of approximately 24 per cent between projection and allocation was quite unprecedented. The committee was informed by MoD that it '… would affect prioritization of modernization programme including acquisition of land and capital works to varying extent.'[32] However, the committee's response was on the same lines as in the earlier years. It recommended that '... the allocations as projected should be provided to the Ministry of Defence particularly when allocations made during the year 2010–11 could be utilized fully by the Ministry.' The Committee advised MoD

> to take up the matter at the highest level at the Ministry of Finance, so that projected allocations are provided to the three services and Organisations to enable them to meet the set targets under their modernization programmes including acquisition of land and capital works.[33]

It is not as MoD had been getting lesser funds in the past because it never made a strong pitch for higher allocation or because it never took up the matter with MoF at the highest level. The committee's recommendation that MoD should be allocated whatever funds it asks for had had no impact in the past. Reiterating that MoD should take up the matter with MoF at the highest level was hardly going to—and, in the event, did not—make any difference.

Utilization of the Capital Budget

The capital budget for 2010–11 had been increased from Rs 60,000 crore at the BE stage to Rs 60,833.26 crore at the RE stage. At Rs 62,056 crore, the actual utilization exceeded even the RE. The capital acquisition budget, which is a sub-set of the capital budget, also shows a similar trend. Against initial allocation of Rs 43,799.21 crore at the BE stage, the RE was increased to Rs 44,440.63 crore and the actual expenditure was Rs 45,686.77 crore.

The committee took note of this but, nevertheless, made the familiar recommendation that 'adequate allocation should be provided particularly under the capital section so as to ensure that more and more new schemes are added every year besides meeting the committed liabilities.'[34] This recommendation was rather infructuous in view of the fact that the figures for the committed liabilities and the new schemes, as well as the explanation given by the MoD for higher allocation for committed liabilities as compared tothe allocation for the new schemes, did not indicate that the MoD had been facing paucity of funds for new schemes.[35]

Recommendations of the Committee

The committee did not take kindly to MoD's detailed explanation regarding the difficulty in preparing OBs.[36] It was pointed out by MoD that all the eights demands for grant presented by it to the Parliament are exempted from the purview of outcome budgeting and that:

> While there is great merit in adopting outcome budgeting, there are problems related to security of information, identification of outcomes in identifiable and measurable terms, among others, which necessitate further refining of these documents[37] particularly in the light of the feedback received during the workshop on Outcome & Zero Based Budgeting, organised under the aegis of (the) Institute for Defence Studies and Analyses in December 2010.[38]

Rejecting this summarily, the committee said that it clearly depicted unwillingness on part of MoD to prepare OB and reiterated its recommendation that MoD should 'make (a) positive attempt to prepare the Outcome Budget'.

Action Taken by MoD on the Recommendations

The main observations made by the committee after examining the action by MoD on the recommendations made by it in its twelfth report are as follows:[39]

(a) *Overall allocation*: The committee took note of the fact that the MoD has projected additional requirement of funds at the first supplementary stage and had promised to make suitable projections for RE 2011–12 and BE 2012–13.[40] The committee considered this as MoD's acceptance of its recommendation that allocation should be as per projection. Implicit in this was the committee's somewhat naive belief that allocations in the subsequent years were also going to be as per the projection.

(b) *Inadequate allocation for new schemes*: MoD told the committee that the requirement of funds for modernization, which includes committed liabilities and new schemes, is projected to MoF as per the perspective plan, but the actual allocation to the services depends on the overall allocation made by MoF to MoD.

The committee found the reply to be 'too general' which did 'not throw any light upon the intent of the recommendation'. Therefore, the committee asked MoD to furnish details of the new projects thathad been added to the perspective plan and the projections made for the committed liabilities vis-à-vis the new schemes. The final recommendation that 'all out efforts (should) be made to ensure that the release of outlays from the Ministry of Finance is in accordance with the projections made in this regard' was quite anti-climactic.[41] Obviously the committee had no clue as to how this was going to be ensured and what specific efforts were required to be made by MoD.

(c) *Outcome Budget*: The committee observed that the OB documents for the year 2011–12 had been prepared by the identified organizations—DGMAP, DG NCC and Naval Dockyards—and the documents were under examination by the concerned wings in the Ministry. And then it went on to add that it failed to 'understand the relevance of preparation of Outcome Budget 2011-12 which pertains to the year which is going to close on 31 March 2012.' Finally, the committee was back to its familiar refrain of 'deploring the attitude of the Ministry in this regard' and reiterating that MoD should prepare the OB and place it before the Parliament along with the demands for grant for 2012–13.'[42]

Budget Estimates 2012–13[43]

The total allocation for 2012–13 was Rs 1,93,407.29 crore, out of which Rs 1,13,828.66 crore was for revenue expenditure and the balance amount of Rs 79,578.63 crore was for capital expenditure. The picture that emerges by piecing together the information contained in the committee's report[44] is that MoD had projected the demand of Rs 1,26,939.92 crore for revenue expenditure. The shortfall in allocation for revenue expenditure was 10.33 per cent of the projection.

The total requirement projected for capital expenditure is not clear from the report as it does not capture the requirement projected by the three services on account of other-than-capital-acquisition segment of the capital budget. But whatever information is available in the report indicates that the total allocation would certainly have been far below the projection.

Table 6 Defence Budget from 2010–11 to 2012–13

Year	*YoY Increase*	*Percentage of CGE*	*Percentage of GDP*	*Revenue–Capital Ratio*
2010–11	8.70	12.87	2.01	59:41
2011–12	10.90	12.96	1.92	58:42
2012–13	6.36	12.97	1.90	59:41

Source: Author's database.

Going by other parameters, the defence budget for 2012–13 cannot be said to be significantly different from the previous year's budget (see Table 6).

Gap between Projection and Allocation

After a laboured analysis of the defence budget, the committee strongly recommended 'that the requisite allocations should be made available to the Ministry of Defence for their different programmes. Besides, the Ministry of Defence on their part should also build capacities to utilize the allocated resources.'[45] Similar recommendations in the past had had little impact.

Underutilization of the Capital Budget

There had been excess expenditure under the capital segment in 2010–11, but 2011–12 again witnessed marginal underutilization of the capital budget. The committee did not take serious note of this and, instead, concentrated on what it considered to be inadequate allocation for new schemes, as would be evident from the following:

> ... The Committee express grave concern on allocating the meager [*sic*] outlay for new schemes and would like the Ministry to clarify the position in this regard. Besides, since the allocations for the Services are the immediate strategic requirement, the requisite allocations to the Ministry of Defence for the Capital segment should be made available so that the proposed acquisitions of the Services do not suffer. Moreover besides meeting the committed liabilities adequate outlay should be allocated for the New Schemes so as to enable the Services to bridge the gaps between the required and the existing capabilities. The Committee strongly recommend that their concerns in this regard should adequately be conveyed to the Ministry of Finance and the Cabinet Secretary.[46]

Other Recommendations

The OB continued to be the favourite hobbyhorse of the committee. The MoD had informed the committee that OB 2012–13 for the identified organizations was ready in time but 'upon examination it was felt that the same needs to be refined further'. The committee said this was just to avoid parliamentary and public scrutiny and 'not only that, the schemes are not covered by ZBB exercise being done by Planning Commission because the whole defence budget is non-plan and not subject to scrutiny by the Planning Commission.' So, the committee again reiterated the recommendation that it 'would like the Ministry to prepare Outcome Budget at least from the year 2013-14 onwards' and that MoD 'should explain in details the rationale of allocating all the outlays of the Ministry of Defence under the non-Plan segment.' The committee warned MoD that 'concrete result oriented measures in this regard should be taken and the committee apprised accordingly.'[47]

The committee thus added a new dimension to the discourse on outcome budgeting by seeking the rationale for the defence budget being a part of the non-plan segment of the union budget without examining the issue in any detail. The observation of the committee created the impression that there was something fundamentally wrong in the defence budget not being a part of the 'plan' budget.

Action Taken by MoD on the Recommendations

The main observations made by the committee after examining the action by MoD on the recommendations made by it in its fifteenth report are as follows:[48]

(a) *General budget*: MoD had informed the committee that it had been 'making all efforts to ensure that adequate funds are made available by the Ministry of Finance to meet the requirement of the Defence Services', but the committee responded by saying that MoD had not 'spelt out explicitly as to what efforts it is making or whether any concrete action plan has been put in place for the increase in allocations for the purpose in the future.' Therefore, the committee reiterated the recommendation that 'keeping in view [the] trend of military expenditure of [the] neighbouring countries, India should also expand the size of allocations it made to Defence Budget so that Indian forces are fully equipped with modern weaponry.'[49] It is difficult to visualize what 'concrete action plan' could MoD put in place to increase the allocation, considering that itdoes not have the constitutional remit to generate the resource it requires.

(b) *Revenue–capital ratio*: The committee reprimanded MoD for not showing 'any commitment to increase the capital ratio in comparison to revenue for the forces' and reiterated its 'earlier recommendation to increase outlay, particularly capital outlay to the forces so that procurement of equipment, aircraft, etc., do[es] not suffer.'[50] As in the case of increasing the allocation for defence, it is difficult to infer from the committee's recommendations as to how could the MoD increase the revenue–capital ratio on its own, considering that fixing the budgetary ceilings for revenue and capital expenditure falls within MoF's jurisdiction.

(c) *Inadequate allocation for new schemes*: The committee had asked MoD in the earlier report that 'the concerns in this regard should adequately be conveyed to the Ministry of Finance and [the] Cabinet Secretary'. MoD reported back to the committee that the concerns of the latterhad been conveyed to the cabinet secretary as also to the department of expenditure. But this did not satisfy the committee which observed as follows:

> 14. After gleaning through the reply of the Ministry, the Committee feel that their recommendation has not adequately been dealt with. The reply furnished by the Ministry is cryptic and does not reveal the details. Moreover it appears to be a casual reply. Had the Ministry been serious on the issue, it could have provided the details of the contents of letters sent to the Cabinet Secretary and the Secretary, Department of Expenditure. The Committee would like to know from the Ministry exactly what were the contents of the correspondence undertaken with the Cabinet Secretary and the Secretary, Department of Expenditure, Ministry of Finance along with the dates of conveyance. They would also like to know the details of the exercise undertaken by the Ministry while finalizing the proposals for the year 2013–14. The Committee would like to have the segregation of the moneys earmarked for the new schemes. It goes without saying that the committed liabilities also include the recurring expenditure.[51]

This was, by far, the most vacuous comment as it amounted to doubting not only MoD's ability to, but also its sincerity in, conveying the committee's concerns to the Cabinet Secretary and

MoF, and believing that the outcome of the entire effort in terms of higher allocation depended on how the matter was conveyed by MoD to MoF.

(d) *Outcome Budget*: MoD had intimated the committee that OB had been prepared for 2012–13 for Naval Dockyards, DG NCC and DG MAP; that efforts were being made to identify more organizations to be brought under the ambit of OB; and that it was proposed to place OB of NCC and MAP before the parliament for the financial year 2013–14. This, however, did not satisfy the committee, which moved the goalpost for MoD by saying:

> ... The Committee are concerned to note that out of the total outreach of the organisation under the Ministry of Defence, only three organisations have prepared the outcome budget documents. As such they would like to know whether the outcome budgets for NCC, MAP and Naval Dockyards have been placed before he Parliament or not. They would also like that all the organisations within the Ministry should commence preparation of outcome budget document and lay them in the Parliament at the earliest available opportunity.[52]

Budget Estimates 2013–14[53]

For the year 2013–14, MoD had projected the requirement of Rs 2,80,341.21 crore, against which the amount allocated was Rs 2,03,672.12 crore (Rs 1,16,931.41 crore for revenue expenditure and Rs 86,740.71 crore for capital expenditure), thus leaving a huge gap of Rs 76,669.09 crore. This worked out to 27.35 per cent of the projection, surpassing the previous high of 23.53 per cent in 2011–12. Going by the information available in the report, the shortfall under the revenue and the capital segments was 20.06 per cent and 35.30 per cent, respectively.[54]

Though the budget was increased by 11.95 per cent over the previous year's BE, in terms of percentage of GDP it was below 2 per cent for the third consecutive year (see Table 7).

Gap between Projection and Allocation

While MoD told the committee that the defence allocation depends on the availability of resources, but the analysis made by the committee led it to conclude that the growth of defence budget for 2013–14 had been negative. Consequently, it made the following observation:

Table 7 Defence Budget from 2011–12 to 2013–14

Year	*YoY Increase*	*Percentage of CGE*	*Percentage of GDP*	*Revenue–Capital Ratio*
2011–12	10.90	12.96	1.92	58:42
2012–13	6.36	12.97	1.90	59:41
2013–14	11.95	12.23	1.79	57:43

> 3. The Committee are surprised over the downward movement of the Defence budget, therefore, the Committee desire that the Ministry of Defence should be given priority in allocation of desired budget and more allocations should be made to the Services at the stage of Supplementary Demands for Grant.[55]

On the huge difference between projection and allocation, the committee made the following observations:

> 4. ...Therefore, allocating less than what the Services have projected would have catastrophic effect on revenue as well as capital expenditure which is not a healthy sign for the Services of a developing nation like India. Therefore, the Committee desire that the Ministry should impress upon the Ministry of Finance to allocate entire amount as per the requirement of the Services otherwise the Services will have to reprioritize their activities, which may lead to cutting of expenditure on essential items.[56]

Underutilization of the Capital Budget

Taking note of the utilization of the capital budget only to the extent of 76.24 per cent till the end of February 2013 and expressing concern at how MoD would spend the remaining Rs 42,420.83 crore in just one month before the end of the financial year, the committee advised MoD to 'avoid such proclivity of casual approach towards allocations' and to avoid huge spending in the last months as 'it depicts utter mismanagement of budget'. The committee asked MoD to 'spread its spending so as to ensure there remains no huge unspent amount at the end of the year'.[57] This was in keeping with the didactic tone of the recommendations made by the committee in the past, which had, however, been of little avail. The MoD ended up with underutilizing of the capital budget for 2012–13 to the extent of Rs 9,079.63 crore.

On the issue of larger share of the committed liabilities compared with the allocation for new schemes, the committee observed as follows:

> 5. ... The Committee are of the view that allocating very paltry sum to the new schemes will jeopardize the modernization programme of the Forces. They therefore, recommend that adequate allocations should be made under this Head so that the Services could bridge the space created between required and existing capabilities to make the country potent power in the region.[58]

The committee's recommendation did not take into account the fact that the allocations are determined by MoF keeping in view the overall finances of the union. While advocating that there should be higher allocation for new schemes, the committee did not, in any of its reports, analyse whether in any given year any new scheme had to be put on hold because of inadequate allocation.

Action Taken by MoD on the Recommendations

The committee did not submit any action-taken report before completing its term in May 2014.

Conclusion

During the entire period from 2009–10 to 2013–14, the YoY increase fluctuated from 24.13 per cent in 2009–10 (on account of implementation of the recommendations of the sixth central pay commission) to 6.36 per cent in 2012–13. The allocation was always less than the projection. There was underutilization of the revenue budget only in 2012–13, but the capital budget was underutilized every year, with the exception of 2010–11. In the last two years alone (2012–13 and 2013–14), the capital budget was underutilized to the extent of Rs 16,695.58 crore.

Persistent nagging by the committee, however, did make MoD present the OB for 2013–14 for NCC and MAP to Parliament.[59] The committee evidently viewed preparation of the OB as an end in itself and as a panacea for problems besetting defence budget that required to be set right. The fact remains that for several years MoD persisted with the stand that there were problems in preparing an OB for a vast organization like defence, whose only intended outcome is defence preparedness which cannot be easily quantified or measured. Thus, there is a real danger of the entire exercise of making OBs getting reduced to a mere formality.

As was the case with the committee of the 14th Lok Sabha, the recommendations of the committee of the 15th Lok Sabha were also very general. These recommendations were based on the assumption that (a) the projections made by MoD are always accurate and justified;

(b) MoF can, but does not, allocate full amount as projected by MoD; (c) the problem is exacerbated by MoD's inability to put across its case forcefully to MoF; (d) underutilization of capital budget is because of reasons fully attributable to MoD; and, (e) but for chastising by the committee, MoD would remain impervious to the impact of budgetary constraints on defence preparedness.

In essence, the committee's examination of the demands for grant, as well as its recommendations, was superficial. Like its predecessor, the Standing Committee on Defence of the 15th Lok Sabha also ended its term without making much impact on the trajectory of the defence budget.

Notes

1. For a detailed account, see Amit Cowshish, 'Impact of the Recommendations of the Standing Committee on Defence (14th Lok Sabha) on the Defence Budget', *Journal of Defence Studies*, Vol. 8, No. 4, October–December 2014, pp. 7–26.
2. All figures are shown in Indian Rupee (INR) in crore (1 crore is equal to 10 million).
3. Standing Committee on Defence (15th Lok Sabha), 'First Report', Lok Sabha Secretariat, December 2009.
4. Ibid., p. 70.
5. Ibid., p. 70.
6. Ibid., p. 72.
7. Ibid., p. 73.
8. Ibid., p. 77.
9. Ibid., p. 74.
10. Ministry of Finance Office Memorandum No. 2(1)Pers/E.Coord/OB/2005 dated 30 November 2010.
11. Ibid., p. 74.
12. Standing Committee on Defence (15th Lok Sabha), 'Seventh Report', Lok Sabha Secretariat, May 2010.
13. Ibid., p. 6.
14. Ibid., p. 8.
15. Ibid., p. 10.
16. Standing Committee on Defence (15th Lok Sabha), 'Sixth Report', Lok Sabha Secretariat, April 2010.
17. Ibid., p. 6.
18. Ibid., p. 71.

19. Ibid., p. 10.
20. Ibid., p. 68.
21. Ibid., p. 72.
22. Standing Committee on Defence (15th Lok Sabha), 'Seventh Report', Lok Sabha Secretariat, May 2010, p. 15.
23. Ibid., p. 15.
24. Standing Committee on Defence (15th Lok Sabha), 'Sixth Report', Lok Sabha Secretariat, April 2010, p. 73.
25. Standing Committee on Defence (15th Lok Sabha), 'Ninth Report', Lok Sabha Secretariat, December 2010.
26. Ibid., pp. 68–69.
27. Ibid., pp. 53–54.
28. Ibid., p. 6.
29. Ibid., p. 45.
30. Standing Committee on Defence (15th Lok Sabha), 'Twelfth Report', Lok Sabha Secretariat, August 2011.
31. Ibid., pp. 8–9.
32. Ibid., p. 75.
33. Ibid., pp. 75–76.
34. Ibid., p. 76.
35. Ibid., pp. 75–76.
36. Ibid., pp. 19–20.
37. The reference was to the outcome budgets prepared by MoD for 2010–11, for NCC, MAP and Naval dockyards, but not placed before the parliament.
38. Ibid., p. 20.
39. Standing Committee on Defence (15th Lok Sabha), 'Fourteenth Report', Lok Sabha Secretariat, March 2012.
40. Ibid., p. 34.
41. Ibid., pp. 3–4.
42. Ibid., pp. 6–7.
43. Standing Committee on Defence (15th Lok Sabha), 'Fifteenth Report', Lok Sabha Secretariat, April 2012.
44. Ibid., pp. 8–9.
45. Ibid., pp. 81–83.
46. Ibid., p. 84.
47. Ibid., pp. 85–86.
48. Standing Committee on Defence (15th Lok Sabha), 'Nineteenth Report', Lok Sabha Secretariat, April 2013.

49. Ibid., pp. 3–4.
50. Ibid., p. 5.
51. Ibid., p. 6.
52. Ibid., pp. 7–8.
53. Standing Committee on Defence (15th Lok Sabha), 'Twentieth Report', Lok Sabha Secretariat, April 2013.
54. Ibid., pp. 5–7.
55. Ibid., pp. 91–92.
56. Ibid., p. 93.
57. Ibid., p. 94.
58. Ibid., pp. 93–94.
59. For 2014–15, MoD presented OB to the parliament for ECHS also, in addition to NCC and MAP.