

Address at the Inaugural Session of the Seminar on Defence Budget

*Harjeet Kaur Pannu**

Defence budget accounts for a significant proportion of the central government expenditure. For the current year, the revenue and capital budgets of defence account for more than 20 and 80 per cent of the entire non-plan revenue and capital budget respectively of the central government. This translates into Rs 57,593 crores as revenue budget and Rs 48,007 crores as capital budget for defence. Allocation for defence has generally been the second largest single head of expenditure in the non-plan segment of the central budget. These allocations have always involved huge sums of money but there is a section of strategic thinkers who believe that the allocations for defence have generally been grossly inadequate. While this may or may not be true, the fact remains that the resources are limited, especially for meeting the increasing requirements under the revenue heads as revenue expenditure has a direct bearing on government's statutory obligations under the Fiscal Responsibility and Budget Management Act. It is my assessment that the perception of inadequacy of allocations for defence is based largely on the crunch under this very head. At least in the recent years allocations under the capital head have not been a problem. These issues can best be understood if one looks at the budget trends and the potential resource base.

This is what also underscores the importance of planning as the basis of budgeting. It is no secret that history of defence plans has been very encouraging. The 10th Defence Plan did not reach its culmination. The 11th Plan has also not reached its culmination though the process was started and projections finalized much before the commencement of the plan period in April 2007. So what has been going wrong? What is it that needs to be done to ensure that the defence plans, considered an essential requisite for smart budgeting, are in place before the plan period commences? What does the history of defence plan tells us about it? What lessons can we learn for the future? What about the impact of the state of defence planning on the process of budgeting? Are these mutually exclusive processes? Has the process of defence budgeting suffered because of the absence of duly approved defence plans? The first session on historical analysis of defence plans, budget trends and potential resource base would throw up answers to some of these issues. A fresh look at these issues is very essential if we want to improve our systems.

*Harjeet Kaur Pannu is Financial Adviser (Defence Services), Ministry of Defence, Government of India. This is the full text of the speech delivered at the inaugural session of the National Seminar on Defence Budget at the Institute for Defence Studies and Analyses, New Delhi, on November 20, 2008.

The resources are limited and a few would doubt this. There is no nation in the world which can afford to spend what it would ideally like to spend. This is true of the biggest military spenders as much as it is true of the nations that are struggling with their economies. In so far as our defence expenditure is concerned, the recurrent criticism of its inadequacy overlooks the fact that the managers of the financial resources have as much stake in the defence, security and sovereignty of the country as anyone else. But they also face the challenge of equitable distribution of resources. The task becomes all the more difficult if those responsible for resource allocation are also responsible for resource generation. It is difficult to envy the task of the Ministry of Finance. Perhaps the dilemma of the resource allocation would be understood if emphasis was laid in the social sector, which includes education and health accounts for less than one-tenth of the defence allocation. But however hard and difficult they may be, these decisions have to be taken.

Similar challenges are faced by us in the Ministry of Defence. Resource allocation amongst various service and departments are as much of a challenge for us as it is for the Ministry of Finance to allocate resources for various sectors. One has to strike a balance between the need to mete out similar treatment to all the services and departments and the imperative of taking into account special requirements. It can be assured that one tries to be as fair and objective as possible and this is the same challenge that is faced by the Financial Planning Directorates when they have to allocate resources down the line.

Budget is the culmination of the defence planning processes. The kind of detailed information about defence budget that is available in the public domain in India is quite unparalleled. Yet, paradoxically, there is hardly any informed debate on defence budget beyond the strategic community. Probably, one of the main reasons why the defence expenditure is a restricted debate is the difficulty in understanding the nuances of the budget as reflected in the budget document - the Defence Services Estimates. The last serious effort at budgetary reforms was made in 2001-02 when a Study Group was set up on the recommendations of the Group of Ministers. Many changes were made on basis of the recommendations of the Study Team which was headed by the then Secretary (Defence Finance). The main changes recommended by the Study Group included the expansion of Defence Services Estimates into two volumes, creation of a separate Demand for Grant for DRDO, which was till then a part of the Demand for Grant for Army, gradual introduction of Programme based budgeting, changes in classification life-cost criterion for classification of expenditure as capital, booking the expenditure on account of DGOF supplies of capital nature to capital heads and creation of some minor heads.

Reforms are a continuing process. It is high time we took stock of the impact of the changes made on the basis of the recommendations of the Study Group. There are

also other issues which were either not within the purview of the Study Team or have cropped up since then. The primary issue is related to definition of 'defence expenditure'. It needs to be debated whether all that is presently considered as a part of 'defence expenditure' should actually be considered as a part of defence expenditure. This would include expenditure on such organizations and schemes as the National Cadet Corps, Ex-servicemen Health Scheme, Op Sadbhavana, etc. There are other issues as well, including the question of adopting outcome budgeting in defence. Though the Ministry of Defence is presently not required to present outcome budget to the Parliament, it was strongly felt that it would be desirable to adopt outcome budgeting at least for some selected organizations and activities. Consequently, some organizations were identified and instructed to prepare outcome budget, commencing from the current financial year. These efforts notwithstanding, serious doubts continue to be raised about the feasibility of outcome budgeting in the context of defence budget. It is important to lay to rest apprehensions on this account. We look forward to concrete suggestions regarding budgetary reforms and modality of introducing outcome budgeting in all those areas of defence expenditure where it would serve the intended purpose of linking outlays with outcomes and benchmarking the achievements against targets. It was for the first time in several years that the defence budget for the current year was discussed by Lok Sabha. Hopefully, with systemic demystification of the Defence Services Estimates formats and extensive coverage of defence expenditure by outcome budgeting, there would be more frequent discussions in the Parliament which would, in turn, bring defence budget to the centre stage of public discourse.

Despite the best intentions, we have not really made much headway in introducing programme based budgeting in defence. What has gone wrong and what needs to be done, assuming, of course, that there is a pressing need for adopting programme budgeting? Are there linkages between outcome budgeting and programme based budgeting? If so, what needs to be done to harmonize the two? What can we expect to achieve through outcome and programme based budgeting? What are the best international practices in this regard? Are there any lessons out there for us? Efficient budgeting depends on a smart MIS which transmits data on a real-time basis. ICT (Information and Communication Technology) should be fully exploited for improving the system of budgeting and expenditure management. The challenges are innumerable, not the least of which is to recognize the potential of ICT and meet the deadlines of ambitious projects that would revolutionize the functioning of the systems. 