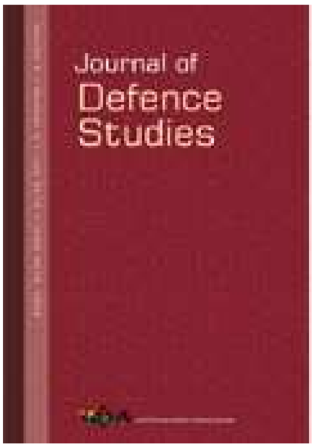

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Reorganisation of Defence Outlay for 2016–17
A Tepid Affair

Amit Cowshish[*]

Beginning 2016–17, the Ministry of Defence (MoD) will present four detailed demands for grant (DDGs)[1] instead of eight that it had been presenting to the Lok Sabha[2] in the past. It is not that its area of responsibility has shrunk. The reason why the number of demands has come down is that the budgetary outlays earlier spread over eight demands have now been compressed into four.

The reorganisation of demands is not limited to MoD. The total number of demands presented by the Finance Minister as a part of the union budget has been brought down from 109 to 96 in the budget for 2016–17 by merging some existing demands with other demands. Of the 12 demands which have been thus reorganised, six demands pertain to MoD. In the process, nomenclature of some of the demands has also been changed.

This exercise has been carried out with a view to providing 'a holistic picture of budgetary allocations', exercising 'effective expenditure management', and 'to facilitate effective outcome oriented monitoring of implementation of programmes and schemes/projects and to ensure optimum utilization of resources'.[3]

This perspective analyses the reorganisation of MoD's demands in three parts. The first part examines in some detail the effect of reorganisation on MoD's demands. The second part analyses what this

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organisation has achieved, in particular with reference to the stated objectives of the exercise. Some steps that could be taken to make the new demands outcome oriented are suggested in the third part.

The Effect of Reorganisation on MoD's Demands: The Earlier and Reorganised Structures of Demands

MoD's Demands before Reorganisation

For the year 2015–16, as indeed for the earlier years, MoD had submitted the following eight demands to Lok Sabha:

1. Demand No. 21: Ministry of Defence
2. Demand No. 22: Defence Pensions
3. Demand No. 23: Defence Services–Army
4. Demand No. 24: Defence Services–Navy
5. Demand No. 25: Defence Services–Air Force
6. Demand No. 26: Defence Ordnance Factories
7. Demand No. 27: Defence Services Research and Development
8. Demand No. 28: Capital Outlay on Defence Services

The first two demands were being clubbed in a single document called the 'Detailed Demand for Grant for Ministry of Defence', while the remaining six were clubbed in another document called the 'Defence Services Estimates' (DSE). What was generally referred to as the 'defence budget' was the aggregate of the net allocation (after deducting the estimated receipts and recoveries from the gross allocation) made in these six demands.

What Did These Demands Cater for?

Demand No. 21: Ministry of Defence

This demand catered for expenditure of the secretariat of all the four departments of the ministry, namely, Department of Defence (including the Finance Division), Department of Defence Production (DDP), Department of Ex-servicemen Welfare (DESW) and Department of Defence Research and Development (DR&D).

This demand also catered for the revenue and capital expenditure of the Armed Forces Tribunal (AFT), Border Roads Organisation (BRO) for construction of roads and bridges (including the expenditure on the Boarder Roads Development Board [BRDB]), Canteen Stores

Department (CSD), Chief Directorate of Purchase (CDP), Coast Guard (CG), Defence Accounts Department (DAD), Defence Estates Organisation (DEO) and Jammu & Kashmir Light Infantry (JAKLI).

Expenditure on some other objects was also being met from this demand. These objects included north-eastern area (Plan expenditure), grants-in-aid to state governments and occasional loans/advances to, and investments in, the defence public sector undertakings (DPSUs).

Demand No. 22: Defence Pensions

This demand catered, and continues to cater, for pension and other retirement benefits (including service pension, disability pension, family pension, leave encashment, gratuity and commuted value of pension) of the armed forces personnel, employees of the ordnance factories and other defence civilians.

The allocation made under the budget head 'Rewards' in this demand is meant for defraying expenditure on casualty awards, such as the war injury pay and gallantry awards, in respect of the armed forces personnel.

The entire expenditure catered for under this demand falls in the category of revenue expenditure.

Demand No. 23: Defence Services—Army

Besides the Indian Army, this demand also catered for the revenue expenditure of the Ex-servicemen Health Scheme (ECHS), Inspection Organisation (IO), Military Farms (MFs), National Cadet Corps (NCC) and the Rashtriya Rifles (RR).

Demand No. 24: Defence Services—Navy and Demand No. 25: Defence Services—Air Force

These demands catered for the revenue expenditure of the navy and air force respectively. The former included the demand for revenue expenditure of the Integrated Defence Staff (IDS).

Demand No. 26: Defence Ordnance Factories and Demand No. 27: Defence Services Research and Development

These demands catered for the revenue expenditure of the two organisations respectively. Up to the fiscal year (FY) 2014–15, the amount received by the ordnance factories on account of supplies made to the services was deducted from the gross allocation and only the balance amount was included in the estimates of expenditure. Commencing

2015–16, however, the recoveries so made are now being netted 'below the line', which implies that the recovered amount is not deducted from the expenditure incurred by the ordnance factories but separately credited to the government accounts. This change was made 'in compliance with the audit views on the subject'.[4]

Demand No. 28: Capital Outlay on Defence Services

This demand catered for the capital expenditure of the services and other organisations/departments covered by Demand Nos 23–27. In addition, it also catered for capital expenditure on Special Metal and Super Alloys Project (now defunct), Technology Development and Rolling Stock.

MoD's Demands after Reorganisation

The reorganised structure of the four demands is shown in Table 1. It may be noticed that except for the Demand for Defence Pensions, all other demands have been affected by reorganisation.

Table 1 Reorganised Demands of MoD

Existing Demand No. (2015–16)	*Merged with*	*Revised Nomenclature and/or New Demand No. (2016–17)*
21: Ministry of Defence 26: Defence Ordnance Factories 27: Defence Services Research and Development	Not merged with any other existing demand but some other organisations shifted out from other demands to the existing demand, which has also been renamed.	20: Ministry of Defence (Miscellaneous)
23: Defence Services–Army 24: Defence services–Navy 25: Defence Services–Air Force	Defence Services (Revenue) (Reorganised Demand); some organisations shifted out from Demand No. 23 and merged with Demand No 21. of 2015–16.	22: Defence Services (Revenue)
22: Defence Pensions	Not merged with any other demand; no change.	21: Defence Pensions
28: Capital Outlay on Defence Services	Not merged with any other demand but all organisations other than the three services shifted out to Demand No. 21 of 2015–16	23: Capital Outlay on Defence Services

Source: Concordance Tables to Expenditure Budget, Vol. 2 (see Note 3).

As a consequence of this reorganisation, MoD has presented four demands to the Lok Sabha for 2016–17. Table 2 shows what each of these four demands will cater for this year onwards.

The reorganised demands continue to cater for all expenditure that the earlier demands catered for, with the exception of two important budget heads that have disappeared from Demand No. 23 for Capital Outlay on Defence Services.

In his first speech on 10 July 2014, the Finance Minister had announced a sum of Rs 1,000 crore for accelerating development of the railway system in the border areas.[5] Though the DSE 2015–16 did not reflect any allocation for this purpose, 'Expenditure Budget Vol. II' for 2016–17 shows that half that amount (Rs 500 crore) was allocated at the budget estimates (BE) stage in 2015–16 under the Demand for Capital Outlay on Defence Services, which was subsequently reduced to nil in the revised estimates (RE).[6]

Table 2 Coverage of the Reorganised Demands of MoD

No. and Nomenclature of Reorganised Demand	*What the Reorganised Demands Cater for?*
1	2
20: Ministry of Defence (Miscellaneous)	1. All organisations catered for in the erstwhile demands for: (a) Ministry of Defence; (b) Defence Ordnance Factories; and (c) Defence Services Research and Development. 2. Revenue expenditure of ECHS, IO, MF, NCC and RR brought in from the Demand for Defence Services–Army. 3. Capital expenditure of ECHS, IO, MF, NCC and RR brought in from the Demand for Capital Outlay on Defence Services.
21: Defence Pensions	Defence Pensions.
22: Defence Services (Revenue)	Revenue expenditure of army, navy (including IDS) and air force transferred in from the Demands for Defence Services–Army, Navy and Air Force.
23: Capital Outlay on Defence Services	Capital expenditure of army, navy (including IDS) and air force; all other organisations transferred out to new Demand No. 20: Ministry of Defence (Miscellaneous)

Source: Author.

For 2016–17, however, there is no allocation on this account in the 'Expenditure Budget' presented by the Finance Minister. As a matter of fact, this budget head does not appear at all in the new Demand No. 23.

Another budget head, 'Technology Development', that was meant to cater for assistance to be given to development agencies for prototype development under the 'Make' procedure and to the small and medium enterprises (SMEs) for technology development also does not figure in the new Demand No. 23 in the DSE. On the other hand, the budget head, 'Special Metal and Super Alloys Project', under which there has been no allocation for the past several years, continues to figure in the reorganised Demand No. 23 in the DSE.

What has the Reorganisation Achieved?

The most conspicuous result of reorganisation has been the separation of budgetary allocation of the armed forces from that of all other departments/organisations under MoD's administrative control. The revenue and capital budget of the armed forces will continue to be provided for under separate demands, but the revenue and capital expenditure of all other departments and organisations will be provided for in a single overarching demand—Ministry of Defence (Miscellaneous). While what this reorganisation has achieved in regard to the armed forces is unexceptionable, it has also raised many issues.

Defining 'Defence Budget'

As a matter of practice, defence ministers have been making a mention of the proposed allocation for defence in their budget speech. This amount, referred to as the 'defence budget', corresponded to the aggregate of the net outlays covered by the six demands that formed a part of the DSE. The 'defence budget' did not include the outlay for other departments and organisations (covered by the Demand for Ministry of Defence) or the outlay for defence pensions.

To illustrate, in his budget speech on 28 February 2015, the Finance Minister had proposed an allocation of Rs 2,46,727 crore for 2015–16 while talking about the need of the armed forces.[7] This was the sum total of the net allocation made under the six demands (Demand Nos 23–28 of 2015–16). This figure formed the basis of all analyses concerning defence budget, be it in regard to the year-on-year increase in the outlay or its percentage vis-à-vis the gross domestic product (GDP) and the central government expenditure (CGE).

For the record, this amount of Rs 2,46,727 crore was arrived at after deducting Rs 16,668 crore from the gross allocation of Rs 2,63,395 crore made under these six demands. This amount also did not include the outlay covered by the Demands for Ministry of Defence and Defence Pensions. Had all these been clubbed, the total allocation would have worked out to Rs 3,10,080 crore[8] and not Rs 2,46,727 crore mentioned by the Finance Minister in his budget speech of 2015–16.

With the present reorganisation, allocation for ordnance factories, defence research and development, ECHS, IO, MFs, NCC and RR, which formed a part of the 'defence budget' till 2015–16, has now become a part of the Demand for Ministry of Defence (Miscellaneous), which, in its earlier avatar, was not considered to be a part of the 'defence budget'. This raises the question as to how should the 'defence budget' be defined now onwards. There are four options; 'defence budget' could be considered as the sum total of the net outlays in:

1. new Demand Nos 22 and 23 only;
2. these two news demands and net outlay for the departments/ organisations which were earlier considered to be a part of the 'defence budget' but have now been shifted to new Demand No. 20;
3. new Demand Nos 22, 23 and 20; or
4. all the four reorganised demands, including the Demand for Defence Pensions.

The issue has been left open by the Finance Minister as he did not make any mention of the 'defence budget' in his budget speech on 29 February 2016. This is important because the analysis of the budgetary allocation for 2016–17 would throw up different results depending on which figures it is based on. Table 3 illustrates how the figures would vary depending on which demands are taken as the basis for calculating the percentage of the defence budget vis-à-vis the GDP of Rs 1,50,65,010 crore.[9]

The year-on-year growth in allocation and its percentage with reference to the CGE would also vary depending on what is taken as the 'defence budget'.[10] Though these parameters make little difference as long as the allocation is adequate to defray the expenditure planned for a particular year, these are important because the popular perception about inadequacy of the defence budget depends almost entirely on them. Many defence analysts also set much store by these parameters.

Table 3 Defence Budget as Percentage of GDP

(Rs in crore)

Demand No.	*BE 2016–17*	*GDP %age*
22: Defence Services (Revenue)	143869.46	
23: Capital Outlay on Defence Services	78586.68	
Total of Demand Nos 22 and 23	222456.14	1.48
20: MoD (Misc)	36133.16	
Total of Demand Nos 22, 23 and 20	258589.30	1.72
21: Defence Pensions	82332.66	
Total of Demand Nos 22, 23, 20 and 21	340921.96	2.26

Source: Author.

Reorganisation of the demands for grant has brought this issue in greater focus without providing any answers.

Reorganised Demands not Yet Fully Rationalised

One of the objectives of reorganisation of the demands for grant is to 'provide a holistic picture of budgetary allocation and effective budget monitoring'. This is possible only if each demand, or each segment within a particular demand, pertains to a specific organisation, programme, project, activity or object of expenditure. Reorganisation of MoD's demands for grant falls short of expectation on this account.

Take, for example, JAKLI. Known as J&K Militia up to May 1977, it is now a full-fledged regiment of the Indian Army with 15 battalions, apart from its own regimental centre and record office.[11] However, the budgetary allocation for JAKLI continues to be a part of the Demand for Ministry of Defence (Miscellaneous) even after reorganisation, rather than being clubbed with the demand for grant for the Indian Army. Thus, a part of the Indian Army will continue to be funded from a demand other than the two demands which cater exclusively for the requirement of the armed forces.

On the other hand, the budgetary allocation for RR, which was clubbed with the revenue and capital allocation for the Indian Army, has been shifted to the Demand for Ministry of Defence (Miscellaneous). It is, undoubtedly, a counter-insurgency and anti-terrorism force, but is made up of personnel drawn from various regiments of the Indian Army and is fully integrated with its command and control structure. Therefore, its being delinked from the budgetary outlay for the armed forces and being shifted to the Demand for Ministry of Defence (Miscellaneous) goes against the objective of providing 'a holistic picture of budgetary allocation and budget monitoring'.

The Directorate General Armed Forces Medical Services is an inter-services organisation that provides medical cover to the armed forces and is actively involved in running the ECHS for the retired personnel and their families. It is a vast organisation that manages a large number of military hospitals and other medical facilities, but its budgetary allocation has been, and continues to be, a part of the outlays for the three services. This is also true of the Military Engineer Service and some other organisations like the Army Supply Corps, which provide, or have the potential of providing, services to more than one branch of the armed forces. That these organisations have not been made distinct budgetary units also goes against the basic objective of reorganisation. If nothing else, making them distinct budgetary units would have created a template for future.

Amorphousness of the Capital Budget

Since the creation of a dedicated capital acquisition wing in MoD in 2001, the capital budget has been divided into two notional categories: capital acquisition budget and other-than-capital acquisition budget. The budget documents do not disclose which budget heads are clubbed under the notional categories, but it is common knowledge as to what comprises capital acquisition budget, thanks largely to the reports of the Standing Committee on Defence. The capital acquisition budget is further divided into another two notional segments: allocation for meeting the liability on account of the ongoing contracts; and the sums set aside for new acquisition contracts. These categories will continue to be notional even after reorganisation, although these form the basis of budget monitoring within MoD and analysis by defence analysts.

Missing Impetus for 'Make in India' in Defence

Defence manufacturing is one of the 25 sectors identified by the government under its 'Make in India' initiative. For this initiative to succeed, the private sector in India will have to play a lead role in developing technologies and capabilities. In his budget speech of 10 July 2014, the Finance Minister had proposed to set aside an initial sum of Rs 100 crore to set up a Technology Development Fund to support development of cutting-edge technologies by the Indian industry, including the SMEs.[12] Not only that this fund never got activated, the budget head for funding development of prototypes under the 'Make' procedure and providing assistance to the SMEs for technology development, which was a part of the Demand for Capital Outlay on Defence Services, has also been discontinued, as pointed out earlier.

The truncated version of Defence Procurement Procedure 2016 released on 28 March 2016 has created two categories of 'Make' projects involving prototype development of high-technology complex systems. For MoD-initiated prototype development projects under Make-I category, government funding has been raised from 80 per cent to 90 per cent and a provision has also been made for payment of mobilisation advance up to 20 per cent of the cost of development. The remaining 10 per cent of the cost of development will also be reimbursed if the request for proposal (RFP) for that product is not issued within two years of successful development of the prototype.

The Make II category of self-funded projects does not obviously involve funding by MoD, but the provision for reimbursement of the cost of development to the successful developer would apply to these categories also in the event of the RFP not being issued within two years. All this requires allocation of funds. The absence of a budget head under which the allocation has been/will be made leaves a void in the reorganised structure of the demands for grant.

Reorganisation not Conducive to Outcome-oriented Monitoring of Outlays

Though the demands have been reorganised, retention of the old budget heads—pay and allowances, stores, transportation, works, etc.—is not conducive to outcome-oriented monitoring of outlays. For that to happen, it is necessary that the outlays are tied to specific projects/programmes/schemes/activities and the outcomes are defined in identifiable and measurable terms. While it may not be possible to reclassify the entire defence budget under specific projects, programmes, etc., a substantial portion of the budget can be linked to specific outcomes.

This is already being done to some extent but mostly under the capital budget. There are several specific outcome-oriented budget heads, such as 'Married Accommodation Project', 'Rohtang Tunnel Project', 'Construction of CSG Roads', 'Infrastructure Development in Eastern Command', 'National Defence Academy', 'Modernisation of INS Viraat', 'Project Varsha', 'Project Seabird' and 'Project for Naval

Academy, Ezhimala'. This template could be extended across a large part of the capital and revenue outlays by creating distinct budget heads for such critical areas as making up of the war wastage reserves. The objective of outcome-oriented monitoring of budget would remain elusive unless this vital change is brought about in the demands for grant.

Steps to Make the Demands Outcomeoriented

Defence expenditure constitutes a significant part of the total CGE. Considering its size and the continuing scarcity of resources, it is imperative that the allocation is utilised in the most efficient and optimal manner. This requires the outlays to be tied to specific outcomes, to the extent it is possible. Even if the outcome of outlays on some of the objects of expenditure are not clearly identifiable and measurable, as in the case of outlay on pay and allowances of the combatants, an effort should be made to restructure them so as to distinguish each element of expenditure on a particular object. What follows is a brief outline of the outcome-oriented reclassification of the budgetary outlays.

Outlay for Revenue Expenditure

The revenue outlay of armed forces and other organisations can be spread over the following generic objects of expenditure with suitable sub-heads:

1. Expenditure on personnel: This could include separate categories for pay and allowances, ration, clothing, etc.
2. Expenditure on operations and maintenance: This could include separate categories for expenses relating to exercises, training, procurement of ordnance stores for maintaining war wastage reserves, movement of stores and personnel, in-house maintenance/repair/overhaul of equipment, annual maintenance contracts, outsourcing of services, procurement of ammunition, unit allowances, etc.
3. Expenditure related to maintenance of civil infrastructure and other assets.

Outlay for Capital Expenditure

Similarly, the capital outlay could be spread over the following generic objects of expenditure:

1. Acquisition of land.
2. Creation of infrastructure: This could include separate categories for, say, married accommodation, operational works and other infrastructure development projects, such as construction of the Indian National Defence University.
3. Capital acquisition with separate sub-categories for committed liabilities and new schemes; the new schemes could be conceived in terms of specific programmes, such as acquisition of artillery guns, air defence systems and night-vision capabilities.

In respect of some of these categories, both under the revenue and capital outlays, it should be possible to set annual targets in terms of specific outcomes, which could become the reference point for monitoring the progress of expenditure during the year and assessing the outcomes at the end of the year. This template can also be adopted mutatis mutandis for all other organisations which are now clubbed under the Demand for Ministry of Defence (Miscellaneous).

Since 2002–03, MoD has been publishing a document called the DSE Part II. This document is not submitted to the Parliament as it is meant for internal use. It corresponds to the DSE presented to Lok Sabha but provides detailed breakup of budgetary allocations. It also provides budget holder-wise summary in respect of armed forces, establishing a co-relation between the budget holders and the accounting heads. This step was taken on the recommendation of a task force set up by MoD with the expectation that it would facilitate better monitoring of expenditure vis-à-vis the budget allocations, and also enhance accountability and transparency in utilisation of funds.

It is doubtful if DSE Part II has achieved its objectives. A few years back, MoD had even considered discontinuing publication of the document even for internal use. This existing platform can now be used for accomplishing what the reorganisation of demands for grant was intended to achieve but is unlikely to achieve because of its structural inadequacy to facilitate outcome-oriented monitoring of outlays on defence. It will take a lot of doing to convert DSE Part II into an outcome-oriented format, but the effort would be worth the while from the point of view of optimum utilisation of financial outlays for the armed forces and other organisations under MoD's administrative control.

Notes

1. The DDGs correspond to the demands for grant presented by the Finance Minister to the Lok Sabha as a part of the annual budget. The DDGs are laid on the table of the house by the respective ministries subsequent to presentation of the union budget. The difference between the two lies in the extent of details furnished therein. Unless the context requires a distinction to be made between the two, a more generic term 'demand' has been used in this article.
2. Lok Sabha, also called the House of People, is the lower house of the Indian Parliament.
3. 'Introduction' to the 'Concordance Tables to Expenditure Budget Vol. 2', p. 1, available at http://indiabudget.nic.in/ub2016-17/eb/contabvol2.pdf, accessed on 20 March 2016.
4. See DSE for 2015–16, note on p. 104.
5. See the budget speech, para 141, available at http://finmin.nic.in/fmspeech/fm_budgetspeech_july2014.pdf, accessed on 20 March 2016.
6. Line Item 16 in Demand No. 23 for 2016–17, available at http://indiabudget.nic.in/ub2016-17/eb/sbe23.pdf, accessed on 20 March 2016.
7. See the budget speech, para 86, available at http://indiabudget.nic.in/budget2015-2016/ub2015-16/bs/bs.pdf, accessed on 20 March 2016.
8. Demands for Grant Nos 20–23, presented by the Finance Minister to Lok Sabha on 29 February 2016, available athttp://indiabudget.nic.in/ub2016-17/eb/sbe20.pdf, http://indiabudget.nic.in/ub2016-17/eb/sbe21.pdf, http://indiabudget.nic.in/ub2016-17/eb/sbe22.pdf, http://indiabudget.nic.in/ub2016-17/eb/sbe23.pdf, accessed on 20 March 2016.
9. 'Budget at a Glance 2016–17', n. 1, available at http://indiabudget.nic.in/ub2016-17/bag/bag11.pdf, accessed on 20 March 2016.
10. The perception about the year-on-year growth also depends on whether the allocation for a particular year is viewed with reference to the BE or the RE of the preceding year, but this is not related to reorganisation of the demands for grant and, therefore, has not been discussed in this article.
11. Note 5 below Demand No. 20 for the FY 2016–17, available at http://indiabudget.nic.in/ub2016-17/eb/sbe20.pdf, accessed on 20 March 2016.
12. See Finance Minister's budget speech of 10 July 2014, para 143, available at http://finmin.nic.in/fmspeech/fm_budgetspeech_july2014.pdf, accessed 20 March 2016.