

# Assessing the Scope of Outcome Budgeting in Defence

*S. C. Pandey\**

As amply demonstrated by the continuing global financial crisis, whether in the affairs of companies or governments, the key issue is good governance. A consideration for long term impact of current actions and decisions and systemic oversight should guide corporate or fiscal affairs and not compromised for short-term gains. Both foresight and oversight are equally important elements of good governance structures. The Outcome Budget is conceptually part of a broader framework of prudent budget management being ushered under the Fiscal Responsibility and Budget Management Act, aided by other institutional efforts like the Right to Information Act to work for an open and accountable government.

This paper traces the evolution of the concept of Outcome Budget; examines the linkage between defence budgeting and defence planning in Indian context and the issues/concerns arising out of the present system before examining the scope of introducing Outcome Budget for defence and security apparatus in India.

### Performance Budgeting

Based on the recommendations of the Administrative Reforms Commission in their Report on "Finance, Accounts and Audit", a system of performance budgeting by ministries handling development programmes was introduced in 1969. Programme/performance budgeting involves the identification of functions, programmes and activities, determination of their costs, laying down standards of performance, workload data, etc. The Performance Budget document is presented by specified ministries along with their annual report and detailed demands for grants shortly after the presentation of general budget. The financial budget gives current year's revised estimates and next year's budget estimates in financial terms whereas the Performance Budget is supposed to detail the physical performance expected to be achieved from the projected expenditures.

Unfortunately, the Performance Budget did not get the importance it deserved. There were no incentives or penalties for the government agencies, say in terms of budget allocation, to be accountable for the promised performance. Budget

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\*Dr. S. C. Pandey is an Additional Financial Advisor & Joint Secretary, Ministry of Defence.

allocations in successive years were made following a different set of norms in which actual performance on ground was only a peripheral parameter. The emphasis was on getting more budget allocations and “spending” more, which may be “spending” in a technical sense that the money has merely left the government's cash chest. Whether it has been actually used for intended purposes, diverted or parked in some extra-governmental account was left to be discovered by auditors and researchers. Finance Ministry asks the ministries not to release more funds until they have a satisfactory account of the funds given earlier but the ministries devise expedients lest the budgeted outlays remain 'unutilized' and lapse. As if, the government treasury is going to be closed. Surrender of budget funds seems to bother more than non-delivery of promised performance. At another level, the tendency of 'full utilization of budgeted outlays', seeking earmarking of funds, non-lapsable reserve funds etc. are symptomatic of a lack of faith in the fairness, sense of planning, and long term commitment in the budget allocation process. Disconnect between operational and budget planning is a common sight.

The performance budgeting framework in vogue since 1969 suffered from neglect due to a lack of clear one-to-one relationship between the financial and the performance budgets and inadequate target-setting in physical terms for the ensuing year. Besides, there is a growing concern to track not just the more readily measurable intermediate physical “outputs” but the “outcomes”, which are the end objectives of State intervention.

### Outlays, Outputs and Outcomes: Terminology

To settle the terms we shall be using frequently (Budget) “Outlays” refer to the financial resources placed at the disposal of an agency under an approved budget. “Inputs” are physical resources (like man-power, materials, and services) financed by the outlays. “Outputs” are a measure of the physical deliverables (like a school or hospital) of a government scheme or programme. They are usually an intermediate stage between 'outlays' and 'outcomes'. For example, mere construction of a school building is the 'output', while increase in the literacy rate is the 'outcome' or 'impact'. Outcomes or impact are the end results of various government initiatives and interventions. Going beyond mere 'outputs', they cover the quality and effectiveness of the goods or services produced as a consequence of state intervention. In poverty monitoring, impact is placed at a higher level than outcomes. Overall well-being or living standards of the poor is treated as a higher level impact with outcome defined as the poor's access to and use of goods and services. In a professionally evolved Outcome Budgeting system, both outputs and outcomes can be measured through carefully designed performance indices in terms of goals and targets.

## Mutation of Performance Budgeting to Outcome Budgeting

The background for mutating the dysfunctional performance budgeting system with an Outcome Budgeting system was set with the passage of the Fiscal Responsibility and Budget Management Act, 2003 that came into force on July 5, 2004.<sup>1</sup> There were persisting concerns that the FRBM Act with its legislated targets for debt and deficit reduction would lead to a compression of public expenditure, especially developmental expenditure. Nothing could have been farther from truth. The government was keen to send a strong message that it was not aiming to cut expenditure budgets. Instead, the government was keen to improve the “quality and content” of public expenditure and consolidation of public expenditure portfolio to provide focused attention to certain Flagship Programmes of nation building and distress reduction. The outcome budget sprang up with such forethought. While presenting the Budget for 2005-06, the Finance Minister declared, through the Fiscal Policy Strategy Statement appended with the Budget as required under the FRBM Act and his Budget Speech (para. 100), the government's resolve “to put in place a mechanism to measure the development outcomes of all major programmes” as the Prime Minister had been emphasizing the need to “improve the quality of implementation and enhance the efficiency and accountability of the delivery mechanism”.

Outcome Budget is an extension and refinement of the concept of Performance Budget in vogue since 1969. It goes beyond outputs typically discussed in traditional Performance Budgets and also talks of outcomes, the ultimate objectives of state intervention. Thus, while construction of school building may be one measurable output but more remotely placed are ultimate outcomes like enrolment, retention, and good academic performance of students. If properly implemented as per intent, the 'outcome budget' can be a powerful institutional mechanism to focus attention to the fructification of ultimate intentions behind making expenditure provisions in the budget.

The process of conversion of outlays into outcomes is long and complex one, which differs from ministry to ministry and programme to programme, with several intermediate stages and complementary resources required in achieving intended impact. The cause and effect chain is not always direct, and several environmental factors influence the actual impact and outcomes. Some of the important steps in this conversion process are as follows:

- Outcomes to be specifically defined in measurable and monitor-able terms; intermediate outputs should also be defined wherever required.
- Standardising unit cost of delivery.

- Benchmarking the standards/quality of outcomes and services.
- Capacity building for requisite efficiency at all levels, in terms of equipment, technology, knowledge and skills.
- Ensuring flow of right amount of money at the right time to the right level, with neither delay nor “parking” of funds.
- Effective monitoring and evaluation systems.
- Involvement of the community, target groups, recipients of the service, with easy access and feedback systems.

Efficient conversion of outlays into outcomes would, therefore, require making the delivery systems effective with appropriate structures and processes, strengthening financial management systems, increasing use of information technology. Ministries have to play a crucial role in defining and delivering their intended outcomes, with a strong sense of ownership. This sense of ownership, in turn, would need to be shared down the line up to the cutting-edge levels, through effective communication.

After lot of preparatory work, the Outcome Budget 2005-06, with a conceptual framework and a broad roadmap of future reforms in this area, could be presented to Parliament as late as on August 25, 2005. It was a single document, rather unwieldy covering almost all ministries. Guidelines for Outcome Budget 2006-07 was issued to ministries on December 30, 2005<sup>2</sup> in which the work was decentralized. The guidelines were augmented for next Outcome Budget (2007-08).<sup>3</sup> These were basically a reiteration of basic norms set in the circular dated December 30, 2005 with the following important additions/modifications:

- There would be only a single document titled Outcome Budget 2007-08 merging the Performance Budget 2006–07 into Outcome Budget 2007-08.
- It was stipulated that the Outcome Budget 2007-08 documents should bring out details of the monitoring mechanism and the public information system put in place by the ministry to regularly monitor physical and financial progress during the course of the year and inform general public about it as well.
- A new section has been added at the end of the new guidelines titled “Follow up action after presentation of Outcome Budget”, which emphasizes the fact that the real value of Outcome Budget lies in its utility as a policy tool to establish effective linkage with allocation and disbursement of public funds on the basis of measurable performance.
- The ministries were asked to ensure a staggered and controlled release of

funds in time for actual requirement so that the funds are neither delayed, nor diverted nor parked outside government account.

## Outcome Budget and Ministry of Defence

Ministry of Defence and some others have been exempted from the requirement of presentation of Outcome Budget to the Parliament partly due to concerns on level of disclosure of operational matters and partly due to a realization that outcomes of defence spending are difficult to spell out in “quantifiable/monitor-able” terms. However, even the “exempted” departments were requested to carry out this exercise for internal use and voluntarily decide to place it in public domain, fully or partially.

One of the first and perhaps the only effort at exploring the feasibility of outcome budgeting in Ministry of Defence was made<sup>4</sup> by Shri P. R. Sivasubramanian, former Financial Adviser, Defence Services. He observed that the budget documents have become quite static in terms of structure, content and communication of results. With the demands of those needing information from the budget changing with time, reforms in the structure and content of the defence budget have become overdue. The criticism of the present system is that it is largely input oriented. It focuses on expenditure in generic terms, i.e., in terms of pay and allowances, stores, transportation, etc., and not in terms of targets and its actuals. The budget is also devoid of details in a number of major components of expenditure. The figures of expenditure on certain categories such as 'stores', 'works', etc., are such that it is not clear as to why and for what the funds are provided. The budget is divided in terms of 'revenue' and 'capital'. Even in this regard, the classification was until recently carrying legacies of the past and did not reflect the basic nature of certain items. In several areas, assets of a capital nature were being classified under revenue. Consequently, capital assets were under pitched, especially in respect to the army. The omnibus nature of items under capital expenditure indicated as 'other equipment', 'aircraft', etc., do not reveal adequate information on specific items of expenditure, even where these are of large magnitude. The word 'maintenance' nowhere figures under revenue budget but is covered under 'pay and allowances', 'stores', etc. The appropriation accounts do not throw adequate light on physical achievements (outputs) in respect to a bulk of the items since the document is not intended to be an account on performance. However, there are exceptions. For two organizations - military farms and military engineering services - assessment of performance is given in separate sections. Under the present system, getting an overall picture of budget in financial/physical terms and the actual performance is not easy and requires a lot of derivation, collation of information. By and large, the

existing structure of the DSE with classification and sub-heads such as 'stores', 'works', etc., cannot facilitate the understanding of what is the outcome intended from the money spent on various items of expenditure related to defence. Even in an important area of maintenance of aircraft, it is difficult to derive from the budget that if Rupees "X" have been allocated for maintenance of an aircraft type "A", whether the required level of maintenance has been achieved. The existing system may show good financial progress with almost entire payments having been made in respect of an item, but the crucial phase of testing, which is vital towards achieving the final outcome, could drag on. Successful tests of many systems do not necessarily lead to a successful outcome or their timely induction into the armed forces. There are a number of other weaknesses in the system. The time taken for transactions is not reflected in the financial information reports pertaining to a budget, and a continuous update of information on liabilities incurred by various sanctioning/spending authorities is not available. He also noted with concern the absence of a synergized effort among various wings under the MOD for creating a comprehensive integrated report that would reflect the financial-cum-physical programmes. With additional details provided in DSE Volume II, internal expenditure control by the services/departments/MoD/MoD (Finance) has improved but it is purely financial control with no inter-relation with physical parameters. Concept of Budget Centres has facilitated evaluation of financial performance from field level and upwards. It helps in service headquarters in managing expenditure. However, defence budget and accounts continue to offer little insight to outsiders on the end result of budgeted expenditure.

He opined that an outcome budget can be evolved in MoD even within the existing structure and format of the budget without waiting for the development of a programme budget in a number of areas of activities in defence. He cites two specific examples of outcome oriented disclosures in the budget (a) quantum of funds provided for air defence, the cumulative total of such allocations in the budget over a period of time and the results achieved in providing protection against potential air attacks (b) present and cumulative progress in meeting the objectives of the self reliance plan, formulated in 1993, which aimed at 70 per cent self-reliance in certain areas of defence production over a 10 year period. He suggested a two-volume outcome budget, one for placing in public domain and another for internal use. He noted that a crucial aspect for achieving success in evolving any improved budgetary systems for evaluation of results in the defence set-up would be the development of a total and comprehensive financial information system. The review and monitoring of committed liability under various contracts and supply orders was also advocated as part of this exercise. He also warns against the danger of waning interest once the

new initiatives are taken up with fanfare. For example, the initial enthusiasm for creation of websites in various institutions, especially in the government sector, was not sustained thereafter due to poor maintenance in terms of updated information.

### Defence Planning: Trends and Concerns<sup>5</sup>

Before we proceed to discuss “outcome” of Indian defence budget, it may be instructive to note that unlike defence hardware acquisitions, which can be termed as “output” of defence budget, the “outcomes” are more long-term, intangible, and inter-linked with non-defence parameters. There can be no meaningful discussion on budget outcomes in a short-term perspective. Outcome Budgeting is impossible without long-term planning. Let us, therefore, pause to discuss macro trends in defence budgeting and planning first.

Concerned stakeholders have lamented the absence of an institutionalized, comprehensive strategic vision and long-term planning in our defence and security establishment. Some progress has been made in the current decade but a lot more needs to be done. The attempt for creation of the Defence Planning Staff in late 1980s did not go far until morphed into the present Integrated Defence Staff activated following the report of the Group of Ministers on national security (2001). In a succinct and candid articulation of defence planning in India, Admiral Arun Prakash, then Chairman of Chiefs of Staff Committee (COSC), disarmingly began<sup>6</sup> his speech recalling George Clemenceau's remark about war being "much too serious a matter to be left to the Generals" before tracing how moral politik and *ad-hocism* that has progressively given way to more structured responses in this vital area. Financial planning is largely acquisition planning rather than capability oriented planning. Financial planning and defence planning are as close as the two poles.

A 1996 report of the Parliamentary Standing Committee on Defence<sup>7</sup> is one of the earliest documentation of the political establishment seeking to put defence planning on a formal footing. Defining Defence Planning as the “formulation of policies and strategies that will govern the allocation of funds and acquisition, use and disposition of resources to achieve these objectives”, the Committee sought to put an end to *ad hoc* manner in which the budgetary outlays were proposed for Parliamentary approval and utilized. The Committee Report recognized that the national defence policy was an integral part of national security policy, which by its very nature was a multi-disciplinary in character. It unambiguously stated, “Defence Policy has to evolve from the identification and acceptance of national interests and their relative importance.” It also held the view that strategic policy of the nation “should be discussed publicly and referred to the conclusion of the Estimates Committee (1992-93) where in it was recommended that the country should have a

formal National Security Doctrine. Stressing the need for a formal defence policy document the Committee stated, “In the absence of any document explaining articulated policy with stated national objectives and national interests it is not possible for the policy to be analyzed and modified. The Committee, therefore, desired the Government to examine the feasibility of preparing a formal National Defence Policy Document for being placed before the Parliament.” The Committee was not convinced by the argument that there was a defence policy but there was no policy document. The Committee referred to the *ad hocism* in defence planning which was “evident from the fact that in a period of about 20 years, six Defence Five Year Plans were prepared but none could be completed for one reason or another and had to be either deferred or reframed midway. The Committee expressed its concern that 7<sup>th</sup> Five Year Plan could be finalized only in the last year of the plan. The 8<sup>th</sup> Plan (1990-95) – never approved ran into difficulty because of the Gulf War, resource crunch and adverse foreign exchange position. (The implementation of subsequent Five Year Plans has been similarly erratic). In the Committee's view defence policy, planning and management were inter-connected. The Committee made important recommendations regarding all the three aspects but the issues were discussed independently of each other in three separate chapters. The close linkage between management and planning was not emphasized nor did it discuss how defence planning and budgeting could be given an 'output' orientation. It was more concerned with the delay in approving the defence plans already submitted. We still do not have a clearly enunciated National Security Policy document, nor do we have a defence policy document. In the meantime the Committee of the Group of Ministers (GoM) formed to review the national security system, in its report in 2001 observed about the handicap the defence planning process suffered, by the absence of a National Security Doctrine.

Approval to defence projects/acquisitions has not been held up for want of an approved defence plan. Similarly, inclusion of a project/scheme, even in an approved plan, does not entitle it to be automatically cleared mainly because the plan does not have an assured funding, the items are usually included without full appraisal of cost and alternatives, priorities and preferences keep changing with change of key stakeholders leading to add-ons and substitution. Neither Government nor Services stay committed to a well-thought out, approved plan. It is generally perceived as an ad hoc compilation of the wish list of the Services. Shri A. K. Ghosh, former Financial Adviser, Defence Services, while analyzing the implications of the recommendations of the Parliamentary Committee (1996), asked:<sup>8</sup> 'If there are neither approved plans nor an articulated defence policy, how are the allocation and utilization of defence funds, defence acquisitions, “governed” and for meeting what “objective”?’

He remarked that in the debates about defence planning in India the basic issue of optimal resource allocation and utilization in defence, choosing doctrines and

techniques to get most out of available resources, does not get attention it deserves. Force planning is not the central concern of defence planners. Most analysts focus on need for long term commitment of budgetary resources for modernization meaning acquisition of new equipments in replacement of the old. So attention gets concentrated on the capital portion of defence budget. Since attention get concentrated on capital expenditure for planning purposes, need for establishing linkage between overall defence budget and defence planning is not felt. Pre-obligated expenditure commitments leave little new modernization schemes. Since our planning processes do not involve looking into the committed expenditure and obligatory expenditure, attention of planners get confined to provisions for new modernization schemes, which form a small portion of defence budget. In fact, the programme concept in formulating defence plan is totally missing. No wonder that defence planning and budgeting activities in India continue to remain in two separate compartments.

Since the Group of Ministers (GoM)<sup>9</sup> submitted its recommendations in 2001, it is the defence procurement which has received focused attention from the organizational point of view and for streamlining of procedures. 15 Year Long Perspective Plan (LTP), Five Year Services Capital Acquisition Plan (SCAP), Annual Acquisition Plans are being prepared to facilitate decision making on procurements. From this, one gets the impression that the main concern of perspective plans and five year plans are acquisition of weapons and equipments. The importance of formulating the 15 year perspective plan as the basis of both the five year plans and annual plan of acquisition indicates that all these plans basically are investment plans. A relevant point in this context is that defence planning is more about force planning and capability building than just about acquisitions.

In an incisive analysis, General Malik and Brigadier Kanwal<sup>10</sup> forcefully plead for an enlightened approach that can bring together military officers, historians, technologists and quantitative analysts for effective defence planning. Integrated perspective plan should aim at a force and capability planning by military, technical and R&D experts taking an integrated view of future threats, and challenges and recommending the needs-and-numbers in an optimum mix of level of different forces, force multipliers and appropriate technology that would best serve the purpose. It should be based on in-depth analysis of threat scenario, challenges likely to be faced in future, and evaluation of options and alternatives. It needs to be an integrated plan covering also R&D and defence production to meet the defence needs. These has to be based on future battlefield scenarios, and array of forecasts,

evaluation of strategic options and force mixes, analysis of potential technical and industrial capabilities. The role of military operational analyses and systems analyses to identify the most cost-effective programme of expenditure from future defence budgets, have to be given due importance. The acquisition plan should be a by-product of this top-down exercise rather than becoming the primary aim of perspective planning as seems to be the case, at least from the outside. This calls for looking at both operations, maintenance and capital budget for defence planning purpose.

Experts on defence planning are thus advocating shift to capability-based planning as opposed to threat-based planning. As is well known, the concept of capability based defence planning was introduced in the United States through the Quadrennial Defense Review, (QDR) 2001. Capability-based planning model for defence has now been ushered in many Western countries.

There is a tendency to equate capability planning as implying acquisition of more capable equipments than those in the inventory. Capability is defined as the ability to achieve “desired operational effects under specified standards and conditions through of means and ways to perform a set of tasks. A capability is not a platform or asset. It's the ability to achieve a desired result affecting the battle-space<sup>11</sup> Capabilities are identified based on tasks required. The concept of Capability Based Planning (CBP) recognizes the interdependence of systems (including materiel and people), doctrine, organization and support in delivering defence capability. It emphasizes the need to examine options and tradeoffs among the capability elements in terms of performance, risk and cost, so as to identify optimum force development investments. It focuses on goals and states and encourages innovation. It starts by asking questions regarding what we need to do rather than what equipments are we replacing.”<sup>12</sup> The outcome of CBP should be an effective investment strategy that develops and sustains the capability priorities identified through the planning process.

A CBP model would be difficult to adopt without operation analysis based on scenarios for force planning, detailed costing and joint organizations for structuring of forces and war planning. Without introducing jointness in force structure, and joint doctrine it is not possible to introduce capability based planning model and cost-effective planning. Recognizing the importance of jointness, the Group of Ministers (May 2001), stressed on the need for 'a holistic and integrated defence perspective plan for the 15-20 years' through a rigorous processing of Inter-Service and Intra-Service priorities. The Five Year Defence Plans by the Services should

be prepared based on LTIPP. What the GoM report did not stress was on that preparation of an integrated perspective plan was necessary for cost-effective defence planning and was not contingent on appointment of CDS.

The IDS, set up based on GoM recommendations, has evolved a Long Term Integrated Perspective Plan (LTIPP) (2002-2017). It was subsequently asked to work on a new LTIPP (2005-2022). The Plan is widely seen as sum total of the Plans of the Services without any serious effort towards inter-Service prioritization. The perspective plans of the Services have not been sanctioned by the Government and these have remained in-house exercise of respective Service.

The present military force structure is a result of cumulative additions to existing levels. The Five Year Plans have not addressed the issue of rationalization of force structure as these are basically acquisition oriented plans. Planning for an optimal force structure within the resources available has not been the major objective of the plans. Improving “tooth-to-tail ratio” which should be a major concern of defence management has not been given the importance it deserves. Government has imposed ceilings on manpower, but ceilings have been revised upwards from time to time on the basis of requirements indicated by the Service Headquarters. The Estimates Committee (1992-93) noted with concern how personnel costs pre-empt resources for force modernization.<sup>13</sup> The trend has not abated since then. There has been less and less to spend on acquisitions and replacement of obsolete weapon systems.<sup>14</sup> An integrated perspective plan based on long term costing of force structure, clearly keeping in view the likely availability of budgets, is essential. Preparation of an open-ended long term plan, without reference to cost and likely availability of budgets, would hardly be of any use. One should be realistic about availability of funds on a long term basis. Financial resources would be a major factor in determining the capabilities we can actually possess as compared to what the Services may wish for. Assessing cost of alternatives is essential to find out whether these are feasible alternatives. If there is no institutionalized system of costing of various elements of a proposed programme, then a vital input for strategic decision making, which involve choice among alternatives, would be missing.

### Australian Template of Outcome Budgeting in Defence

Australia has been following a system of capability-based defence outcome budgeting for more than a decade. The defence outcomes are the results that the Government seeks from Defence, and are achieved through the successful delivery of outputs. The seven outcomes and the 'outputs' under each 'outcome' are detailed below:

1. Command of Operations in Defence of Australia and its interests
  - 1.1 Command of Operations
  - 1.2 Defence Force Military Operations and Exercises
  - 1.3 Contribution to National Support Tasks
2. Navy capability for the Defence of Australia and its interests
  - 2.1 Capability for Major Surface Combatant Operations
  - 2.2 Capability for Naval Aviation Operations
  - 2.3 Capability for Patrol Boat Operations
  - 2.4 Capability for Submarine Operations
  - 2.5 Capability for Afloat Support
  - 2.6 Capability for Mine Warfare
  - 2.7 Capability for Amphibious Lift
  - 2.8 Capability for Hydrographic, Meteorological and Oceanographic Operations
3. Army capability for the Defence of Australia and its interests
  - 3.1 Capability for Special Operations
  - 3.2 Capability for Medium Combined Arms Operations
  - 3.3 Capability for Light Combined Arms Operations
  - 3.4 Capability for Army Aviation Operations
  - 3.5 Capability for Ground-Based Air Defence
  - 3.6 Capability for Combat Support Operations
  - 3.7 Capability for Regional Surveillance
  - 3.8 Capability for Operational Logistic Support to Land Forces
  - 3.9 Capability for Motorised Combined Arms Operations
  - 3.10 Capability for Protective Operations
4. Air Force capability for the Defence of Australia and its interests
  - 4.1 Capability for Air Combat Operations
  - 4.2 Capability for Combat Support of Air Operations
  - 4.3 Capability for Surveillance and Response Operations

- 4.4 Capability for Airlift Operations
5. Strategic policy for the Defence of Australia and its interests
  - 5.1 International Policy, Activities and Engagement
  - 5.2 Strategic Policy and Military Strategy
6. Intelligence for the Defence of Australia and its interests.
  - 6.1 Intelligence
7. Superannuation and housing support services for current and retired Defence personnel
  - 7.1 Superannuation Support Services for Current and Retired Defence Personnel
  - 7.2 Housing Assistance for Current Defence Personnel
  - 7.3 Other Administered Revenues and Expenses

## Suggestions on the Content of an Outcome Budget for Defence and Security

If we closely examine the guidelines and formats prescribed by the Ministry of Finance for civil ministries, one stark difference emerges between the budget documents of Ministry of Defence and the other ministries. The Statement of Budget Estimates included in the Expenditure Budget Vol. II of most ministries are laid out in terms of programmes/schemes and major organizations working for some well known objectives. The Defence Budget documents, by contrast, still follow largely a line item budgeting rather than programme-cum-scheme basis allocation. So it is classical input-budgeting paradigm. Before we can meaningfully talk of outcome budgeting in defence, we should have a programme/scheme orientation for making budget allocations.

From a consideration of the various issues about defence planning and need for programme budgeting, it may be seen that nothing can really change without serious effort being made to rationalize the force structure, bring in programme based budgeting with emphasis on costs of programmes, developing the alternatives to achieve the policy objectives and exercising choice among them on the basis of analysis and judgment to bring closer link between planning and budgeting. The introduction of PPBS (Programme Planning Budgeting System) in the United States Defence was to increase the impact of relevant analyses on high-level decisions by connecting them to budgeting via the programme concept. The defence budgeting has been largely unrelated to military strategy. They were treated as almost

independent activities, carried out by different people, at different times, with different terms of reference, and without a method of integrating their activities. One year at a time financial planning in the context of separate financial and force planning laid undue emphasis on this year's costs to the neglect of effectiveness and future costs. One need not be looking for long term financial commitments for planning, for that can never be made and can become an excuse for not planning. This planning has to be on the basis of programmes for capability building and it should be a continuous activity. 'Programming' can provide a bridge between defence planning and budgeting, which can make both output oriented. To say the obvious, unless the defence plan is output oriented, defence budget cannot be output oriented and unless costs of programmes are worked out in all its dimensions, the link between planning and budgeting would be very weak. The plans have to be reviewed to see whether the programmes (which have been costed) are affordable on the basis of available resources after meeting the competing needs. The consequences of today's decisions on future budgets are required to be worked out. So a medium-term framework for defence budgeting is absolutely essential.

So how does the preceding discussion on defence planning help in outcome budgeting? As discussed above, an Outcome Budget intends to relate the amounts budgeted with the results intended to be achieved. Acquisition of individual defence system or raising of military units by themselves are not the objective of the use of public funds. It is supposed to strengthen certain defence capability, which should come out of a capability based defence planning process. What are the present and future threats? What are the alternatives across the three Services and extended security set up to meet those threats? What is the most cost effective response, within the resource envelope committed by the government, to meet that threat?

For reasons of lack of availability of adequate data in public domain and the ignorance of the author in foreign languages, the search for outcome budgeting or its variants in defence on Internet threw up only the details of developed Anglo-Saxon countries like the USA, the UK, Australia and Canada which have introduced several budgetary innovations in a larger context that have also been made applicable to defence. Their history, geography, economics and war doctrines do not quite match with that of India so one should be cautious in simply importing those templates. Unlike them, we have disputed boundaries and our forces are face threats on a day to day basis even in 'peace time'. Low Intensity Conflicts, Counter-Insurgency, Left Wing Extremism, and Terrorism take a heavy toll of our defence and security resources.

With no template available in the Indian context, we need to work from the first principles. We do not harbour extra-territorial ambitions, do not export ideology,

India and seek peaceful resolution of all disputes.<sup>15</sup> So what does central government expect out of annually spending equal to 2.5 to 2.8 per cent of our Gross Domestic Product or nearly 1/6<sup>th</sup> of its total budget on in-service personnel in 'Defence Services' and the weapons and other infrastructure at their disposal? Ultimate objective of defence expenditure could be stated something like: To build credible and effective deterrence against misadventure; To build-up and keep ready on 24x7 basis a competent war machine against all potential adversaries; keep updating this war machine keeping in view the short, medium and long term threat perceptions that may keep undergoing changes in terms of profile of war-fighting capabilities of the adversaries; and to build/sustain indigenous capability as a credible insurance against denial. (To be realistic, the three markets – food, energy and armaments – are never going to be free from government controls. Hence, countries are well-advised to develop their insurance against choked supplies for whatever reasons - whether deliberate denial or supply bottlenecks).

Outcomes may be defined in terms of acquiring a certain capability (such as volume coverage of X per cent of airspace for surveillance on 24x7 basis or on an hourly refresh rate basis, area coverage of land/sea for surveillance, X time elapsed before an unfriendly plane is intercepted in air, or mobilization of forces and equipment at border X within time Y or retaliate an attack of type A with an counter-attack of Type B within time C or capability to neutralize threat of simultaneous engagement at front A and front B) in a certain time frame. Each of such capability build-up should be the basis of a programme covering different Services, DRDO, DPSUs and other agencies with a proper monitoring structure of its own and a basis of preparing an outcome budget. Equipping the armed forces whilst controlling costs and timelines. Mechanization of X per cent of Infantry Battalions by year Y may be an intermediate output and ability to defend a measurable area X at border Y may be an outcome. Acquisition of individual defence systems or induction/equipping of certain military units would then figure as mere 'projects' as a programme, encompassing both Revenue and Capital expenditures. These are few illustrative suggestions to define outputs and outcomes in defence budget.

Many aspects of defence management like housing, transport, hardware maintenance and other logistics have lower sensitivities in disclosures and more amenable to monitoring through quantifiable physical targets that can be linked to budget. For example, X per cent housing satisfaction by year Y can be an outcome for the defence budget boosting force morale. Similar budget-linked quantitative targets can be set for welfare of ex-Service personnel as part of Outcome Budget.

As recognized by the Ministry of Finance, while laying down the principles of outcome budgeting, achievement of certain objectives is not always within the

power of a particular ministry/department. Complementary funding and support of other agencies may also be needed to achieve its budgeted outcomes. (School, hospital or house ready without electricity or approach road or other supporting infrastructure to be provided by someone else) (The term “complementary extra-budgetary resources” in MoF guidelines refers to the resources committed for the purpose by the entities other than the Government, e.g., the State Governments, which are necessary to fructify the intended outcomes). This applies to Ministry of Defence as well whose efficacy depends on the outcomes of say Ministry of Home Affairs and External Affairs. Security goes well beyond strategic and military considerations, to involve political, economic, social, technological and even environmental factors. Emerging concerns also include dwindling energy and water resources, which could become the root of future conflicts. MoD can raise, train and equip Battalions which may not quickly reach border outposts. The outcome of 'ability to mobilize troops at the border X in Y days' may not be realized if the border roads infrastructure takes time to develop. Military's engagement with conflict management in troubled regions of the country is too well-known to bear reiteration. These aspects can be factored in a comprehensive capability-based planning document and then in the outcome budget.

As technology advances, cost of replacement of ageing weapon systems on a one-to-one basis is becoming prohibitive, with the result that the services are living with several generations of combat technology and need to constantly review fundamental assumptions of war strategy, force structure, level, length of colour service, force mix, outsourcing and jointness to improve efficiency and economy without compromise on effectiveness.

For last several years, total expenditure by the Centre and States has been of the order of 26 per cent of GDP with tax receipts being about 15 per cent of GDP. The governments have been taking away nearly 70 to 80 per cent of the household financial savings (which have hovered around 12 per cent of GDP), crowding out private investment and increasing dependence on foreign savings to supplement domestic resources. Government borrowings have attendant risks – unviable investments, inflation, high interest rates, crowding out of private investment, external vulnerability, inter-generational equity through deferred taxation etc. About one-third of public expenditure in India is financed by borrowings, which is in sharp contrast to big spending governments in the developed countries where the debt financing of public expenditure is 10 to 20 per cent of the total expenditure. Despite recent moderation in deficits, mainly due to tax reforms induced buoyancy and moderation in interest burden due to forex inflows, there is still a large overhang of accumulated liabilities. As per Budget Estimates 2008-09, total liabilities by year end are budgeted to be Rs. 30,62,613 crore (60 per cent of estimated GDP).

Therefore, without economic growth and concomitant expansion of tax base, it would be unrealistic to expect large increases in public expenditures. Needless to say, a pre-requisite for a credible outcome budget is a defence plan based on realistic assessment of resources. There has been a long-standing demand of the Services that the Defence expenditure should be pegged around 3 per cent of the GDP. *Stricto sensu* defence spending has no logical connection with external variables like GDP or total expenditure of the Government. Yes, it can have a nexus with adversaries' defence spending but that has seldom dictated fixing the defence budget at technical level. It is meaningless to peg Defence budget at a certain percentage of GDP (say 3 per cent of GDP) or a certain fixed part of total budget (say 1/6<sup>th</sup> of the total budget). These are just rounded scenarios of past trends. If our talented youngsters add to the GDP by capturing European BPO market or if recession or natural calamity shrinks the GDP accretion, should we necessarily tinker with Defence budget? Similarly, 'share in total expenditure' is an unacceptable parameter for fixing the size of defence budget. For every Rs. 6,000 crore increase in subsidies or job guarantee, should we add Rs. 1000 crore to Defence budget to maintain it at 1/6<sup>th</sup> of total budget?

The Finance Minister recently brought out<sup>16</sup> how China is able to expand its defence forces and modernize its military without excessively burdening or denying resources to the rest of the economy, thanks to its rapidly growing economy. We are significantly behind China in many aspects of the economy, whether production of automobiles, electricity generation, steel or rice. It is faster economic growth that will secure a place for a country in, and command the respect of, the region and the world. One of the most formidable challenges before the security establishment is from the Naxalites. Their area of influence has expanded, their capacity to strike has increased, and their determination to prevail emboldened by the lack of development in, and the loss of control of the State Governments over, the affected areas. New waves of terror may rise out of the hopelessness and despair of the alienated communities. Hence, economic growth, equity between regions and communities are not mere slogans but imperatives of national security. So, economic growth can impact defence and security in two ways, creating fiscal space for additional budgetary resources and changing the threat scenario requiring different strategic and tactical responses. Defence expenditure need not be viewed as a dead weight on the economy. Indeed, it also contributes to growth and development.

So far economists have steered clear of analyzing the impact, especially in the Indian context, of defence spending on the economy, as well as its untapped potential in promoting research and development in science and technology, were it to be better integrated into the general economy. It is now conventional wisdom to speak of the growing size of the Indian economy and the impact it will have on India's relations with the world. We are already becoming aware of the consequences for global

energy security and environment. To familiarize ourselves with the complex web of 'political economy of power', there can be no better recommended reading than the "deep insights into the complex interplay of global, Asian and national dimensions of economic, political and strategic policy" contained in Dr. Sanjay Baru's widely acclaimed book<sup>17</sup> *Strategic Consequences of India's Economic Performance*. The book offers a panoramic view of the geopolitics and the geo-economics of India's recent rise as a free market democracy.

Rather than talking in terms of defence vs. development, there is need to see defence as an engine of growth if indigenous R&D and industrial capability build-up is given as much importance as to defence capability build-up. Achieving self-reliance has been a long cherished goal and official policy of the security establishment. Therefore, the outcome budget should include parameters like indigenous content in total value of defence production/procurement, total value added by defence PSUs and Ordnance Factories, total value of production under contract manufacturing – BTP (Built to Print) or BTS (Built to Specifications). Total value of ToT by DRDO to civilian industry and business volume generated as a result of such ToT can be other numerical parameters that can add tremendous value to the outcome budget. Further, now that the offset policy has been activated, specifying quantitative targets for direct and indirect offsets leveraged through defence procurements as some of the 'outcomes' in the outcome budget can also be considered.

Major acquisitions or R&D programmes/projects (like infantry or artillery modernization, particular class of ships and submarines, LCA, MMRCA, AEW&C, SAM systems, land/sea/air/space-based surveillance systems, the production programmes of Defence PSUs and Ordnance Factories, Married Accommodation Programme, ex-servicemen rehabilitation programme) can be the starting point for introduction of outcome budgeting in defence even without waiting for any fundamental changes in the MoD functioning. Value addition can be done over the years. Best is the enemy of good so a beginning should be made, howsoever inchoate it may be.

The above are a few exploratory suggestions to kick start the debate on outcome budget. It is felt that this is both feasible and desirable for MoD to attempt an outcome budget. To what extent we decide to make public these details would of course be a separate matter of decision but, as argued above, an outcome budget – published or not published – has to be based on earmarking funds for building up and sustaining different capabilities including self reliance and contribution to general economy through R&D spin offs and offsets.

Long ago, renowned defence analyst K. Subramanyam<sup>18</sup> mentioned the absence of the perspective view as one of the serious shortcomings of defence planning in India.

Institutional mechanism was not there for the Services to acquire, collate and compile the necessary data on developing technology, strategic doctrines and international developments which should form the basis for such long term planning. Further, there was no organization available to deal with inter-service plans and inter-scheme priorities.

However, there are welcome changes on the anvil with continuing strengthening of Integrated Defence Staff, National Security Council and engagement of academic think tanks like the Institute for Defence Studies and Analyses, National Maritime Foundation, Centre for Land Warfare, Centre for Air Power Studies and National Institute of Advanced Studies. They are working to present to the decision-makers in the Indian security establishment a range of educated policy options management of defence and security. 

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Notes

1. For detailed discussion on review of the background and implementation of the Act, see S. C. Pandey, "*Fiscal Responsibility and Budget Management Act 2003: An overview*", Journal of Institute of Public Auditors of India, 2005.
2. Ministry of Finance, Department of Expenditure OM No.2 (1) Pers/E-Coord/OB/2005 dated December 30, 2005.
3. Ministry of Finance, Department of Expenditure OM No.2 (1) Pers/E-Coord/OB/2005 dated December 12, 2006.
4. P. R. Sivasubramanian, "*Defence Budget: Towards an Outcome and Programme Based System*", Strategic Analysis, Vol. 30, No. 4, October-December 2006.
5. This Section of the Paper draws heavily from a Paper presented by Shri A. K. Ghosh, former Financial Adviser, Defence Services, in the International Seminar on Defence Finance and Economics in November 2006. Abridged text from that article has been extensively used in this Section in order to lay the ground for suggestions made in subsequent sections.
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14. Jasjit Singh, "*India's Defence Spending: Assessing Future Needs*" Strategic Analysis, October-December 2006.
15. Inaugural Address at the 8th Asian Security Conference by Mr. Pranab Mukherjee, Defence Minister January 30, 2006.
16. Field Marshal K. M. Cariappa Memorial Lecture, 2008 by Shri P. Chidambaram, Finance Minister.
17. Sanjay Baru, "*Strategic Consequences of India's Economic Performance: Essays & Columns*", Academic Foundation, 2006.
18. K. Subramanyam, '*Perspectives in Defence Planning*', Abhinav Publications, 1972.