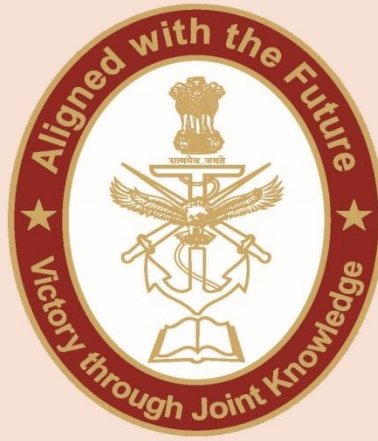


CENTRE FOR JOINT WARFARE STUDIES



CENJOWS

DEFENCE BUDGET 2022-23 - MODERNISATION WITH 'ATMANIRBHARTA' AT THE CORE



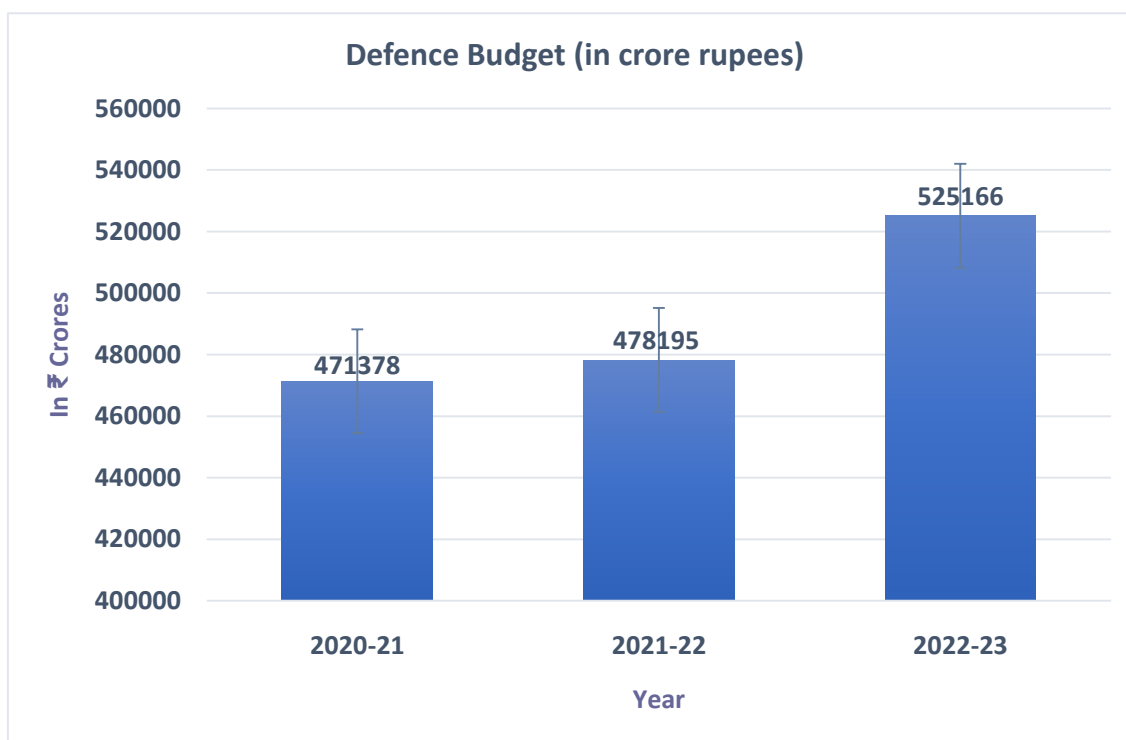
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Introduction

1. India's defence budget for the financial year 2022-23 is Rs 5,25,166.15 Crores in the annual budget announced on 01 Feb 22, representing a growth of 9.82% over Budget Estimates (BE) of Rs 4,78,195.62 Crores and 4.43% over Revised Estimates (RE) for the financial year 2021-22. This means there has been an increase of Rs 46,970.38 Crores in the total Defence allocations over the financial year 2021-22.

2. The allocation to the Defence Ministry is 13.31% of the total Union Budget 2022-23 which envisaged a total outlay of Rs 39.45 Lakh crore. Including Defence Pensions, it is 2.26% of the GDP of India (Estimated nominal GDP FY 2021-22 Rs 232.15 lakh crore) and excluding defence pensions, the allocation is 1.74% of GDP. Its a marginal increase over the previous few years but still short of the 3% recommended by the Standing Committee on Defence so as to ensure adequate preparedness of the Armed Forces. It is pertinent that this ratio had been suggested in 2018, prior to the recent developments on our Northern borders.



Capital & Revenue Expenditure

3. The total outlay in the 2022 Union Budget for capital and revenue expenditure totals to Rs.3.85 lakh crore (Rs.3,85,370 crore), an increase of around 11 per cent over the 2021-22 budget allocation. Interestingly, as against the revised estimates of Rs 3.68 lakh crore (Rs.3,68,418 crore) for 2021-22, the actual expenditure on defence was Rs.3.40 lakh crore (Rs.3,40,094 crore). While a major portion of the defence budget is consumed by the capital outlay and revenue expenditure, which consists of small acquisitions, spares and maintenance, pensions also take up a large portion of the budget. **The share of percentage of capital allocation in defence budget as compared to revenue allocation is 40:60 for FY 2022-23, which is slightly better than 39:61 last year.**

4. The total allocation under capital outlay of the Defence Services has been increased from Rs 86,740 crore in 2013-14 to 1.52 lakh crore in 2022-23. There is an enhancement of 76 per cent over a period of nine years.

5. Further, during this period, the total Defence Budget including Defence Pensions has increased by 107.29 per cent, from Rs 2.53 lakh crore in 2013-14 to Rs 5.25 lakh crore in 2022-23.

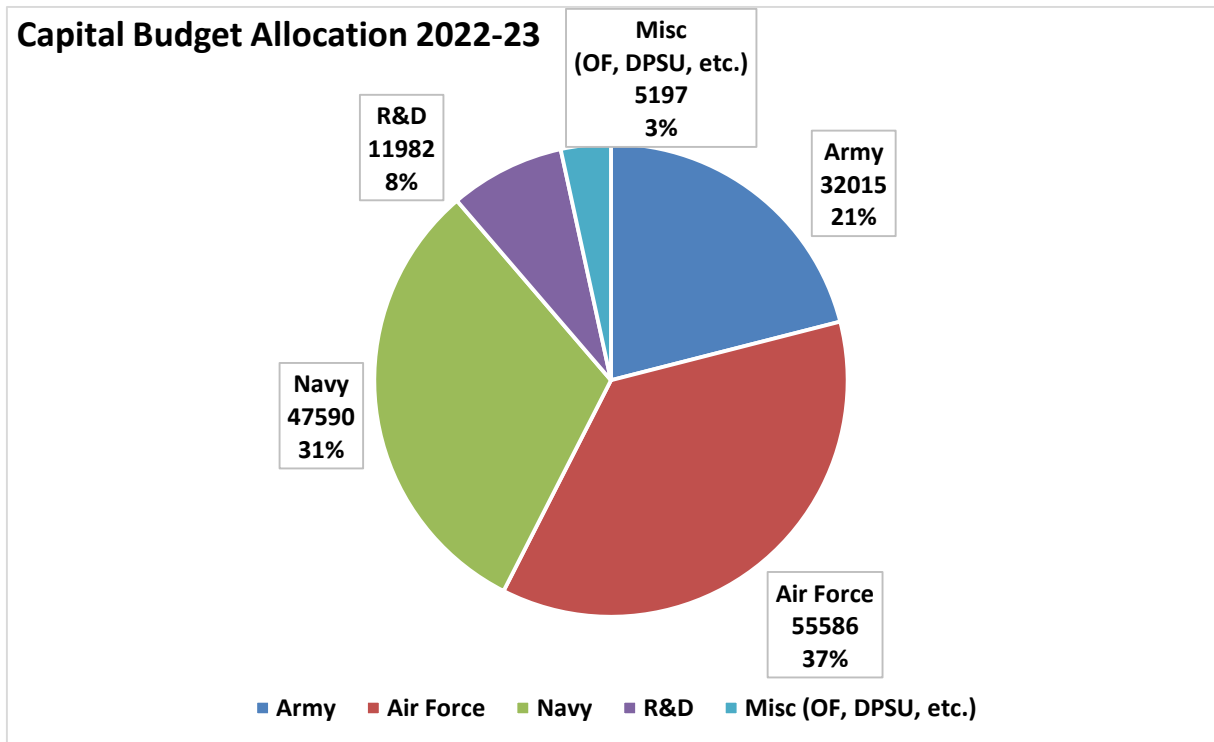
Focus on Capital Expenditure

6. The Capital Budget is divided into two notional categories: 'Capital Acquisition and 'Other-Than-Capital Acquisition'. While the capital acquisition budget is spent on acquiring new weapon systems and platforms required for modernization of the armed forces, the 'other than capital acquisition' segment of the capital budget caters for expenditure on acquisition of land, development of civil infrastructure and the entire capital expenditure of the Research and Development (R&D) and the Ordnance Factories. In the Budget 2022-23, the Capital Allocations pertaining to modernisation and infrastructure development of Armed Forces has been significantly increased to Rs 1.52 lakh crore:-

(a) The Army, under the capital outlay, has been allotted Rs 32,015 crore as against Rs 36,481 crore in the budget last year. According to the budget documents, the Army could spend only about 40% ie. Rs 25,377 crore out of its budgetary estimates for the ongoing fiscal year. The causative factors, other than the pandemic, underlying why the Army has fallen short of utilisation of its allocation would need to be internally examined. **Whatever be those reasons, the allocations for the next year's budget being based on the actual (lower) spending in the current year is invidious.**

(b) The Indian Navy has been given an allocation of Rs 47,590 crore under capital outlay as against last year's budgetary outlay of Rs 33,253 crore. According to the revised estimate for 2021-22, the Navy spent Rs 46,021 crore as against the allocation of Rs 33,253 crore. This represents an increase of Rs 17,308 crore (12.82 per cent) over FY 2021-22. **This would help the Navy to focus on building capabilities in tune with its threat assessments in the IOR.**

(c) The Indian Air Force has been allocated a total of Rs 55,586 crore as the capital outlay as against last year's Rs 53,214 crore. According to the budget documents, the IAF could spend Rs 51,830 crore out of the allocation.



Focus on Atmanirbharta

7. There are significant policy initiatives, procedural and structural changes that have been introduced in the Budget speech that would take forward the mission to achieve 'Atmanirbharta':-

(a) Capital procurement budget earmarked for domestic industry has been raised to 68% (increase by 10% over the 63% in previous fiscal year).

(b) Defence R&D opened up for Industry, Start-ups and Academia to encourage private collaboration with DRDO in design and development of military equipment and platforms for which 25% of R&D Budget has been earmarked.

(c) DRDO is expected to play a lead role in handholding private sector with joint development projects. As the Hon'ble Finance Minister has stated in the budget speech "...private industry will be encouraged to take up design and development of military equipment in collaboration with DRDO through an SPV model".

(d) An umbrella organisation to be set up to meet the Industry requirements as a robust testing and certification body which will "promote faster processes and cost efficiency".

(e) Additionally, Customs tariffs for certain defence imports be simplified and the sunset date for certain exemptions extended to 31 Mar 2023.

8. The greater thrust towards “Atmanirbharta” (self-reliance) in defence equipment i.e. reducing imports, making 68% of the defence capital procurement budget for buying from Indian entities in 2022-23, up from 63% in 2021-22. It is in line with the 'Vocal for Local' push and it will certainly boost the domestic defence industries. Artificial intelligence, geospatial systems and drones, semiconductors and its ecosystem, space economy, genomics and pharmaceuticals, green energy, and clean mobility systems have immense potential to assist sustainable development at scale and modernise the country. The independent nodal umbrella body will be set up for private players to meet their requirements for testing and new technologies and to get the certification.

9. Expanding India’s defence research and development (R&D) base by setting aside around 25 per cent of its R&D budget for collaborating with the private industry, start-ups and academia. Private sector entities will be encouraged to jointly design, develop and even manufacture defence platforms and military equipment jointly with the Defence Research and Development Organisation, and other organisations from the public sector. To facilitate this collaboration, the Minister has proposed that an exclusive special purpose vehicle (SPV) be set up.

Analysis

10. For a country as large as India with vast land frontiers and hostile neighbours, its defence cannot be guaranteed by importing its military weapons, munitions and equipment to the tune of 60-75 percent, including critical technologies. The only answer to our strategic needs is self-reliance in matters defence. Government is also carrying out reforms in defence procurement to increase efficiency, invite foreign players with advanced capabilities and encourage domestic industry. It has introduced policies to strengthen technology transfer, including liberalized FDI in defence production.

11. The 12% increase in Capital Budget Expenditure for defence will help bolster India’s border security. Increasing the targets for indigenisation of production may slow Defence Forces in accessing the equipment which they require to guard the borders. Notably, this time that there has been an increment in the Navy and Air Force capital acquisition budgets but not for Army. The increase in Naval Fleet budget is a much-desired move with better chances of Indian Navy going ahead in modernizing their fleet

especially considering their depleting submarine fleet. There is a scope for Indian Army and for Indian Air Force to increase the procurement this year so that we meet the budget expectations. Indian Air Force is down to just 30 fighter squadrons, against the assessed requirement of 42 squadrons.

12. The reduction in Capital allocation for the Army may adversely impact procurements and cause delays in induction of equipment or a reduction in the numbers inducted vis-à-vis the projected requirement.

The possibly affected list could include of Future Infantry Combat Vehicles, Carbines, Anti-Tank Guided Missiles, Apache helicopters.

13. As for the Indian Navy, delays might be seen in programs such as Light Utility Helicopters, Multi-Role Helicopters, second indigenous aircraft carrier and nuclear- power submarines under Project 75-I. Coming to IAF, delays will likely be seen in signing of major deals such as Multi Role Combat Aircrafts, Mid-air refuellers and Advanced Medium Combat Aircraft (AMCA) for Indian Air Force.

14. Last October, the government reorganised the Ordnance Factory Boards (OFB) into seven new defence public sector units. Achievement of the long-pending corporatisation of the OFB can help the government to achieve efficiency in producing arms, ammunition, armoured vehicles, and clothing. Consequently, defence exports may also see a boost.

15. The recent US \$375 million deal to sell the Brahmos cruise missiles system to the Philippines has come as a much-needed shot in the arm for the Indian defence industry. **The focus on strengthening the Defence manufacturing capability within India and a pitch for export of defence stores is a positive development.**

The Need for a Dedicated Non-Lapsable Fund

16. The 15th Finance Commission Report, covering the period 2021-2026, has recommended constitution of a dedicated, non-lapsable, Modernisation Fund for Defence and Internal Security (MFDIS), under the Public Accounts of India, with standard reporting and audit requirements. The chapter has delineated the fund requirements for internal security, to be managed by the Ministry of Home Affairs. There is no gainsaying the fact that defence modernisation has suffered intractably due to there being no commitment of financial allocations for long-term and short-term Defence procurement plans. The Long-term Integrated Perspective Plans (LTIPP) of the armed forces, covering a period of 15 years, have been based on an indicative percentage growth anticipated in fund allocation,

the Five-Year Defence Plans have been subjected to greater scrutiny at the Ministry of Defence (Finance) and the Ministry of Finance (MOF); defence five-year plans have been continued, though national level five-year plans were discontinued after a decision in 2015. **The credibility of the planning process comes to be seriously discounted without assured fiscal commitment.**

17. The 15th Finance Commission also recommended raising of Rs 85,000 crore through transfer from the Consolidated Fund of India, disinvestment proceeds of Defence Public Sector Enterprises (DPSEs), proceeds from monetisation of defence lands, and receipts for lands likely to be transferred for public projects. It is this pool that would be non-lapsable with any unused portion of annual budget to continue being governed by the relevant Acts Rules and Procedures. The Defence Capability Integrated Plan, to cover a period of ten years, being drawn up by the Department of Military Affairs would be the basis for planning of modernisation and requires to be backed with adequate fiscal support if capability gaps are to be filled / minimised.

18. Such a dedicated fund that augments / supplements the Budget allocations would enhance the overall capital outlay provided in the Annual Budget, as aspect that has been emphasised in the Report of the Standing Committee of the Parliament on Defence and there have been expectations from the Finance Minister to take a pragmatic view on this long-standing demand.

Efficient and 'Smart' Utilisation of Allocations

19. Recent media reports alluding to the Defence Forces having issues with expending the allocations made in the budget of the current year cause concern. The Ministry of Defence had in response to the Parliamentary Committee on Defence assured that *“All efforts will be made to ensure optimum utilization of the available resources. Based on progress of expenditure, pending committed liabilities etc., additional funds will be sought at appropriate stage(s). If required, the schemes will be reprioritized to ensure that urgent and critical capabilities are acquired without any compromise to operational preparedness of the Defence Services.”*

20. To meet weapons and equipment requirements across all armed forces, India is expected to spend huge sums of money for fleet modernisation in the next 5-7 years. This will require the country to hike its spending each year by 10 percent. The focus till then should be procuring on critical defence equipment required by the Armed Forces. Leasing of equipment from foreign Original Equipment Manufacturers (OEMs) and

streamlining teeth to tail ratio with the defence services can be considered to control the revenue expenditure. Allocations for the Defence Budget at the Revised Estimates stage must be appropriately enhanced so that the planned Capital and Revenue expenditure for the Forces is not negatively affected by inflation.

21. **MoD has to find out a way out for prioritising the utilisation of its resources at the disposal in an optimal manner.** It is now up to its various Departments and organisations and the Defence Forces to formulate and implement smart strategies to leverage the allocations to translate the outlays into outcome.

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