

Standing Committee on Defence (16th Lok Sabha) Striking Old Notes on Debut

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Three months after the National Democratic Alliance (NDA) was swept to power at the centre in the general elections held in April–May 2014 to the 16th Lok Sabha (the lower house of the Indian Parliament), the Standing Committee on Defence was constituted under the chairmanship of Major General B.C. Khanduri (Retd.), former Chief Minister of the northern state of Uttarakhand and a prominent member of the Bharatiya Janata Party (BJP), which is the main constituent of the NDA.

The Committee opened its account with a report on the action taken by the Ministry of Defence (MoD) on the recommendations made by the Standing Committee on Defence of the 15th Lok Sabha on MoD's Demands for Grant (DGs) for the year 2013–14. This article examines the new Committee's approach to looking at the issues that had engaged the attention of the Committee in the past.

BACKGROUND

During its entire tenure of five years from 2004–05 to 2008–09, the Standing Committee on Defence (hereafter referred to as Committee) of the 14th Lok Sabha kept emphasizing that inadequacy of the budgetary outlay and inefficient utilization of the allocation were the main reasons for the chinks in India's defence preparedness. All its observations and recommendations were basically intended to bring about improvement

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on both these counts. This also pretty much sums up the approach of the Committee of the 15th Lok Sabha during the first four years of its tenure from 2009–10 to 2012–13.¹

As argued in the earlier articles, the observations and recommendations of these Committees did not yield the desired result. While on the one hand the gap between the requirement of funds projected by the Ministry of Defence (MoD) and the allocations made by the Ministry of Finance (MoF) kept rising, on the other hand, the capital budget, spent on modernization of the armed forces, was repeatedly underutilized.

The defence budget for 2013–14 was the last regular budget to be presented during the tenure of, and to be examined by, the Committee (15th Lok Sabha). The Committee adopted the same approach, as in the past, while examining the budget and came up with observations and recommendations which were not very different from the ones made in the past. These are contained in the *Twentieth Report* of the Committee (hereafter referred to as the main report).²

The Standing Committee of the 15th Lok Sabha could not prepare the report on the action taken by MoD on its recommendations before the lower house was dissolved. This task was completed by the newly constituted Committee of the 16th Lok Sabha. Its observations on the action taken by MoD are contained in the *First Report* (hereafter referred to as the Action-taken Report)³, submitted by the Committee in December 2014.

The Committee had an opportunity to examine why the problems surrounding the defence budget had remained unresolved for so long despite numerous observations and recommendations made in the past, and offer a fresh perspective on what needs to be done. The question examined in the next section is whether the Committee (16th Lok Sabha) actually seized the opportunity to do so.

BUDGET ESTIMATES 2013–14

It may be recalled that for year 2013–14, the gap between the projection and allocation for defence expenditure was a whopping INR 76,669.09 crore, which worked out to 27.35 per cent of the projection, surpassing the previous high of 23.53 per cent in 2011–12. The total defence budget of INR 2,03,672.12 crore comprised INR 1,16,931.41 crore for revenue expenditure and INR 86,740.71 crore for capital expenditure. The shortfall under the revenue and the capital segments was 20.06 per cent and 35.30 per cent, respectively.⁴

While MoD seemed quite resigned to the size of the defence budget, mindful that the allocation depends on the availability of resources, and had conveyed this to the Committee (15th Lok Sabha), the harsh reality of the government's fiscal constraints was largely lost on it.

Committee's Concern over Inadequacy of Budgetary Allocation and its Implications

In the main report, the Committee (15th Lok Sabha) had commented on 'the downward movement' of the defence budget and expressed the 'desire that the Ministry of Defence should be given priority in allocation of desired budget and (that) more allocations should be made to the Services at the stage of Supplementary Demands for Grant.'⁵

Explaining the reason for its angst, the Committee (15th Lok Sabha) said in the main report that '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' and had asked MoD to impress upon MoF 'to allocate entire amount as per the requirement of the Services (as) otherwise the Services will have to reprioritize their activities, which may lead to cutting of expenditure on essential items.'⁶

Committee's Concern over Underutilization of the Capital Budget

This strong advocacy for higher allocation was at odds with the likelihood of underutilization by MoD, which had also caught the Committee's attention. At the end of February 2013, MoD was left with INR 42,420.83 crore, which amounted to 23.76 per cent of the total capital budget of the year, to be spent in just one month before the end of 2012–13. Taking note of this, the Committee (15th Lok Sabha) had advised MoD to 'avoid such proclivity of casual approach towards allocations' and to prevent huge spending in the last months as 'it depicts utter mismanagement of budget.' It had also asked MoD to 'spread its spending so as to ensure there remains no huge unspent amount at the end of the year.'⁷ Clearly, the message was that MoD should ensure full utilization of the budgetary allocation in 2013–14.

Committee's Concern over Share of Committed Liabilities in the Capital Acquisition Budget

Apart from advocating higher allocations and exhorting MoD to ensure full utilization of funds, the Committee (15th Lok Sabha) had also commented on inadequacy of funds for new purchases.

Year after year, most of the capital acquisition budget, which is a notional subset of the capital budget, has been getting utilized for discharging the committed liabilities related to the contracts signed in the earlier years, thus leaving very little for new procurements. The Committee (15th Lok Sabha) had expressed the view that ‘allocating very paltry sum to the new schemes will jeopardize the modernization programme of the Forces’ and had recommended 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.’⁸

**REPORT ON ACTION TAKEN BY MoD ON THE
COMMITTEE’S RECOMMENDATIONS⁹**

On Inadequacy of Allocation

In the main report, the Committee (15th Lok Sabha) had been extremely critical of what it called the ‘negative growth of (the) defence budget’. In response, MoD informed the Committee (16th Lok Sabha) that the allocation for defence expenditure had been constrained by the overall economic and fiscal situation.¹⁰ This was more or less reiteration of the stand MoD had taken when the 2013–14 budget was examined by the Committee (15th Lok Sabha).

Adopting the same approach as that of its predecessor, the Committee (16th Lok Sabha) did not find MoD’s explanation satisfactory, as evident from the following observation made by it:

10. The Committee are least convinced with the reply of the Ministry that the allocation for Defence Expenditure has been constrained by the overall economic and fiscal situation. Such a reply is routine in nature and as per their view, the defence of the country must have precedence over other aspects and the Ministry of Finance should prioritize the entire budgetary allocation appropriately so that there remains no dearth of funds for the services and the security of the country is never compromised for want of money. The Committee are also dismayed over the fact that no corrective measures appear to have been taken with regard to negative growth of GDP aspect at the supplementary demands stage [*sic*].¹¹

Commenting on another statement of MoD that the growth in budgetary allocation ‘was based on increases approved by the Ministry of Finance which were in turn dictated by several factors including the overall

state of the economy and the government finances', the Committee (16th Lok Sabha), in fact, went a step further by expressing the 'desire to be apprised of the efforts made by the Ministry to take up the issue with the Ministry of Finance for increasing the budgetary allocations.'¹²

This penchant for micromanaging MoD's handling of the Committee's recommendations is apparent from at least two other observations made in the action-taken report.

The first of these is in relation to inadequacy of allocation which manifests itself in the gap between projection and allocation. In the main report, the Committee (15th Lok Sabha) had observed as follows:

From the data submitted by the Ministry, the Committee arrived at a conclusion that there is an enormous gap in the projections, allocations and expenditure for the three services since 2009–10.... Therefore, the Committee desire that the Ministry (of Defence) should impress upon the Ministry of Finance to allocate entire amount as per the requirement of the Services otherwise the Services shall have to reprioritize their activities, which may lead to cutting of expenditure on essential items.¹³

MoD had conveyed this observation to MoF in June 2013,¹⁴ but it did not satisfy the Committee (16th Lok Sabha) which made the following comments:

13. The Committee desire to know the outcome of the above communication sent to the Ministry of Finance and steps taken by the Ministry of Defence in the absence of desired funds. The Committee may also be informed as to how the services re-prioritize their activities and cope up [*sic*] with the difficulties faced by them after the cut. They may also be apprised about the specific procurement of the items affected due to this.¹⁵

The second instance of the attempt at micromanagement concerns the Committee's (16th Lok Sabha) advice to MoF on how to handle the financial resources of the country. In the main report, the Committee (15th Lok Sabha) had made the following observation:

The Committee note that because of tight fiscal situation as admitted by a representative of the Ministry, the payments for the acquisitions like aircraft and ships are to be spread across four to five years and sometimes the Ministry of Defence has to defer certain payments because the Ministry of Finance was having some constraints in providing the budget. The Committee desire that the Ministry of

Finance should itself re-prioritize the available resources and create a situation where at least Ministry of Defence does not have to constrain itself to an extent that it has to defer the payments of capital acquisitions, which in long-term would affect the modernization plan of the Services and devoid them [*sic*] of crucial equipment.¹⁶

Since this advice was intended for MoF, the best that MoD could do was to convey it to that ministry, which it had done. But the Committee (16th Lok Sabha) did not consider this action satisfactory and upbraided MoD by saying that: ‘The Committee find that the casual reply attempts only to shift responsibility instead of serving interest suitably. The Committee desire to be apprised of the follow up action taken by the Ministry.’¹⁷

The Committee (16th Lok Sabha), of course, did not specify what ‘follow-up’ action could be taken by MoD to ensure that the MoF ‘re-prioritizes’ the available resources so that MoD faces no constraints.

On Underutilization of the Capital Budget and Dearth of Funds for New Schemes

The *First Report* of the Committee (16th Lok Sabha) does not present a cogent picture as regards the underutilization of capital budget in 2013–14 or the impact of dearth of funds on ‘new schemes’, although the position in regard to both would have been known by the time the report was submitted in December 2014. This omission is in sharp contrast to the observations made by the Committee (15th Lok Sabha) in the *Twentieth Report* on these issues.

One of the observations made in the main report by the Committee (15th Lok Sabha) concerning capital budget of the Indian Navy and MoD’s response to that, both reproduced in the Action-taken Report of the Committee (16th Lok Sabha), make for an interesting reading. The Committee (15th Lok Sabha) had observed in the main report that ‘a meagre allocation of Rs 442.82 crore towards “New Schemes” are dichotomy [*sic*] since on the one hand big acquisitions are planned while on the other hand funds are not provided for.’¹⁸

MoD’s response to this observation was that ‘funds available for New Schemes have been limited given the accumulation of committed liabilities which are to be met this year and the limited availability of funds in view of the overall economic situation.’¹⁹

Interestingly, both the Committee’s (15th Lok Sabha) concern and MoD’s explanation were way off the mark as the overall capital budget of

2013–14 was underutilized by MoD to the extent of Rs 7,615.95 crore.²⁰ It is not surprising that there is no mention in the Action-taken Report of any new schemes, either of the Navy or other services, that had to be abandoned because of paucity of funds.

IMPACT OF THE STANDING COMMITTEE'S RECOMMENDATIONS ON THE DEFENCE BUDGET

Quintessentially, the observations and recommendations made by the Committee (15th Lok Sabha) on the defence budget for 2013–14 were targeted at ensuring that the allocation made for defence matches the requirement projected by MoD so that modernization of the armed forces and operational preparedness do not suffer.

The action taken by MoD on these observations and recommendations, and further observations/recommendations made by the Committee (16th Lok Sabha), made little difference to the Revised Estimates (RE) for 2013–14 or the Budget Estimates for 2014–15. This will be evident from the following facts:

1. There was no increase in the defence budget for 2013–14 at the RE stage.
2. In fact, the capital budget for 2013–14, which caters for expenditure on modernization of the armed forces, was reduced (ostensibly as MoD was not in a position to utilize the entire amount) and the funds diverted for revenue expenditure.
3. While the defence budget for 2013–14 had increased by 5.31 per cent over the previous year's budget, the budget for 2014–15 increased by 12.44 per cent over the budget for 2013–14.
4. This increase could be seen as the culmination of sustained efforts by the successive Committees to secure higher allocation for defence but for the fact that the increase in allocation for 2015–16 is down to a single digit (7.74 per cent), which indicates that the increase of 12.44 per cent in 2014–15 was not a precursor of things to come.
5. As a matter of fact, the seemingly high increase in the 2014–15 budget was attributable to the additional allocation of Rs 5,000 crore made in the regular budget presented by the NDA government after assuming power at the centre, over the allocation made in the interim budget by the United Progressive Alliance (UPA) government.

6. But for this additional allocation, the increase in 2014–15 budget would have been a little less than 10 per cent over the budget for 2013–14. This would have been in keeping with the average increase in defence budget over the previous one decade.
7. The additional allocation of Rs 5,000 crore under the capital budget was not made under the budget heads from which expenditure is incurred for modernization of the armed forces.
8. The additional allocation did not serve the desired purpose as the capital budget was reduced by Rs 12,622.71 crore at the RE stage in 2014–15 because of MoD's inability to utilize the entire allocation; this was far more than the underutilization of Rs 7,615.95 crore in the previous year.
9. The underutilization of Rs 12,622.71 is all the more inexplicable considering that there was a gap of Rs 79,362.72 crore between projection and allocation for 2014–15.²¹ (The information for 2015–16 is not available as yet.)
10. As for the availability of funds for new schemes, against the projected requirement of Rs 24,509.29 crore, only Rs 5,402.23 crore got allocated during the year 2014–15.²²

These facts clearly establish that the recommendations of the Committee (15th Lok Sabha) on the Demands for Grant (DGs) for 2013–14 and the action taken by MoD on those recommendations had little impact on the trend of allocation and utilization of budgetary allocations.

EPILOGUE

Inadequacy of the budgetary allocation for defence had been a common refrain of the Standing Committees of the 14th and 15th Lok Sabha. This perception was apparently based on the growing gap between the requirement projected by MoD and the budgetary allocation made for defence, rather than any independent analysis of the accuracy of, and justification for, the projections.

This perception led the Committees to somewhat naïvely believe that the inadequacy of the budgetary allocation is on account of the unwillingness of MoF, and perhaps in equal measure of MoD, to meet the requirement of the armed forces. In the process, the Committees completely distanced themselves from the fiscal realities while making such comments as 'the Committee are least convinced with the reply

of the Ministry that the allocation for Defence Expenditure has been constrained by the overall economic and fiscal situation²³ and continued to believe that allocation will be enhanced only if the Committee went on demanding this of MoF and MoD.

This approach also, occasionally, led the Committees to recommend, as pointed out in earlier articles, that the defence budget should be increased to the level of 3 per cent of the gross domestic product (GDP) without going into the rationale of this recommendation or the feasibility of doing so, given the fiscal situation in the country.

Some of the recommendations made by the Committees are hard to comprehend. An example of this is the recommendation made by the Committee (16th Lok Sabha) that 'the Ministry of Finance should prioritize the entire budgetary allocation appropriately so that there remains no dearth of funds for the services and the security of the country is never compromised for want of money.'²⁴

There are serious constraints on generation of revenue by the government. This makes the task of resource allocation out of the available pie an extremely challenging task. Ensuring that there is no 'dearth of funds for the services' would inevitably entail lesser allocation for health, education, infrastructure development, and other sectors. This involves a larger political question with attendant social ramifications. The problem of dearth of funds for services cannot, therefore, be resolved by MoF by simply prioritizing 'the entire budgetary allocation appropriately', as recommended by the Committee.

Whenever the Committees found that compliance with their recommendations had not made any impact, they tried to micromanage MoD's handling of their recommendations rather than reviewing the efficacy of their recommendations. For example, when, in accordance with the Committee's recommendation, MoD communicated to MoF that the latter should allocate funds as per the requirement projected by the former, and it did not yield any result, the Committee asked MoD to explain how 'the services re-prioritize their activities and cope up [*sic*] with the difficulties faced by them after the cut', and also sought information about 'the specific procurement of the items affected due to this.'²⁵

It is difficult to see in what way this information would have helped the Committee in ensuring that MoD gets from MoF what it asks for, or how this information would have facilitated the task of 're-prioritization' of activities of the armed forces. These attempts at micromanagement of MoD's functioning by the Committees have been futile.

The Committees in the past have shown the tendency to rely on a number of comparatively inconsequential prescriptions for better management of defence budget. For example, there have been repeated comments on the need to maintain a certain ratio between revenue and capital expenditure and for spreading the capital expenditure evenly throughout the year. The Committees seem to have somewhat naïvely believed that these suggestions are important steps for resolving the problem of inadequacy of budgetary allocation and underutilization of funds.

The efforts to restrict revenue expenditure artificially to maintain the desired ratio between revenue and capital expenditure have led to some worrisome consequences, such as shortage of ammunition and low levels of serviceability of the equipment held by the armed forces, both of which are funded from the revenue budget and are extremely critical from the point of view of defence preparedness.

The Standing Committee on Defence of the 16th Lok Sabha had the opportunity to move away from the past approach and strike a new course by being realistic, at least about the fiscal constraints, and making recommendations based on recognition of this reality. However, the extraordinary observations made by the Committee (16th Lok Sabha) in the very first report it submitted in December 2014 only shows that the more things change, the more they remain the same.

NOTES

1. For detailed analysis, see the following articles: 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. 8–26; and Amit Cowshish, 'Impact of the Recommendations of the Standing Committee on Defence (15th Lok Sabha) on the Defence Budget', *Journal of Defence Studies*, Vol. 9, No. 1, January–March 2015, pp. 9–32.
2. Standing Committee on Defence (15th Lok Sabha), *Twentieth Report*, New Delhi: Lok Sabha Secretariat, April 2013.
3. Standing Committee on Defence (16th Lok Sabha), *First Report*, New Delhi: Lok Sabha Secretariat, December 2014.
4. Standing Committee on Defence (16th Lok Sabha), *Second Report*, New Delhi: Lok Sabha Secretariat, December 2014, pp. 4–6.
5. *Ibid.*, pp. 91–92.
6. *Ibid.*, p. 93.

7. Ibid., p. 94.
8. Ibid., pp. 93–94.
9. Standing Committee on Defence (16th Lok Sabha), *First Report*, n. 3.
10. Ibid., p. 12.
11. Ibid., p. 12.
12. Ibid., pp. 11–12.
13. Ibid., p. 13.
14. Ibid.
15. Ibid., pp. 13–14.
16. Ibid., p. 14.
17. Ibid., p. 14.
18. Ibid. p. 66.
19. Ibid.
20. Author's database.
21. Committee on Defence (2014-15), 16th Lok Sabha, *Second Report*, New Delhi: Lok Sabha Secretariat, December 2014, pp. 4–6.
22. Ibid., p. 57.
23. Standing Committee on Defence (16th Lok Sabha), *First Report*, n. 3, p. 12.
24. Ibid.
25. Ibid., pp. 13–14.