Agility of Decision-Making in Budgeting and Procurement Procedures

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There has lately been a subtle shift in the discourse on India's defence budget, from indignation over its inadequacy to a grudging indifference to its current level, which has been hovering around 2 per cent of the gross domestic product (GDP) for many years. There is no more a clamour for the budget being pegged at 3 per cent of the GDP that characterised the post-Kargil era and received a strong support from the parliamentary Standing Committee on Defence (SCoD). The anxiety over financial constraints may have abated over the years, but the systemic imperatives of sustained and adequate budgetary support, optimal utilisation of the seemingly meagre outlays and ensuring that the intended outcomes are achieved continue to beset operational preparedness.

Keywords: *Defence Outlay; Financial Constraints; Defence Plans; Organisational, Procedural and Budgetary Reforms*

Introduction

Otto von Bismarck famously said, 'A bad plan that is well executed will yield much better results than a good plan that is poorly executed.' In either case, to obtain some results, whether good or bad, there *must* be a plan in place,

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to begin with. True, budgetary support is important for planning, but it is not fundamental to operational preparedness; planning is. The history of defence planning in India has, however, been problematic.[1] A revised system of planning was introduced by the Ministry of Defence (MoD) via Defence Acquisition Procedure (DAP) 2020, two years after a high-level Defence Planning Committee (DPC) was set up under the National Security Advisor. This system revolves around a 10-year Integrated Capability Development Plan (ICDP), comprising two 5-year Defence Capital Acquisition Plans (DCAPs), with each one of them broken down into 2-year roll-on Annual Acquisition Plans (AAPs).

It is beyond the scope of this article to discuss what bedevils defence planning, but it is instructive that the SCoD reports for the years since 2021 give no substantive information about any specific ICDP or DCAPs which may have been prepared by the MoD, objectives of these plans and the progress made towards achieving the intended outcomes. The focus of the reports is generally on the nitty-gritty of the planning procedure, actual budget outlays and the Acceptance of Necessity (AoN), or approval-in-principle, accorded for capital acquisitions. There is no discussion on comprehensive defence planning that assimilates other MoD constituents, such as the Border Roads Organisation (BRO), the Indian Coast Guard (ICG) and the Defence Research and Development Organisation (DRDO), apart from the armed forces, in a single plan.

Be that as it may, no organisation can function without sustained budgetary support even if it does not have a well-crafted long-term plan, but it begs the question if it is possible to determine an ideal level of sustained funding. To be more contextual, the question is: can defence outlay (which also includes other elements, like pensions) be considered ideal or adequate if it is pegged at a certain percentage of the GDP or increased by a certain percentage every year?[2] It is difficult to answer this question, not least because, depending on the size of a country's economy, application of the same parameters would translate into different sums of money in absolute terms.

For example, in 2025, China's defence expenditure was an estimated 1.77 per cent of its GDP, while that of Pakistan and India was 2.9 per cent and 2.3 per cent respectively. It will be absurd to deduce from these figures that the defence budget of Pakistan and India was more robust than that of China. Indeed, the wide disparity between the GDP of these three countries resulted in these percentages translating into China's estimated defence spending of US$ 336 billion, against Pakistan's US$ 11.9 billion and India's US$ 92.1 billion.[3]

What is an Ideal Defence Budget?

In India's case, the Ministry of Finance (MoF) has long been of the view that defence spending cannot have any logical nexus with external variables, like GDP or Central Government Expenditure (CGE), as its real linkage must be with the overall threat perception. Higher GDP would no doubt make more resources available for defence, but substantial resources are also required for developing rural and urban infrastructure, providing education and health services, as well as higher spending in the social sector to achieve a more inclusive growth.[4] One may also add that there are serious constraints in raising substantially higher revenues for defence and other sectors as this can only be done via higher direct and indirect taxes, disinvestment or borrowing.

The case for increasing the outlay by a certain fixed percentage every year is on a slightly different footing. While there is no objective yardstick for adopting a specific annual percentage for augmenting the defence outlay, it is possible to work backwards with reference to a long-term plan and determine the year-on-year increase that would be required to achieve the planned outcomes. This brings us back to square one as this approach presupposes formulation of financially viable long-term plans. This approach was grudgingly adopted by the MoD in the past, but the plans it formulated were not financially viable and, consequently, the MoF was not able to provide the requisite budgetary support.

Financial Viability of Defence Plans

Given the constitutionally mandated scheme of annual budgeting, the MoF cannot guarantee long-term allocations for defence. However, in the past, it has indicated the annual increase that it *may* be able to provide over a given base year to enable the MoD to prepare five-year plans. The problem, however, has been the MoD's inability to abide by the MoF's projections. For example, the Eleventh Five-Year Defence Plan (2007–2012) was prepared by the MoD in consultation with the MoF, but it 'could not be finalised due to difference of opinion between the Ministry of Defence and the Ministry of Finance on the plan size'.[5] The Twelfth Five-Year Defence Plan (2012–2017) was 'approved' by the MoD's Defence Acquisition Council (DAC),[6] but not by the MoF.

While formulating the guidelines for the Thirteenth Defence Plan, the MoD decided to send the plan to the MoF 'only for information and not for its approval'. This plan was, however, 'foreclosed in view of the formulation

of the new joint capability development process termed as Integrated Capability Development System (ICADS).'[7] The foreclosed plan envisaged an outlay of Rs26,83,924 crore.[8] Going by back-of-the-envelope calculation, the total allocation made to the MoD between 2012 and 2017 was only Rs14,96,482 crore, at an average of less than Rs 3 lakh crore every year. The demand projected for the Thirteenth Plan would have required an impossible hike at compound annual growth rate (CAGR) of 12.39 per cent over the ensuing five years, with average annual allotment of more than Rs 5 lakh crore, rendering the plan a non-starter.

In 2020, the MoD informed the Fifteenth Finance Commission that it would require Rs 37,09,151 crore for the period 2021–2026. Assuming that the annual outlays will grow by 7 and 16 per cent under revenue and capital segments respectively, the MoD estimated the total allocation during this period to be Rs 21,85,051 crore, leaving an unbridged gap of Rs 15,24,100 crore, of which Rs 8,45,136 was under the capital segment.[9] That these projections were made in the context of the demand for setting up of a non-lapsable modernisation fund is beside the point; what is significant is their unrealism as the Finance Commission could do no better than to recommend setting up of a non-lapsable fund with a corpus of Rs 1,58,000 crore (excluding a corpus of Rs 50,000 for internal security), with several riders on its appropriation.

Consequences of Unviable Financial Planning: Thin Spread of Allocation and ad hoc Curtailment of Requirement

A grave consequence of unviable or lackadaisical financial planning is the gap between the demand projected to the MoF every year as a part of the budgeting process and the actual allocation made in the union budget (see Table 1). There was a gap of Rs 1,25,480.43 crore in the financial year (FY) 2021–2022, which came down to Rs 31,926.90 crore in FY 2026–2027. This seems encouraging, but reveals a worrisome picture on closer examination: the feat was achieved by paring down the requirement for capital expenditure, rather than increasing the allocation.

As can be seen from Table 1, the demand projected for capital expenditure from FY 2023–2024 to FY 2025–2026 was lower than the demand projected in FY 2021–2022, as a result of which the gap between projection and allocation suddenly dropped from Rs 77,182.42 crore in FY 2021–2022 to Rs 539.77 crore in FY 2023–2024 and to zero in the subsequent years. It is difficult to accept that the armed forces, which are in dire need of myriad

equipment, platforms and weapon systems, would require lesser sums of money to meet their requirement in subsequent years.

Table 1 Budgetary Projection and Allocation between 2021–2026 (in Rs crores)

FY	Budget	Projected	Allocated	Difference
2021–2022	Capital	2,01,386.17	1,24,203.75	77,182.42
	Revenue	2,49,955.01	2,01,657.00	48,298.01
	Total	4,51,341.18	3,25,860.75	1,25,480.43
2022–2023*	Capital	1,99,789.93	1,36,557.80	63,232.13
	Revenue	2,59,432.46	2,21,993.57	37,438.89
	Total	4,59,222.39	3,58,551.37	1,00,671.02
2023–2024	Capital	1,48,954.77	1,48,415.00	539.77
	Revenue	2,89,676.22	2,58,001.75	31,674.47
	Total	4,38,630.99	4,06,416.76	32,214.24
2024–2025	Capital	1,57,273.00	1,57,273.00	0.00
	Revenue	4,73,346.46	4,27,594.82	45,751.65
	Total	6,30,619.46	5,84,867.82	45,751.64
2025–2026	Capital	1,63,565.18	1,63,565.18	0.00
	Revenue	4,85,530.39	4,61,614.98	23,715.41
	Total	6,49,095.57	6,25,180.16	23,715.41
2026–2027	Capital	2,19,306.47	2,19,306.47	0.00
	Revenue	3,97,405.88	3,65,478.98	31,926.90
	Total	6,16,712.35	5,84,785.45	31,926.90

Source: Various reports of the SCoD for the relevant years.

Note: *The figures for FY 2022–2023 do not include the projection and allocation in respect of Joint Staff.

Meanwhile, the gap between projection and allocation for revenue expenditure persists unabated. It is axiomatic that a large proportion of the revenue budget is consumed by obligatory expenditure on salaries. In the case of the Indian Army, approximately 63 per cent of its revenue budget (excluding the allocation for Military Farms, Ex-Servicemen Health Scheme [ECHS], Directorate General of Quality Assurance [DGQA], Rashtriya Rifles [RR], National Cadet Corps (NCC) and Agnipath Scheme) is allocated for salaries. What is left after providing for these obligatory expenses has to

be thinly spread over other budget heads, like stores, transportation and maintenance works, which obviously impacts operational preparedness.

To give an idea of how the budget heads are impacted by a thin spread of funds, the increase in allocation under the 'stores' budget head (which caters for expenditure on procurement of ammunition, spares, maintenance of in-service equipment, etc.) for FY 2026–2027 over the previous financial year was Rs 462 crore for the Indian Army, Rs 266 crore for the Indian Navy and Rs 154 crore for the Indian Air Force. Likewise, the increase under 'repair and refit' budget head of the Indian Navy was Rs 274 crore.[10] The allocation under 'transportation' budget head of the Indian Navy was Rs 305 crore less than the allocation for FY 2025–2026 and for maintenance works of the Indian Air Force, there was no increase at all. In both these cases, the allocation for FY 2025–2026 was less than the revised estimates (RE) for FY 2025–2026. It cannot be argued that these allocations were deliberately planned.

Underutilisation of the Budget

While the revenue budget generally gets fully utilised, primarily because the initial allocations are *ab initio* quite meagre, utilisation of the capital budget in full has been a challenge. In FY 2024–2025, the armed forces projected, and were allocated, Rs 1,57,273 crore for capital expenditure (see Table 1). This allocation was reduced by a whopping Rs 13,087 crore at the RE stage because of the MoD's likely inability to spend the allocated amount. To give another example, the total allocation for providing financial assistance to the private sector for prototype development under the 'Make' category between FY 2020–2021 and FY 2024–2025 was Rs 4,514 crore. It had to be reduced to Rs 2,298 crore at the RE stage, but finally the MoD was able to utilise only Rs 1,973 crore during these five years.[11]

Effect of Procedural Complexities

There is no specific central legislation on public procurement in India. In the absence of such a law, public procurement is governed by guidelines contained in the General Financial Rules, 2017 (which were first promulgated in 1947). These rules permit ministries and departments to issue detailed instructions to address the peculiarities of the goods and services procured by them. Under this enabling provision, the MoD has promulgated several procedures, primary among them being the Defence Procurement Manual (DPM) and the DAP, which govern revenue and capital procurement for

the armed forces. To a considerable extent, the reason for underutilisation of the capital budget and inordinate delay in finalising acquisition contracts is the complexity of these procurement procedures evolved by the MoD itself, which, according to some defence analysts, may also result in cost escalations.

The first combined document covering all capital and revenue procurements was called the Defence Procurement Procedure (DPP) and was released by the MoD in 2002. It was subsequently bifurcated into the DPM and the DPP in 2005, and both these documents have been revised several times over the years. A combined 84-page DPP 2002 has mutated into 517-page DPM 2025 and 799-page draft DAP 2026, each one of them divided into two volumes. It is beyond the scope of this article to critique the efficacy of the current procedures, but the complexity of the procurement processes laid down in these manuals has been exacerbated by a lack of textual clarity; difficulty in ensuring uniformity in interpretation; multiplicity of the agencies involved in the acquisition process, with each one of them following a different chain of command; absence of an overarching procurement organisation; absence of outcome-oriented execution of financially viable acquisition plans; and a host of other factors.

Procedures can be evolved, customised and refined according to the needs of the policy objectives of an organisation. Some of the objectives set by the MoD for itself have become subservient to procedures and processes. Take, for example, the objective of self-reliance. It is the government's policy to make India self-reliant in defence production by insisting on local production of defence equipment and maximisation of indigenous content in locally manufactured products. Both these objectives are beneficial for the local defence industry, but it is arguable if this approach can lead to self-reliance in the true sense of the term. Reliance on foreign sources for critical minerals (including rare earth elements) and technologies required for manufacturing defence equipment in India is antithetical to any notion of self-reliance. To illustrate, India's Light Combat Aircraft, Tejas Mk-1A, has a high level of indigenous content, but it is critically dependent on GE Aerospace's F404-IN20 engines. This is not conducive to strategic self-reliance.

This points to the inevitability of promoting indigenous research and development (R&D) so that the dependence on foreign sources for critical technologies can be minimised. Despite the government's intention of involving the private sector in this endeavour, defence R&D continues to be the DRDO's virtually exclusive preserve. Efforts made in the past two decades

to restructure the organisation do not seem to have produced the intended results. The latest of these efforts was made in 2023, when a nine-member committee, led by former Principal Scientific Adviser to the Government of India, K. Vijayaraghavan, was constituted to suggest reforms and overhaul the DRDO, but not much is known about its outcome.

More than a decade back, the MoD had set up Dr P. Rama Rao Committee, most of whose recommendations were accepted, but its suggestion to create a Board of Research for Advanced Defence Sciences (BRADS)—to function on the lines of the Defense Advanced Research Projects Agency (DARPA) of the United States (US)—was not accepted.[12] Going by the information available on the Internet, the DARPA comprises about 220 federal government personnel in six technical offices, including nearly 100 programme managers, recruited on limited 3–5 year rotational tenures from industry, academia and military laboratories, who together oversee about 250 R&D programmes. The FY 2027 budget request for DARPA is US$ 5.039 billion.

In contrast, as on 1 August 2023, the DRDO had a strength of 21,731 personnel to manage 328 programmes.[13] Meanwhile, the R&D budget has also declined from 0.12 per cent of the GDP, 5.36 per cent of the defence budget and 0.85 per cent of the CGE in FY 2014–2015 to 0.01 per cent, 3.71 per cent and 0.54 per cent, respectively, in FY 2026–2027. Considering that a large proportion of the budget is spent on salaries and other obligations, not much is left for hardcore R&D. Also, while the private sector investment in R&D possibly continues to be low, the overall efforts remain fragmented, with the defence public sector undertakings (DPSUs), Services and private sector pursuing their own goals with little overall coordination.

The success of DARPA as a world leader in radical technological innovation makes a case for reconsidering the need to replicate that model in India, whether by way of setting up BRADS or some other similar organisation. If the Ordnance Factory Board could be successfully corporatised, there is no reason why reorganisation of the DRDO, without causing any adverse impact on its existing complement of scientists, cannot be considered, with a view to freeing it from bureaucratic control because, as of now, it continues to function as a virtual department of the MoD.

To sum up the discussion so far, efficient management of budget and agility of decision-making in defence acquisitions pre-require enunciation of a defence policy; consultation with the MoF to determine the likely availability of funds for a given plan period; formulation of financially viable

comprehensive defence plans (of which acquisition plans are but only a subset) based on the defence policy; budgetary reforms to facilitate efficient utilisation of available resources; professional management of acquisition programmes; and outcome-oriented monitoring of the plan outcomes. None of these ideas are new and it is not as if no efforts have been made to address these issues in the past. However, inexplicably, suggestions made by several experts' committees constituted by the MoD itself have mostly been glossed over.

Looking Ahead

Decisions will continue to be ad hoc or sub-optimum in the absence of result-oriented action plans. Therefore, to begin with, the MoD needs to recognise the need to fix the problems besetting defence planning. Defence plans will have to be comprehensive, covering all defence organisations, such as the BRO, the ICG and the DRDO, and not focus exclusively on the armed forces. These plans will also have to take into account the strengths, weaknesses and the potential of the Indian public and private sector defence industry. It is less important whether the plans are 'approved' by the Cabinet Committee on Security or not; what is more important is that the plans should be financially viable. This presupposes consultation with the MoF. The long, medium and annual plans will also have to be result-oriented, so that those tasked with the responsibility of executing the plans are clear about the expected outcomes and those outcomes could be measured at the end of the plan period. This will introduce an element of accountability.

Defence Planning Organisation

To achieve the aforementioned, the requirement is to constitute a high-powered, full-time, professionally managed, overarching planning organisation, whose writ runs over the armed forces, *as well as* all other MoD organisations, and which has the political heft to reach out to, and obtain cooperation of, other ministries and departments. The need for a full-time Defence Planning Board was flagged in 2008 by the Defence Expenditure Review Committee (DERC), which had been set up the previous year by the MoD at SCoD's behest,[14] but the recommendation was not acted upon. The DPC, set up 10 years later in 2018, also does not meet all the requirements which are essential for a defence planning body to produce intended results.[15] At any rate, it seems to be stuck in institutional inertia as nothing much is known about what it has managed to achieve.

Defence Capability Acquisition Organisation

Procurement of goods and services is a major function in any organisation. If one considers the allocation of the armed forces and all other MoD departments, for capital acquisitions and procurement of revenue stores, it will account for a huge proportion of the non-salary budget. In FY 2026–2027, the capital outlay for defence services alone accounted for 27.95 per cent of the total defence budget.[16] The proportion will exceed 40 per cent if the revenue budget for procurement of stores is also added to it. The enormity of the outlay calls for creation of a full-time professional organisation for managing it. The existing system, which is predicated on large-scale delegation of financial powers to countless 'Competent Financial Authorities' (CFAs) for revenue procurement and a disjointed assemblage of committees, agencies and departments for capital procurement, is not conducive to efficient procurement.

This inefficiency is best illustrated by the system of capital acquisitions which has been in place since October 2001. It is steered by the DAC, which is chaired by the defence minister. Below it, there is a Defence Procurement Board, a Services Procurement Board and a Capital Acquisition Wing, which play significant roles, apart from the Service Headquarters (SHQs) and several other agencies, such as the MoD's finance division, the DGQA, the DRDO and even the MoF (for acquisition proposals exceeding Rs2,000 crore). The responsibility keeps shifting back and forth from one agency to the other, and from one department to the other, throughout the acquisition cycle. This is not an efficient system.

A committee set up by the MoD had recommended, in 2017, 'the creation of a central, autonomous, empowered professional organisation to build up indigenous defence capability as a strategic imperative for long term self-reliance',[17] but the recommendation was not acted upon. This organisation was conceived by the committee as a one-stop solution for handling the entire gamut of activities, starting from conversion of operational requirements into qualitative requirements till induction of the capabilities, in-service maintenance and upgrades, obsolescence management and final disposal of the obsolete equipment.[18] Creation of such an organisation will improve decision-making and ensure efficacy in capital acquisitions and related revenue procurements.

Procedural Reforms

Special efforts need to be made to figure out why, despite several revisions of the procurement/acquisition manuals, the procedures envisaged therein

continue to be seen as cumbersome and dilatory. To be fair, the MoD has made earnest efforts to simplify, streamline and improve the procedures, in consultation with all stakeholders, including the Indian defence industry, foreign vendors and think tanks, but the attempt has generally been to preserve the existing procedural framework. It is difficult to say whether this is the reason why the result has generally been sub-optimum or there are some other reasons for it. It would be presumptuous to suggest in this article what should be done to align the procurement procedures with the objectives of defence procurement. However, it will help if the MoD were to task a think tank, like Manohar Parrikar Institute for Defence Studies and Analyses, to undertake case studies to identify the bottlenecks, evaluate the efficacy of the existing procedures to address those bottlenecks, look at global best practices, consult all stakeholders and make bold suggestions for procedural reforms.

Budgetary Reforms

Since FY 2016–2017, the defence budget has comprised four Demands for Grant (DGs): Ministry of Defence (Civil); Defence Services (Revenue); Capital Outlay on Defence Services; and Defence Pensions. Apart from the armed forces, these DGs cater for the revenue and capital expenditure of MoD's secretariat, the BRO, the ICG, the DRDO, the DGQA, the ECHS, the RR, the NCC, the Armed Forces Tribunal and the Defence Estates. Occasionally, provision is also made for investment in the DPSUs.

These DGs are not efficiently structured. For example, the Indian Army's budget includes outlay for the NCC, the ECHS and the DGQA, whereas the requirement of Jammu and Kashmir Light Infantry—a regular infantry regiment of the Indian Army—is met from the DG for Ministry of Defence (Civil). Requirement of the Joint Staff is clubbed with that of the Indian Navy. The putative modernisation budget is a notional subset of the DG for Capital Outlay on Defence Services, which also includes the outlay for acquisition of land and works (infrastructure development), apart from the capital budget of the DRDO and some other organisations.

Efforts at budgetary reforms in the past have been lackadaisical or simply ignored. In April 2008, for example, the SCoD had suggested that, considering the civil nature of NCC's role, it would be appropriate if its expenditure was accounted for in the MoD's civil budget rather than in the defence budget.[19] This issue was not addressed even in 2016–2017, when, as a part of the larger exercise to provide 'a holistic picture of budgetary allocations and effective expenditure monitoring', the number of total DGs was reduced from 109

to 98 in the union budget.[20] The reform was not followed to its logical conclusion in relation to the defence budget, except for reducing the number of MoD's DGs from eight to four. This unfinished task must now be taken up on priority, especially with a view to carving out specific segments in each DG, except Defence Pensions, which are susceptible to outcome budgeting.

The opportunity provided by the rule on re-appropriation of budget allocations must be kept in mind while considering budgetary reforms. It provides flexibility to shift savings under a particular budget head to meet the excess requirement under another budget head within the same DG. The powers of re-appropriation between different minor heads under a major head are exercised by the Government of India (that is, the MoF), but the powers of re-appropriation between sub-heads within a minor head are exercised by the MoD. It will help better and more efficacious utilisation of budget if the budget heads are so structured as to enable the MoD to exercise the power of re-appropriation to the maximum extent. Presently, the powers of re-appropriation are also exercised by authorities at the SHQs, command headquarters and independent area headquarters. This requires reconsideration.

Utilisation of budget is also affected by the way the financial powers are delegated to the service officers down the line, as well as the association of the Integrated Financial Advisors (IFAs), with whose concurrence most of those powers can be exercised. In many cases, financial powers are delegated to various officers in the same set-up within the same SHQ. This has more to do with honouring the status of the officers in the hierarchy than any practical consideration. The principle underlying delegation of financial powers should be to enable each officer responsible for a particular function to discharge it without avoidable restraints by delegating full financial powers to him. It does not involve much of a risk as the powers can only be exercised subject to availability of budget and the officer exercising the power will always be accountable for procedural propriety. The IFA system is generally viewed with reservation by a lot many CFAs, even though they have the authority to overrule the IFA's advice. This system too requires to be reviewed to remove any bottlenecks that tend to slow down decision-making or diffuse accountability.

Conclusion

To conclude, agile decision-making in regard to budgeting matters and procurement procedures is critically dependent on comprehensive planning,

covering all of MoD's constituents. It has to be financially viable and result-oriented, to the extent possible. This would require constitution of an overarching planning organisation. Financial viability of the plans will ensure visibility of allocations for various activities, including procurement of material. If the outlays are linked to expected outcomes and financial powers are delegated in a manner that enables the authorities tasked with a particular responsibility to discharge it without avoidable constraints, decision-making will improve. Considering the enormity of the outlay on capital acquisitions and revenue procurement, there is a strong case for establishing a dedicated acquisition organisation to replace the current disjointed procurement structure. This will speed up procurements and introduce an element of accountability.

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19. SCoD (Fourteenth Lok Sabha), Twenty-Ninth Report, April 2008, Part II, para 26, available at https://eparlib.sansad.in/bitstream/123456789/62698/1/14_Defence_29.pdf#search=Defence%20Departmentally%20Related%20Standing%20Committees%20Committee%20on%20Defence%20[2000%20TO%202009], accessed on 14 September 2026.
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