

Defence Budgeting in India: Need for Urgent Reforms

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Fundamentally defence expenditure is determined not by economic but by political constraints. If expenditure is cut back,..... not because this in some absolute sense is necessary, not because the nation could not afford previously planned effort, but because certain choices are made. Now the choices which are made are political choices over which public opinion has some influence¹

— JC Garnett

Introduction

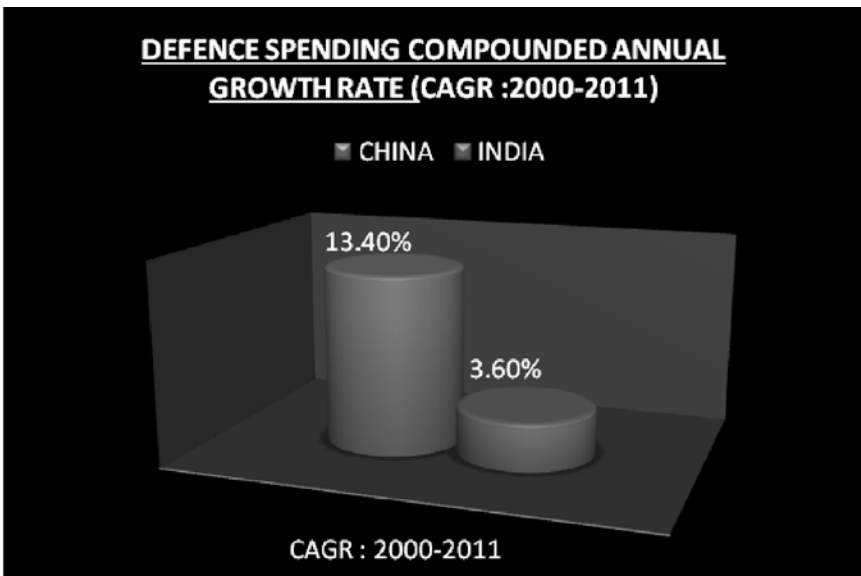
In the Union Budget for Financial Year (FY) 2013-14, the government has marginally increased the defence outlay by 5.31 percent over the Budget Estimates (BE) of last year. As a percentage share of Gross Domestic Product (GDP), at 1.79 percent, the current year's defence budget is the lowest in the past three decades. In fact, if this nominal hike of 5.31 percent is adjusted with the average inflation rate of around 7.3 percent witnessed during the past year, then the real growth is actually negative (-2 percent). Further, the capital expenditure has been pegged at Rs 8,67,40 crore, which is approximately 9 percent higher than the past year's allocation of capital expenditure. This too, when adjusted against an estimated average annual inflation witnessed by modern defence equipment of 8-10 percent,

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N.B. The views expressed in this article are those of the author in his personal capacity and do not carry any official endorsement.

then, there is no growth/negative growth in real terms. Further, out of the Rs 8,67,40 crore proposed capital outlay, approximately 30 percent will be cash outgo on account of committed liabilities; thus, further restraining the capital available to progress new schemes. This year's constrained allocation of resources for the defence Services comes at a time when India is faced with extraordinary security challenges, both externally and internally. The prevailing global and national economic slowdown has been quoted as the reason for this nominal hike.

Fig 1



It is interesting to note that despite this, China has announced a 10 percent hike in its defence budget. As per a recent report by the Centre for Strategic and International Studies (CSIS), the Compounded Average Growth Rate (CAGR) of Chinese defence spending over the past decade has been to the tune of 13.6 percent,² whereas our CAGR of defence spending has remained abysmally low at 3.6 percent.

A major lacuna in defence budgeting is the lack of financial

commitment which severely restrains the implementation of perspective plans, in the long as well as medium terms. In such a situation, when faced with a constrained and uncertain fiscal space, the defence Services are left with no choice but to resort to an “item by item” approach towards defence acquisition and force structuring. The situation gets further accentuated on account of long lead times in the materialising of defence procurements for reasons generally known to the readers. Such an approach inevitably leads to critical capability gaps in the long-term.

Current Budgeting Process

The current process of defence budgeting is, in fact, a ‘top-down’ process that commences with the issue of a budget circular by the Budget Division of the Ministry of Finance (MoF). The budget circular contains guidelines for preparation of the Budget Estimates (BE) of the next year as well as the Revised Estimates (RE) of the current year.³ In turn, the Ministry of Defence (MoD) (Fin) issues a similar circular to the three Services besides the Defence Research and Development Organisation (DRDO) and Department of Defence Production. Following this, projections are made by the three Services, taking into account the Annual Acquisition Plans, and trends of past allocations. These projections are then consolidated by the MoD (Fin) and forwarded to the MoF, which, in turn, makes the budgetary allocation in its own wisdom.

At the MoF level, the budgeting for defence gets reduced to merely an annual “mathematical exercise”, wherein nominal hikes are made each year. Further, the debates on defence budgeting hover around the percentage share of GDP/percentage share of Central Government Expenditure (CGE), but no strategic priorities/programmes ever get debated in detail. As a result of this unintegrated defence planning and budgeting, the translation of defence outlays into visible programmes gets inordinately delayed and is marred by serious cost overruns. The process of defence budgeting needs focussed politico-strategic guidance.

We need to move away from the current ‘accountants approach’ towards defence budgeting which is aimed at control of expenditure, and adopt an approach that establishes a linkage between the ‘resource allocation’ and the ‘strategic needs’ of the country.

India Needs a Project Solarium

Michael Hobkirk in his seminal work *The Politics of Defence Budgeting* has observed that “if a change is to come to defence, it should come from inside.” He further argues, “An organization is composed of rational men. They should be able to agree to changes that help them to do their job better. They will agree more readily if informed outsiders, encouraged by special committees in Parliament and Congress, were to discuss the problem and suggest improvements.”⁴ Unfortunately, this is not the case. We have witnessed numerous committees in the past, but the change is still awaited. India needs a “Project Solarium” of its own. Way back in 1953, during the height of the Cold War, the then US President Eisenhower took it upon himself to review the then prevailing “US Containment Policy” to keep a check on the Soviets, which was being done primarily through military means.⁵ Eisenhower wanted to study America’s position vis-à-vis the Soviets’ and to compare alternative policy options.

Eisenhower created three integrated teams by selecting people from his security and foreign policy teams, and asked them conduct a systematic policy review and recommend policy options. While one team was to make a strong case for continuing with the existing containment policy, the second team was to suggest modifications in it and the third team was to make strong arguments in favour of total “roll back”. The project lasted for five weeks in total secrecy and on July 16, 1953, the President, in a special meeting of the National Security Council (NSC), was briefed. Eisenhower made an informed decision at the end of the meeting by opting for the recommendations of Team A which suggested that the US should combine active military threat with political and psychological

action against the Soviets. The result of Project Solarium (named after the room in which the meeting was held) was formulation of the US Basic National Security Policy (NSC 162/2). What followed is known to all of us. This project is an apt example of the necessity of politico-strategic guidance while crafting long-term policies.

Planning Programme-Based Budgeting Execution (PPBE)

We need to adopt an integrated planning and budgeting process for national security which is inclusive and brings out policy priorities and capability requirements for appropriate resource allocation. Therefore, there exists a strong case for PPBE, wherein defence plans are made containing specific programmes that are prioritised and resources allocated to them, along with a specified timeframe within which the programme gets completed. The fundamental idea behind the PPBE process is that besides establishing a linkage between perspective planning and defence budgeting, it also leads to informed decision-making on explicit criteria of national interest.

To initiate a PPBE process, we need to articulate a cohesive national security strategy, a strategic planning guidance and a national military strategy. Thereafter, a Quadrennial Strategic Review that is mandated by the Parliament is an absolute must for a holistic review of all elements of defence policy and the strategy needed to support the national security strategy. However, in the absence of all these vital articulations, as in our case, the Raksha Mantri's Op Directive to all the three Services can be taken as a basis for a PPBE process.

Step 1: Design Mid-Term Resource Envelope

In our case, to begin with, in a slight modification, to the PPBE model, the MoF must make available a "fiscal space" in the form of a "5-Year Resource Envelope/Mid-Term Resource Envelope (MTRE)". A simplified model for the same has been worked out below. This model

has been worked out by factoring the figures of this year's defence budget as a "take-off point" and thereafter factoring in a reasonable 15 percent Year on Year (YoY) growth in Capital Heads and 8 percent YoY growth in Revenue Heads. An average annual inflation of 10 percent under the Capital Heads and 7 percent under the Revenue Heads has also been taken into account. The 5-year "resource envelope," thus, obtained is tabulated below:

Table 1: A Proposed Mid-Term Resource Envelope (MTRE)

Sl No	Year	Capital (In Cr)	Revenue (In Cr)	Total (In Cr)
(a)	2013-14	86,741	1,16,932	2,03,673
(b)	2014-15	109,728	1,35,127	2,44,855
(c)	2015-16	1,38,805	1,45,342	2,84,147
(d)	2016-17	1,54,767	1,67,956	3,22,723
(e)	2017-18	1,95,780	1,94,089	3,89,869
Total		6,85,821	7,59,446	14,45,267

It may be argued that the MTRE calculated above is in some form a mathematical exercise and, therefore, what is the need? The counterpoint to this argument is simple. Anyone constructing a house needs to know the limits of his purse. One cannot suddenly start constructing a palatial house and then owing to decline in salary/income, suddenly decide to go for a fiscal cut... while the roof is still to be cast. Similarly, defence planners, seeing the need for very expensive weapons programmes for all three Services stretching over a number of years, will inevitably have to tailor and time these programmes, so that the cost peaks in each do not all occur in the same year and swamp the likely defence budget. For this task, they need as much certainty as possible about future defence budgets.

Step 2: Design Mid-Term Capability Envelope

Simultaneously, the perspective planners within the three Services, facilitated by a central agency [Headquarters Integrated Defence Staff

(HQ IDS) in our context] need to work out programme/plans (along with associated costs worked out realistically) that are to be executed over the next five years. This can be termed as a “Mid-Term Capability Envelope” (MTCE). For example, if the Army needs to raise a Mountain Corps, then under the PPBE system, this would be a programme in itself and would be listed as “Rs 80,000 crore to raise and equip a Mountain Corps by 2018.” Similarly, if it was acquisition of the Medium Multi-Role Combat Aircraft (MMRCA) for the Indian Air Force (IAF), the programme would be listed as “Rs 1,00,000 crore for 53 MMRCA for the IAF by 2018.”

Step 3: Match the MTRE and MCTE

Once the MTCE has been prepared, then, in a collegiate manner, it needs to be matched with the “MTRE”. This has to be a deliberate iterative process between the Ministry of Finance, Ministry of Defence, the three Services and HQ IDS. This would lead to an implementable PPBE-based 5-Year Defence Plan.

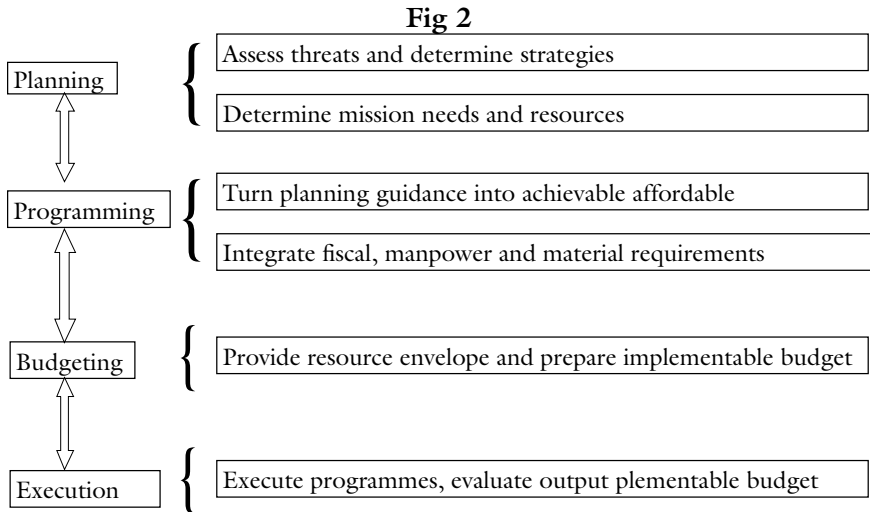
Benefits of PPBE Process

If the defence budgeting is based on the process as proposed above, emanating from a Quadrennial Strategic Review (QSR), displaying programmes, their allocations and time period for execution, it would combine planning and output budgeting with cost-effectiveness, besides lending itself optimally suitable for scrutiny. This approach has the following benefits:

- It translates strategy/perspective plans into programmes.
- It identifies required capabilities/force size/structure and equipment.
- It sets programming priorities.
- It allocates resources for operations, acquisition and other functions.
- It evaluates actual output against planned performance.
- It provides feedback to senior leadership concerning the effectiveness

of current and prior resource allocation.

A flow chart of the PPBE process is as below:



Changes Required

Much ink has been spilled over the years describing the infirmities in India's national security planning architecture. We have seen several debates on television programmes describing how a humongous bureaucracy (both civilian and military), in an attempt to safeguard its turf, has remained change resistant. We also know that this issue is further accentuated by inter-Service rivalries. If only all this is diminished, we will be able to do justice to the national defence planning/budgeting process. Essentially, we need the following changes in our processes and organisation:

- Though the Raksha Mantri's Op Directive does encompass a holistic review of security threats, and envisions the security goals and desired levels of military preparedness, still it is felt that we need to formulate a national security strategy, strategic planning guidance and national military strategy at the earliest.
- A Quadrennial Strategic Review that is mandated by the Parliament

for a holistic periodic review of all elements of defence policy and a strategy needed to support the national security strategy.

- A central policy and planning staff comprising qualified Service officers/domain specialist bureaucrats from the MoD/MoD (Fin) and MoF working in synergy and reporting directly to the NSC.
- A strong Perspective Planning Department represented by domain qualified Services officers and domain specialists who prepare an implementable PPBE-based 5-Year Defence Plan, as explained.
- A multi-year budget system to provide a stable framework for future plans.
- Active management of the defence planning and budgeting process.

Conclusion

Defence planning and defence budgeting are closely interlinked. A defence budget should be a mirror image of a nation's defence strategy and the intentions of its national leadership with regards to force structures and capabilities. A piecemeal approach to defence modernisation and force structures can only lead to an unbalanced force structure with critical capability gaps. It is for the first time in India's military history that a 5-Year Defence Plan (12th Defence Plan) covering the period 2012-17 has been approved. However, unless resources, as envisaged in the plan document are made available, and a programme-based output budgeting process is implemented, translation of the plan document into visible outputs may never be achieved.

Notes

1. JC Garnett, "Some Constraints on Defence Policy-Makers," in L Martin (ed.), *Management of Defence* (Macmillan Publishers, 1976).
2. "Asian Defense Spending 2000-2011", October 2012, Centre for Strategic and International Studies, Washington D.C.

3. Amiya Kumar Ghosh, "Review of the Defence Budget," *Air Power Journal*, Vol. 4, No. 3, Monsoon Edition, July-September 2009.
4. Michael D Hobkirk, "The Politics of Defence Budgeting: A Study of Organisation and Resource Allocation in the United Kingdom and the United States" (Fort Lesley, J. McNair, Washington, D.C.: National Defense University Press, 1983).
5. Tyler Nottberg, "Once and Future Policy Planning: Solarium for Today," The Eisenhower Institute 2004, available at http://www.eisenhowerinstitute.org/about/living_history/solarium_for_today.dot

