

Potential Improvements in the Defence Services Estimates

*Amit Cowshish**

At Rs. 1,05,600 crores,¹ the estimated defence expenditure for the current financial year (2008-09) accounts for a little over 14 per cent of the entire central government expenditure. The central government expenditure itself is divided into two parts – plan expenditure and non-plan expenditure. Defence expenditure forms part of the non-plan expenditure. Current year's defence budget accounts for 20.81 per cent of the total non-plan expenditure of the central government. The non-plan expenditure is further divided into revenue and capital expenditure. At Rs. 57,593 crores, defence revenue budget accounts for 12.85 per cent of the total revenue expenditure of the central government. The capital outlay for defence for the current year, which stands at Rs 48,007 crores, accounts for 81.17 per cent of the total central government non-plan expenditure under the capital head. The total defence budget constitutes the second largest single head of expenditure in the non-plan segment of the central government budget for the current financial year. It is surpassed only by the provision under the 'Interest Payments and Prepayment Premium', which stands at Rs. 1,90,807 crores. The third single largest single category of expenditure is 'Subsidies', which accounts for Rs. 71,431 crores of the central government expenditure. Social Services, viz., Education, Health, Broadcasting, etc. account for Rs. 10,385 crores or less than one-tenth of the defence budget. Keeping aside the issue regarding adequacy of the defence budget, the fact remains that the defence budget involves huge sums of money and, therefore, it calls for a more dispassionate, informed and transparent discussion than has generally been the case so far. The way the defence budget is structured does not help the matters despite, ironically, its being one of the most transparent defence budgets in the world. This paper contains some suggestions to demystify the defence budget so that there is better understanding and healthier public discourse.

Demands for Grant

The Ministry of Defence presents eight separate Demands for Grant² to the Parliament. These are:

- Demand No. 19: Ministry of Defence (Civil)
- Demand No. 20: Defence Pensions

*Amit Cowshish is Additional Financial Adviser (A) and Joint Secretary, Ministry of Defence (Finance Division).

- Demand No. 21: Defence Services, Army
- Demand No. 22: Defence Services, Navy
- Demand No. 23: Defence Services, Air Force
- Demand No. 24: Defence Ordnance Factories
- Demand No. 25: Defence Services, Research & Development
- Demand No. 26: Capital Outlay on Defence Services

These Demands for Grant are presented to the Parliament in the form of two separate booklets. Demands No. 19 and 20 are clubbed together in a booklet entitled '*Detailed Demands for Grants of the Ministry of Defence*'. The other six Demands for Grant are clubbed together in a separate booklet entitled '*Defence Services Estimates*' (DSE). The latter also has five appendices that contain details of the organization and functions of the Ministry of Defence and the Finance Division, the procedure followed in regard to budgetary control over defence expenditure, provision for medical services and provision for payment of grants-in-aid to non-government bodies.

The Budget Estimates for the current financial year (2008-09) are as follows:

- Demand No. 19 Ministry of Defence (Civil): Rs. 2,370.82 crores³
- Demand No. 20 Defence Pensions: Rs. 15,564.00 crores⁴
- Defence Services Estimates (Demands No 21 to 26): Rs. 1,05,600.00 crores

What is generally referred to as defence budget is the total outlay covered by the Demands for Grant included in the Defence Services Estimates. Five of the six Demands that constitute Defence Services Estimates provide for revenue expenditure of the three Services, Ordnance Factories and the Defence Research & Development. The sixth Demand provides for capital expenditure in respect of all of them.

Classification of Defence Expenditure

The way defence expenditure is presently classified distorts the understanding of defence expenditure. Consequently, what is referred to as 'defence expenditure' does not truly reflect the expenditure on defence. Undoubtedly, this involves conceptual issues. What is included in defence expenditure differs from one country to the other. Though some organizations, such as the Stockholm International Peace Research Institute (SIPRI), follow their own definition of defence expenditure,⁵ there are no

universally accepted norms that the nations must follow. More than conformity to any international standards, it is important in the context of the Indian defence budget that the Defence Services Estimates truly reflect the expenditure that actually relates to defence.

An illustration would make the position clear. Jammu and Kashmir Militia was one of the paramilitary forces of the country under the administrative control of the Ministry of Home Affairs till the early nineteen-seventies when it was converted into a full fledged regiment of the Indian Army under the control of the Ministry of Defence and rechristened as the Jammu and Kashmir Light Infantry (JAKLI). At present, it is like any other Infantry Regiment of the Indian Army, such as the Punjab Regiment, Madras Regiment, Mahar Regiment or the Maratha Light Infantry. However, while expenditure in respect of all other Infantry Regiments is provided for under the Demand for Grant for Army, expenditure in respect of the JAKLI is provided for under Demand No. 19-Ministry of Defence (Civil) and thus does not form part of the 'defence expenditure'.

While expenditure on JAKLI Regiment, which is like any other regiment of the Indian Army, does not form part of the in the Demand for Grant for Army, expenditure on the National Cadet Corps (NCC) is included in the said Demand for Grant. The National Cadet Corps was raised under the National Cadet Corps Act passed by the Indian Parliament in 1948. The aim of the NCC is to develop qualities of character, courage, comradeship, discipline, leadership, secular outlook, spirit of adventure and sportsmanship and the ideals of selfless service among the youth to make them useful citizens. The National Cadet Corps is also meant to create a human resource of organized and trained youth to provide leadership in all walks of life including the Defence Services and to be always available for the service of the nation. It is not an organization that is as inextricably connected with the defence of India as, say, the Indian Coast Guard. But it is the expenditure related to the NCC that is provided for under the Demand for Grant for Army, while the Indian Coast Guard budget forms part of Demand No. 19 – Ministry of Defence (Civil).

There are some other such organizations, included in the Demand for Grant for Army, which do not belong there. Rashtriya Rifles and Ex-servicemen Health Scheme are two such organizations. Rashtriya Rifles is a counterinsurgency force raised in nineteen-nineties specifically for fighting insurgency in Kashmir by complementing the local security forces. It is engaged in internal security in much the same way as some of the paramilitary forces. Ideally, therefore, expenditure related to Rashtriya Rifles should be a part of the budget of the Ministry of Home Affairs. But since the budget has to be necessarily managed by the Ministry of Defence keeping in view the operational linkages between the Defence Services and the Rashtriya Rifles, there is

at least a case for making it a part of the Ministry of Defence (Civil) rather than keeping it as a part of the Army's budget.

Ex-servicemen Health Scheme (ECHS), launched towards the end of December 2002, is intended to provide comprehensive medical cover for ex-servicemen of the Defence Services and their dependants including their spouses, children and dependant parents. There is little justification for including this expenditure in the Demand for Grant for Army as it is not Army-specific. Till a couple of years back, expenditure on defence pensions used to be a part of the Demand for Grant for Army. At present, however, there is a separate Demand for Grant for Defence Pensions and expenditure on defence pensions does not form part of the 'Defence Services Estimates'. More or less, the same logic applies to the expenditure on ECHS. This could well be provided for under a separate head in the Demand for Grant which presently provides only for Defence Pensions with suitable change in the nomenclature of the Grant. As a matter of fact, all expenditure related to resettlement and welfare of ex-servicemen, which is managed by the Director General of Resettlement, could be clubbed together under a separate Demand for Grant, which would, of course, also include defence pensions. All this expenditure is anyway required to be managed by the Department of Ex-servicemen Welfare in the Ministry of Defence.

The examples given above would indicate how 'defence expenditure' presently includes expenditure which does not really belong to this category. Most of such expenditure is included in the Demand for Grant for Army as distinct Minor Heads, such as the Military Farms, ECHS, Inspection Organizations, Rashtriya Rifles and the National Cadet Corps, though these organizations do not provide service exclusively to the Indian Army. There are, however, some other organizations and activities also that fall in the same category but their budgetary allocation is embedded in various Minor Heads in the same Demand. These include the following:

- Directorate General of Armed Forces Medical Services
- Chief Administrative Office
- Directorate of Public Relations
- National Defence College
- Directorate of Printing and Stationery
- Director General of Resettlement
- Sainik Samachar
- Grants-in-aid to mountaineering institutions like the Himalayan

Mountaineering Institute, Nehru Institute of Mountaineering, Jawahar Institute of Mountaineering

The biggest drawback with the existing system is that expenditure in respect of all the above mentioned organizations is not administered by the Financial Planning Directorate of the Army Headquarters. For example, expenditure in respect of the Inspection Organization is managed by the Director General of Quality Assurance who functions under the administrative control of the Department of Defence Production. The National Defence College does not exclusively cater to the requirement of Indian Army. Directorate of Public Relations also does not function exclusively for the Indian Army. Defence Services Estimates are the only budget document in the public domain but it is difficult to make out what is the budget for a particular year for these, and other such, organizations and activities.

There is a similar problem with the Demand for Grant for Navy, which includes the budgetary allocation for Joint Staff. This is not a Navy-centric organization. The Integrated Headquarters of the Ministry of Defence (Navy), or the Naval Headquarters, does not control the budgetary allocation for the Joint Staff. Therefore, there is no reason why its budget should form part of the Demand for Grant for Navy.

Lack of Uniformity among Minor and Sub-Heads

There is no inherent virtue in bringing about uniformity among the minor heads under various Demands for Grant and the sub-heads under each minor head but the existing scheme is certainly quite inexplicable. A look at Table 1 would make it clear that objects of expenditure, activities, schemes and organizations are all treated similarly in that they appear as minor heads under various Demands for Grant.

Under the three Demands for Grant for Army, Navy and Air Force, there are minor heads that relate to Military Farms, ECHS, Inspection Organization, Rashtriya Rifles, National Cadet Corps and Joint Staff but under each of these minor heads, the sub-heads are structured differently. The following Table 2 would make the position clear.

The position is not very different in so far as Capital Outlay on Defence Services is concerned. This would be evident from the fact that while Military Farms, ECHS, Rashtriya Rifles and National Cadet Corps appear as separate minor heads: under sub-major head 01-Army and Joint Staff appears as a minor head; under the sub-major head 02 – Navy, Inspection Organization appears as a separate sub-major

Table 1: Minor Heads under Revenue Expenditure of Defence Services

Army	Navy	Air Force	Ordnance Factories	Defence R&D
Pay & Allowance Army	Pay & Allowance Navy	Pay & Allowance Air Force	Direction & Administration	Training
Pay & Allowance and misc expenses of Auxiliary Forces	Pay & Allowance of Reservists	Pay & Allowance of Reserve and Auxiliary Forces	Research & Development	Research/ Research & Development
Pay & Allowance Civilians	Pay & Allowance Civilians	Pay & Allowance Civilians	Maintenance Machinery & equipment	Pay & Allowances of Service Personnel
Transportation	Transportation	Transportation	Manufacture	Pay & Allowance of Civilians
Military Farms	Repairs & Refit		Transportation	Transportation
ECHS			Renewal & Replacement	Stores
Inspection Organisation				Works
Stores	Stores	Stores	Stores	Other Expenditure
Works	Works	Works	Works	
Rashtriya Rifles	Joint Staff	Special Projects	Transfer to Renewal Reserve Fund	
National Cadet Corps			Other Expenditure	
Other Expenditure	Other Expenditure	Other Expenditure	Deduct Recovery for supply made to Services	

head (No. 06) with just one minor head related to works. Expenditure on modernization or capital acquisitions accounts for more than 75 per cent of the entire capital outlay. It is an area of defence expenditure that attracts a lot of attention. Yet, there is no separate sub-major head or minor head which caters exclusively to this expenditure. One has to add up the figures shown under various budgetary heads to know what the budgetary allocation for modernization is in a given year, provided, of course, one knows which budgetary heads relate to modernization.

Table 2: Differently Structured Sub-heads

Military Farms	ECHS	Inspection Organisation	Rastriya Rifles	NCC	Joint Staff
Pay of Staff	Pay & Allowance of service personnel				
Over time Allowance	P&A of employed contracted staff	P&A of civilians	P&A of specially appointed personnel	P&A of civilians	P&A of civilians
Medical Treatment	Transportation	Misc. Expenses	P&A Civilians	Transportation	Miscellaneous Expenses
Purchase of Fodder	Stores	Transportation	Miscellaneous Expenses	Stores	Transportation
Production charges	Info Tech	Purchase of Material	Transportation	Revenue Works	Stores
Transportation	Medical Treatment	Expenditure on works	Stores	Expenditure on Training	Expenditure on works
Miscellaneous Expenses	Miscellaneous Expenses	Info Tech	Expenditure on works	Info Tech	
	Revenue works	Training of civilian personnel			

Expenditure on Border Roads

Border Roads Organization was set up more than four decades back to develop and maintain operational road infrastructure in the border areas not just to ensure that the lines of communication remain open during hostility but, more importantly, to facilitate socio-economic development of the border states. It is administratively controlled by the Border Roads Development Board, which is integrated with the Ministry of Defence. However, its budget is provided for in the Demands for Grant of the Ministry of Road Transport and Highways. Considering the nature of expenditure and the system of administrative control, it requires a serious consideration whether this arrangement has any advantage vis-à-vis inclusion of its budgetary allocation in one of the Demands for Grant of the Ministry of Defence.

Concordance between Expenditure Heads and Receipt/Recovery Heads

Defence budget is a 'net' budget. The gross budget for the current financial year is Rs. 1,09,000.74 cores but the a total amount of Rs. 3,400.74 cores is estimated to be

generated by way of receipts and recoveries during the current year on account of, for example, sale of dairy produce, contribution made by ex-servicemen for becoming members of the ECHS, sale of surplus stores and recoveries on account of services rendered to other departments. Thus, it is the 'net' amount of Rs. 1,05,600 (Rs. 1,09,000.74 cores minus Rs. 3,400.74 cores) that is actually the 'budget estimate' for defence for the current year. Higher receipts and recoveries do not imply higher availability of funds to the Services/Departments. It is the net budget approved by the Parliament that is actually available for spending during the year.

Receipts and Recoveries are shown separately in the Defence Services Estimates under various minor heads but these minor heads do not correspond to the expenditure minor heads in all the cases. The receipts and recoveries are also not

Table 3: Expenditure and Receipt/Recovery Minor Heads under the Demand for Army

Expenditure Heads		Receipt Heads		Recovery Heads	
101	Pay & Allowance - Army	101	Pay & Allowance - Army	101	
102	Pay & Allowance and Misc expenses of auxiliary forces	102	Pay & Allowance and Misc expenses of auxiliary forces	102	
103		103	Pay & Allowance of civilians	103	
104	Pay & Allowance of civilians	104	Works	104	Pay & Allowance of civilians
105	Transportation	105	Military Farms Stores	105	
106	Military Farms	106		106	Military Farms recoveries
107	ECHS	107	ECHS	107	
108		108		108	
109	Inspection Organization	109	Services and Supplies	109	
110	Stores	110	Stores	110	
111	Works		Cantt. Land & Estates		Works Recoveries
112	Rashtriya Rifles	112		112	
113	National Cadet Corps	113		113	
800	Other Expenditure	800	Other Receipts	800	

indicated under the relevant expenditure minor heads to arrive at the net figures. The following illustrative Table in respect of the expenditure minor heads and the receipts/recovery minor heads under the Demand for Grant for Army would illustrate the point.

It is not just the absence of correspondence between the expenditure minor heads and the receipt/recovery minor heads that requires to be addressed. At present, the amount on account of receipt and recovery also does not get reflected clearly under the relevant expenditure minor heads. To illustrate, while the Defence Services Estimates for the current year (2008-09) show receipt of Rs. 13 cores under Receipt Minor Head 105 Military Farms and recovery of Rs. 1 crore under Recovery Minor Head 106 Military Farms, there are no corresponding entries under the Expenditure Minor Head 106 Military Farms. The amount of Rs. 291.35 cores shown as the budget estimates for 2008-09 under the Expenditure Minor Head 106 Military Farms is the allocation for Military Farms net of the receipts and recoveries, without indicating the gross amount. This makes it difficult to make out the gross and net figures under a particular minor head/sub-head at a glance.

Format of Defence Services Estimates Volume II

The Group of Ministers on Reforming the National Security System had recommended the constitution of a Study Group headed by a senior officer of the Finance Division to make recommendations on budgetary reforms in Defence. A Study Group was accordingly constituted in June 2001 under the then Secretary (Defence Finance) with members drawn from the Ministry of Defence, Ordnance Factories Board, Defence Research & Development Organization, the three Services and the Controller General of Defence Accounts. In its report, the Study Group had recommended, *inter alia*, that the Defence Services Estimates should be printed in two volumes, with the second volume reflecting allocations up to the Code Head level in respect of each Demand for Grant. The second volume was expected to be made available to the Budget Holders before the commencement of the ensuing financial year to facilitate planning and implementation of the financial and physical activities right from the very first day of the financial year. The Study Group expected that this would bring about a change in the trend of low progress of expenditure vis-à-vis the budgetary allocations during the first few months of the financial year. The Study Group had also recommended that in addition to the code head-wise details, a Budget holder-wise summary sheet in respect of all the allocations should also be included in the second volume to provide a co-relation between the Budget holder and the budgetary allocation made to him under each head for a financial year.

In pursuance of these recommendations of the Study Group, Finance Division of the Ministry of Defence has been publishing 'Defence Services Estimates Vol. II' every

year since 2002-03. The main Defence Services Estimates, presented to the Parliament, without being referred to as Vol. I, contain major head-wise details of the budget estimates for the subsequent year, as well as the budget and revised estimate for the current year and actual expenditure for the previous year. The Defence Services Estimates Vol. II is an expanded form of the aforesaid Defence Services Estimates. This volume provides detailed information in respect of the estimates presented to the Parliament. The budget allocation is reflected up to sub-head/detailed head level. Apart from this, Budget holder-wise summary sheets are also provided in this volume in respect of the three Services, bringing out the co-relation between the Budget holder and the accounting heads. This volume is meant for the internal use by the Ministry of Defence, Services and other Departments.

The Foreword to DSE Vol. II for the year 2008-09 says that it is expected that the details furnished in the volume would facilitate better monitoring of expenditure vis-à-vis the budgetary allocations and also that the volume is aimed at enhancing accountability and transparency in budgetary allocations. It is doubtful whether the intended objectives of this volume are being achieved. For one, the volume is generally never available before the commencement of the financial year as the budget itself is seldom passed by the Parliament before the commencement of the financial year. The Services and other departments also take some time to prune down their projected allocations under various heads to remain within the allocation made, which is, almost invariably, less than the amount projected. Consequently, the second volume of the Defence Services Estimates generally becomes available any time between the third month and the fifth month of the financial year. Thus it does not fully serve the purpose of facilitating planning and implementation of the financial and physical activities, as envisaged by the Task Force. In fact, some reservations have been expressed by the Services and other Departments in the past about the utility of this publication from the point of view of budgetary control. It has not really helped in achieving a more even trend of expenditure, checking revenue expenditure or ensuring improved utilization under the capital heads.

The Government of India has been increasingly emphasizing on outcome budgeting being adopted by various Ministries and Departments of the Government of India. Though the Ministry of Defence is presently exempted from preparing outcome budget, it is generally accepted that the underlying principles of outcome budgeting should be applied to defence budget. There are indeed a number of organizations and activities covered by the defence budget that are ideally suited for outcome budgeting as those organizations and activities are distinctly identifiable and their performance and outcomes clearly measurable. In fact, a beginning has been made by the Ministry of Defence by identifying some such organizations and instructing

them to prepare outcome budget even if it would be only for internal use. Defence Services Estimates Vol II needs to facilitate outcome budgeting. It needs to be studied whether the present format, which focuses on 'Budget holder' rather than the 'Budget spender', could serve as an aid for outcome budgeting. The need is to identify the organizations and activities that are distinctly visible and have clearly defined and measurable outcomes and to indicate the allocation made to them under various budgetary heads in DSE Vol II. This would facilitate better expenditure management by those responsible for spending the allocation and bring in accountability as it would be possible to co-relate expenditure with achievement of the predetermined outcomes. This would need to be supplemented by a paradigm shift in the scheme of delegation of financial powers with full powers being delegated to the heads of such organizations for incurring expenditure within the allocated budget and subject to stringent rules, regulations and procedures.

The Need for Review

The primary reason why the way the Demands for Grants are presently structured warrants is undoubtedly to generate a balanced and informed debate on defence expenditure, which accounts for more than 14 per cent of the central government expenditure. Any such debate must be based on accurate information and not perceptions. This is possible if:

- The Defence Budget truly reflects the expenditure incurred on defence.
- The outlays are shown in a manner that lends itself to a clearer understanding of what the expenditure is incurred on.
- There is a clear co-relation between expenditure and receipts/recoveries for a better understanding of the performance.
- Outlays are shown in a manner that makes every authority responsible for 'spending' aware of the allocation made to him under different heads and the targets/objectives he is expected to achieve with the given resources.
- The explanatory memoranda in the Defence Services Estimates and the information contained in various appendices thereof provide better understanding.

Restructuring of the Demands for Grant

The primary task is to review the classification of expenditure under various Demands for Grant so that each Demand reflects the outlay connected with a particular Department(s)/Service with greater accuracy. It would imply taking action on the following lines:

- Transferring JAKLI from the Demand for Grant for Ministry of Defence (Civil) to the Demand for Grant for Army.
- Including in the Demand for Grant for Ministry of Defence (Civil), budget outlays in respect of such organizations as the Rashtriya Rifles and the National Cadet Corps.
- Also including in the aforesaid Demand, outlays on account of activities such as the Republic Day Celebrations, welfare schemes like Op Sadbhavana (assuming that expenditure on this account would continue to be borne by the Ministry of Defence) and organizations such as the Directorate of Public Relations.
- Considering inclusion of outlays on Border Roads could in the Demand for Grant for Ministry of Defence (Civil).
- Taking out from the Demand for Grant for Army, outlays in respect of Military Farms, ECHS, DGQA and several other activities, as explained earlier in this paper, that are not Army-specific.
- Taking out from the Demand for Grant for Navy, outlay in respect of Joint Staff.
- Creating a new Demand for Grant within the Defence Services Estimates under which outlays for all organizations and activities, which have inter-services implications, could be included. This new Demand for Grant could include outlays in respect of Military Farms, DGAFMS, MES, Directorate General of Resettlement, etc.
- Including in the Demand for Grant for Ministry of Defence (Civil) provisions for Grants-in-aid to organizations such as the Mountaineering Institutes.
- Shifting outlay on ECHS and other welfare schemes to the Demand for Grant for Defence Pensions, with suitable change in the nomenclature of the Demand.

It needs to be understood that the restructuring of the Demands for Grant would not result in more funds being available to any Services. This is perhaps one of the arguments why the much needed restructuring does receive the kind of attention it deserves. The advantage lies in there being better management of the budgetary allocations by the Financial Planning Directorates if the budget they are called upon to manage relates to the domain under their direct control. It would also facilitate a better macro-management and monitoring of budget by the Ministry of Defence.

Rationalisation of the Minor Heads

The suggested restructuring of the Demands for Grant is only indicative of the kind of readjustments that need to be considered. This may, however, not be enough. It

would be equally important to attempt rationalization of the budget heads in such a manner that these reflect the broad objects of expenditure and visible activities, expenditure in respect of which needs to be monitored. This exercise is already overdue. Some amount of uniformity, though not essential, would do no harm. While it calls for a massive exercise to determine what changes in the budgetary heads would be desirable, a few examples would illustrate what such an exercise must aim at.

All expenditure on purchase of fresh and dry rations, petrol and petroleum products, animals, ordnance stores from ordnance factories and trade, medical and veterinary stores, engineer stores, airframes and engines, aviation stores, all information technology related stores (including hardware, software and maintenance) and R&D projects of Army is incurred out of allocation made under Minor Head 110 Stores in the Demand for Grant for Army. Most of this expenditure is related to operation and maintenance of equipment and systems. Petrol and other petroleum products account for a large proportion of this expenditure. It would perhaps make greater sense to have a budgetary head which reflects the allocation for 'maintenance' of equipment and systems, with clear linkages with the outcomes. A separate budgetary head could cater to rations and clothing. Expenditure on purchase of stores that is not directly connected with either of these two could continue to be catered for under the budgetary head 'Stores'. This would help in focusing on essential requirements of the Services.

Each of the three Defence Services has a Directorate of Indigenisation, which is indicative of the kind of importance that the Government attaches to Indigenisation. There is, however, no distinct budgetary head that provides for the expenditure to be incurred by these Directorates on Indigenisation effort. This, and many other such activities that warrant special attention, should be distinctly visible in the restructured budget format. Such a restructuring would be equally important under the capital segment. As mentioned earlier, capital acquisition or modernization effort has been a matter of great concern. That being the case, it is inexplicable that there is no separate budgetary head for it. These concerns can be addressed by reviewing the existing scheme of budgetary heads by considering various alternatives.

Concordance between Expenditure Heads and the Receipts/Recovery Heads

The need to provide clear linkage between the expenditure heads and the receipt/recovery heads is self evident. This is a minor improvement that could be made in the format of the Defence Services Estimates without much difficulty but it would go a long way in establishing a link between expenditure under various heads

and the potential to increase receipts/recoveries under those heads. It would also facilitate a better understanding of the performance of such organizations as the Military Farms.

Review of the Contents of Explanatory Memoranda and the Appendices of the Defence Services Estimates

An effort was made to improve the contents of the explanatory memoranda in the Defence Services Estimates 2008-09 but there is a room for further improvement as some of these memoranda are still not adequately illustrative. Take for example, Minor Head 110 Stores in the Demand for Grant for Army. It has sub-heads from A to I but there are no explanatory memoranda for sub-heads F to I in the Defence Services Estimates. Or, take for example, sub-head D under Minor Head 800 other Expenditure which relates to Training of Personnel abroad. There is no corresponding explanatory memorandum in the Defence Services Estimates. Sub-head E under the same Minor Head relates to Departmental Canteens. The corresponding explanatory memorandum merely says that the provision under this sub-head is for meeting expenditure on Departmental Canteens. This is hardly explanatory.

Perhaps Demand for Grant for Ordnance Factories best underscores the need for paying attention to this aspect of proposed reforms. There are nine Minor Heads under this Demand but it is only in respect of two of them that explanatory memoranda are given in the Defence Services Estimates. There are minor heads such as Research & Development, Manufacture and Renewal & Replacement that are not even self-explanatory. There is certainly a need for greater clarity and transparency in this regard.

There is similarly a need for reviewing the contents of the Appendices of the Defence Services Estimates. There is a need for providing more information related to budgetary process, supplementary demands, expenditure management and other related aspects. There is also a need for greater clarity in regard to aspects such as re-appropriation. The need to retain the appendix that provides details of provision for medical services needs reconsideration.

Restructuring DSE Part II

No other aspect of proposed reforms requires greater attention than restructuring of what is presently called Defence Services Estimates Vol. II. This is because the details contained therein are perhaps not being fully made use of, though there is a great potential for that. There is a need for a paradigm shift. To begin with, it need not

be called *Defence Services Estimates Vol. II* for the simple reason that the other volume, presented to the Parliament is not called Defence Services Estimates Vol I. More importantly, its format needs to be reoriented to provide for 'budget spender-wise' allocations under various heads, rather than, or in addition to, the 'budget holder-wise' allocation. It is ultimately the spender who is best placed to exercise control over expenditure. It may be easier said than done but an effort has to be made all the same. There is a need to identify all composite organizations, such as the Depots, Workshops, Dockyards, Training Establishments, Regimental Centres, and allocations under various budgetary heads shown against each one of them. The allocations shown therein must be considered sacrosanct for the purpose of exercising control over expenditure vis-à-vis allocation and achieving clearly defined objectives that must, of course, to be set for them well in time in measurable terms.

It may not be possible to ensure that these details are available to all concerned before the commencement of the financial year but it must be made available immediately after the budget is passed by the Parliament and head-wise allocation is finalized by the Services and the Departments. The document, at present, is not conducive to easy comprehension. The possibility of making it more user-friendly needs to be considered more seriously. While reviewing the format the objective of making it an instrument that would facilitate outcome budgeting must not be lost sight of. This is urgently needed for efficient utilization of budgetary allocations and expenditure management.

Conclusion

A healthy public discourse could infuse much needed fresh ideas in the management of huge defence outlays. This would be possible only if budget outlays are presented in a demystified format, improving the content of explanatory memoranda so that there is better understanding of the objects on which expenditure is incurred and providing linkages between outlays and outcomes in as many areas as possible, without, of course, compromising on security imperatives. There could be several alternatives for improving the existing system and, indeed, a very careful and detailed examination would need to be carried out but a beginning has to be made. The suggestions made in this paper are only an attempt at making such a beginning. 

Notes

1. These figures are bound to undergo change at the Revised Estimates stage primarily because of the additional sums of money required to meet the increased expenditure on account of pay & allowances following the implementation of the recommendations of the sixth central pay commission.

2. The Demand numbers are allocated by the Ministry of Finance and may change from year to year.
3. These figures will also undergo change at the Revised Estimates stages because of the implementation of the 6th Central Pay Commission recommendations
4. These figures will also undergo change at the Revised Estimates stages because of the implementation of the 6th Central Pay Commission recommendations
5. According to the SIPRI, which is one of the few reputed organizations that compile data on defence expenditure, military (read defence) expenditure includes all current and capital expenditure on:
 - The armed forces, including peace keeping forces;
 - Defence ministries and other government agencies engaged in defence projects;
 - Paramilitary forces when trained, equipped and available for military operations; and
 - Military space activities.

SIPRI does not include in the definition of military expenditure, any expenditure incurred on civil defence and current expenditure on previous military activities, benefits for the veterans, demobilization, arms production facilities and destruction of weapons.