

## Run up to the Defence Budget 2014-15: Challenges to Modernisation

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In mid-February, the Finance Minister would present the Interim Budget 2014-15 to the Parliament in which he would seek Vote-On-Account (VOA) to enable the government to meet the essential expenditure till such time that a new government assumes power and present a regular budget. Although the VOA is of short-term relevance, the interim budget would nonetheless contain the estimates of both revenue receipts and expenditure for the full financial year. It is the prerogative of the next government to revise the estimates and present a regular budget as per its priorities it perceives. Defence being a major charge on the Union Budget, it is worthwhile to analyse the likely impact on it by the unfolding scenario. Some of the likely challenges that the defence ministry would likely to face are discussed as under.

The first and foremost challenge that the defence ministry would face is the impending general election and its likely impact on the union budget as a whole, and the defence budget in particular. It is commonly viewed that in an election year, the incumbent government is tempted to present a populist budget. In that scenario, the Ministry of Defence (MoD) would have reasons to be unhappy, particularly so when the modernisation requirement of the Indian armed forces has reached a stage which is now contingent upon substantial additional resources to remain on course. Nothing would perhaps describe the grave situation better than the overwhelming share of committed liability (arising out of contracts already signed) in the MoD's total modernisation budget. By 2013-14, the committed liability has reached 96 per cent (in comparison to 92 per cent in the preceding year), meaning that only four per cent (or Rs 2,956 crore) of MoD's total capital modernisation budget (of Rs 70,489 crore) is available for signing new contracts. Any further tightening on the modernisation budget in the coming financial year would definitely affect the on-going modernisation process.

Assuming that the government defies the common logic and provides ample resources to the defence ministry, there is still very little one can expect on the modernisation front. Since the number of days before a new government comes into power is limited, the incumbent government would unlikely to take decision on major armament programmes which have reached fairly a high stage of contract negotiation. Rather the responsibility to take decision on major acquisition proposals would be shifted to the new government which would also find it difficult to expedite the process given the various oversight concerns that often surround the defence procurement. Given this scenario, the year 2014-15 may well be a year of inaction, as far as modernisation of the Indian armed forces is concerned. Some of the modernisation programmes which are likely to be subjected to this inaction are: the ultra-light howitzers and javelin programmes of the Indian Army; and the medium multi-role combat aircraft (MMRCA), heavy lift and attack helicopters, and tanker aircraft of the Indian air force.

The second challenge that the defence establishment would likely to face is related to the growth prospect of the Indian economy. It is noteworthy to mention that the GDP growth for 2013-14 is expected to be around five per cent, which is lower than 6.1-6.7 per cent estimated by the government initially. The economic slowdown, combined with the tight fiscal situation has already led to tightening of the government purse. What is of more relevance is that the growth prospect in the coming years would also remain subdued although some improvement is expected. According to a recent UN report, the *World Economic Situation and Prospects 2014*, the Indian economy is likely to grow by 5.3 per cent and 5.7 per cent in 2014 and 2015, respectively. This is in stark contrast with the high annual growth rate of 8-9 per cent registered few years ago.

While the subdued growth prospect of the Indian economy in the coming years would limit the spending capacity of the government of the day, it would, at the same time, have a major consequence on the defence. It is to be noted that current phase defence modernisation, which is an offshoot of the armed forces' long term integrated perspective plan (LTIPP) 2012-27 and the Five Year Capital Acquisition Plan, is premised on a high economic growth rate (7-8 per cent annually) and a larger share (around three per cent) of the GDP on defence. Compared to this optimism, the economy forecast is rather gloomy and, the share of defence in GDP is not expected to be drastically different from the current 1.76 percent. Given this, mismatch of a huge proportion is expected in the coming years between the expectation of the armed forces and what the government could actually provide to meet such expectations.

What is of significance to debate here is that the MoD does not have an institutional mechanism to address the challenges expected in the coming years and prioritise its modernisation plan accordingly. It is to be noted that the modernisation approach followed by the MoD so far is something like a 'first come first serve' (i.e., a service which succeeds in processing its procurement proposal first, gets the government approval. It does not give due importance to the needs of other service (s) which may be of greater significance but is struck in the bureaucratic process). This may serve the procurement requirement of a particular service, but may not be an ideal solution to address the modernisation issue holistically, keeping in view the resource constrain. Since the challenges, as discussed above, are serious, what the MoD needs now is to have an institutional capability to prioritise its modernisation plan keeping in view the likely shortage of funds and the vital security requirements of the country.

*Views expressed are of the author and do not necessarily reflect the views of the IDSA or of the Government of India.*