

# India's Defence Budget 2010-11: An Analysis

Laxman Kumar Behera\*

*India's raised its defence budget for 2010-11 by 3.98 per cent to Rs. 1,47,377 crore. This allocation represents 2.12 per cent of gross domestic product (GDP), which is below the global average of 2.5 per cent. Considering the void in defence preparedness and the rising military expenditure and capability in neighbourhood, India needs to increase its defence spending to around 2.5-3.0 per cent of GDP. However, the increase in allocation has to go with reforms in capital acquisition system, which in present form is unable to spend the allocated resources. Among others, MoD needs to put in place an integrated acquisition structure with all the acquisition functions carried under its supervision.*

## Introduction

The Union Budget 2010-11, presented in the Parliament on February 26, 2010 has allocated Rs. 1,47,377 crores (US \$ 31.9 billion) for the country's Defence Services that include three Armed Forces (i.e., the Army, the Navy and the Air Force), and two defence departments - Defence Research and Development Organisation (DRDO) and Ordnance Factories. This allocation is apart from Rs 28,427.85 crore that is made available to defray the 'secretariat-general services' of the Ministry of Defence (MoD) and its affiliated organisations (primarily the Coast Guard and the Jammu and Kashmir Light Infantry), and for Defence Pensions (Rs. 25,000 crore). In other words, the total resources available to MoD and its organisations amounts to Rs. 1,75,771.85 crore (US \$ 38.1 billion). However, by convention, the allocation for Defence Services constitute India's defence budget.<sup>1</sup>

The article provides an in-depth-analysis on the following aspects:

- Key components and shares of services in budget and 2009-10 and 2010-11
- Void in defence preparedness and adequacy of budget
- Streamlining defence capital acquisition
- Defence allocation: A neighbourhood perspective

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## Defence Budget: Key Components and Shares

Among the services, the Army, the biggest consumer of the defence budget, has witnessed a noticeable decline, in terms of its percentage share in defence budget, whereas the Air force has been the major beneficiary in the budget 2010-11.

Annexure-I provides an overview of key components and shares of services in the defence budgets of 2009-10 and 2010-11. It shows, among others, a modest growth of 3.98 per cent in the latest defence budget, in comparison to 34.19 per cent in 2009-10. The relatively smaller growth in the defence budget is reflected in its declining shares in the gross domestic product (GDP) and total central government expenditure. Among the services, the Army, the biggest consumer of the defence budget, has witnessed a noticeable decline, in terms of its percentage share in defence budget, whereas the Air force has been the major beneficiary in the budget 2010-11. The Navy has almost held on to its last year's share. The Air force's increased share has largely been due to enhanced budgetary provision under the head of capital expenditure. In comparison to its last year's allocation (of Rs. 20,114 crore) for capital expenditure, it has been allocated an extra Rs 5,138 crore. The over and above last year's allocation can be seen in the context of its planned induction of

medium multi-role combat aircraft (MMRCA), which is presently going through the last stage of trial and evaluation.

One noticeable change in the latest budget pertains to the ratio between revenue and capital expenditures. In comparison to previous year, the share of capital expenditure in the overall budget has increased to nearly 41 per cent.

### Void in Defence Preparedness and Adequacy of Defence Budget

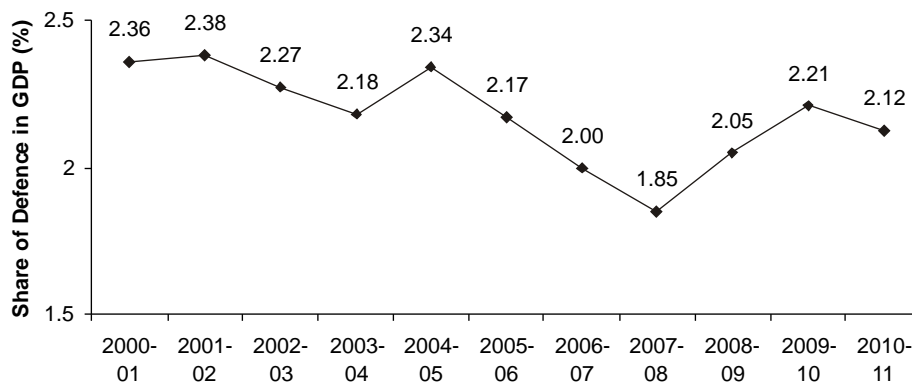
India lives in a difficult neighbourhood. To meet the myriad security challenges, the defence forces need to modernise their assets on a continuous basis, so that the defence preparedness of the country is one step ahead of its adversaries. However, as reported by various oversight agencies, such as Comptroller and Auditor General of India (CAG) and Parliamentary Standing Committee on Defence, there are glaring voids in defence preparedness, which need urgent attention of the defence establishment. For instance, the CAG in a recent report mentions that the submarine force of the Indian Navy, a key component of naval warfare, is below the expected force level. It also mentions that "the Indian Air Force does not possess adequate number of surveillance radars needed for providing efficient and reliable detection capabilities for ensuring credible Air Defence."<sup>2</sup> The Army is reported to have glaring

deficiencies in its artillery force and night fighting capabilities, and shortages of even in its stock of bullet proof jackets.

Keeping the above in view, the pertinent question arises as to whether the defence allocation is enough to fill up the capability gap that exists today. The answer to the above question is however not straightforward. It is because, as the modernisation of armed forces is an on-going process; the defence allocation has therefore to be seen from a long-term perspective. One way of looking this is how much resources the country spends on its defence over a period of time.

As the Figure-I shows, India does not have a consistent pattern of devoting its national resources on defence. Moreover, the share of defence in GDP is less than the global average of 2.5 per cent. In contrast, countries such as US, Russia, Pakistan and China (if the latter's actual military spending is taken into account) spend a much higher portion of their national resources on defence. Considering that India does not have a very friendly neighbourhood, there is a scope to progressively enhance defence spending to around 2.5-3.0 per cent of GDP.

Figure 1: Percentage Share of Defence in GDP



Sources: Reserve Bank of India, *Handbook of Statistics on Indian Economy*; Central Statistical Organisation, *Press Note: Advance Estimates of National Income, 2009-10*; Ministry of Defence, Defence; Services Estimate; Ministry of Finance, *Union Budget 2010-11*

### Demand for Higher Allocation and Surrender of funds

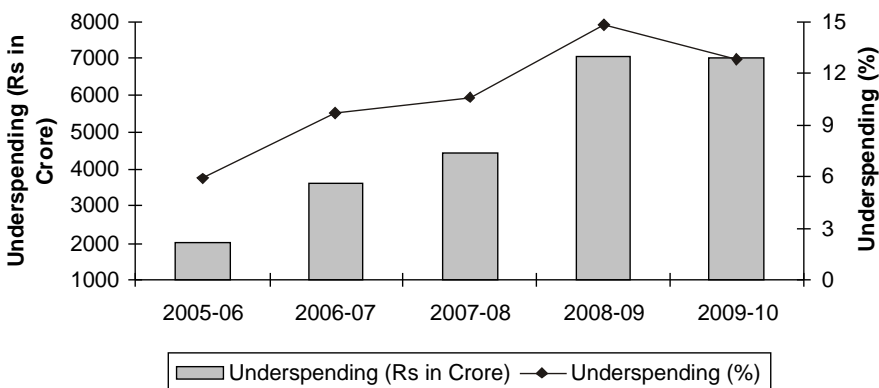
Low spending on defence has often been cited as the main reason for India's lack of defence preparedness, leading to its defeat against China in 1962. It has been argued by many strategic analysts that defence budget needs to be increased to three per cent of GDP so as to infuse greater amount of resources for national military build up. There seemed to have been a national consensus on this argument when Prime Minister Manmohan Singh in his address to the Combined Commanders Conference in October 2005 assured the nation that three per cent of GDP for the national defence can be provided for.<sup>3</sup>

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The Parliamentary Standing Committee on Defence, which examines various aspects related to the Defence Ministry, has repeatedly recommended for higher allocation for the defence services. In a report submitted to the Parliament in April 2007, the Committee “strongly” argued for a “minimum 3 per cent of GDP for Defence Services every year in order to ensure a fixed amount to carry out their modernisation, Capital acquisition and R&D Programme and fulfil the need based requirements of the Defence Forces.”<sup>4</sup>

Notwithstanding the PM's assurance and the Standing Committee's repeated recommendations, the fact of the matter is that the defence allocation in the past many years has remained well below the three per cent level. One of the factors for this seems to emanate from the lack of ability of the MoD to spend the allocated resources in the stipulated time frame. As the defence budget 2010-11 reveals, the Ministry of Defence surrendered (at the revised estimate stage) Rs. 5,439 crore from its budget of 2009-10. The surrender amount could have been more, had the revenue spending not been increased from original estimate. From the defence modernisation point of view, what is worrisome is that the under-spending is largely in capital expenditure budget, the major part of which is meant for acquisition of defence hardware for the armed forces. It is noteworthy that in last five years, the defence ministry has surrendered over Rs. 24,218 crore from its total budgeted capital outlays, with the annual unspent amount varying between Rs. 2,037 crore (six per cent) and Rs. 7,089 crore (15 per cent) (see Figure-II).

Figure II: Under-spending in the Defence Capital Budget



Note: The under-spending up to 2008-09 is based on difference between budget estimate (BE) and actual expenditure and for 2009-10 between BE and revised estimate (RE).

Source: Government of India. Ministry of Defence, *Defence Services Estimates* (relevant years).

When the defence ministry surrenders such a huge amount from its allocated budget, it becomes difficult for it to ask for more resources in subsequent years. The difficulty becomes acute considering the fact that the allocation for defence, in comparison to most other ministries/departments, is substantially large. Even a small percentage of under-utilisation of the defence budget amounts to a large sum of money in absolute terms. This is probably the one reason why other ministries who are also facing the same unspent syndrome,<sup>5</sup> have got away with hefty increases (in percentage terms) in their budget, while the defence ministry struggles with meagre increase in its allocations. As a result, the defence budget remains far off from the desired percentage of the national resources.

### Streamlining Defence Acquisition

In recent years, the MoD has taken a keen interest in streamlining its acquisition process, through a period review of Defence Procurement Procedure (DPP). In 2006, it brought out a comprehensively revised DPP (known as DPP-2006) which emphasized among others on “reducing the timeframe for acquisitions” by way of collegiate vetting of major decisions. It also brought down the timeframe for completion of procurement from earlier 24-35 months to 20-34 months. Two years later, the DPP-2008 sought to reduce acquisition time by stipulating a mandatory period of two years within which the request for proposal has to be issued once its necessity has been approved by the higher authorities.<sup>6</sup> However, the above measures seem to have little impact in expediting the acquisition, with the un-spent amount in past five years or so showing an increasing trend.

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The greatest problem in India's acquisition system stems from the lack of accountability in a single place. This has been amply highlighted by the CAG in a report presented to the Parliament in May 2007. Referring to the best international practices, the Report states that some of the advanced countries have moved towards creating integrated acquisition organisation within their defence ministry, incorporating “the Service, technical, finance, quality assurance and administrative elements under one accountability centre.” In India, the acquisition functions are performed by numerous independent

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agencies without a single point of accountability. For instance, in the army - whose capital acquisition was studied in details by the constitutional body - there are thirteen different agencies involved for various procurement functions starting from 'initiation of case to signing of contract.' However, there is 'very little coordination' among them (as each of the agency report to different independent functional heads), resulting in delays in acquisition.

The lack of an integrated approach apart, India's defence acquisition also suffers from numerous other counts. The DPP-2006 and its subsequent versions stipulate 11 stages of procurement processing, starting from formulation of services qualitative requirement to award of contracts and post-contract management. Each of the stage consists of nine to 10 independent approval points and at least three submission points. Although DPP stipulates a time frame for each of the stage of procurement, it is often not adhered to due to various reasons, the vital being the absence of a strong monitoring system, lack of professionalism among the acquisition functionaries and short-tenure posting of the personnel involved.

To rectify some of the problems the supreme auditor had recommended the following:

*An integrated defence acquisition organisation can be considered by incorporating all the functional elements and specialisation involved in defence acquisition under one head. This should be accompanied by adequate re-engineering of the whole process of acquisition to identify and remove the redundant activities.*

*A specialised cadre/pool of Acquisition Managers may be developed by imparting suitable training in different areas of acquisition viz. project management, contract negotiations, contract management; and exposure to professional best practices of procurement. Certain stability of tenure of the personnel should also be ensured.*

*A suitable integrated electronics information system connecting all defence procurement should be put in place to support the acquisition process.*

The above recommendations are, however, yet to be implemented, although nearly three years have been passed. Considering that acquisition



involves a huge sum of tax-payers' money and is directly linked with country's defence preparedness, it is time that the MoD takes these recommendations seriously.

## Defence Allocation: A Neighbourhood Perspective

The defence expenditure in neighbourhood countries is a source of concern for New Delhi. This is more so with respect to China and Pakistan, with which India has unresolved boundary problems which have often led to military and diplomatic conflicts.

### China

China raised its planned defence budget for 2010 by 7.5 per cent to 532.115 billion Yuan (about \$78 billion).<sup>7</sup> However, the planned allocation is widely considered to be much less than the actual military expenditure. According to US defence department's 2009 report on *Military Power of the People's Republic of China*, Beijing's total military-related expenditure in 2008 is in the range of \$105-150 billion – in comparison to China's official declared budget of \$60.19 billion.<sup>8</sup> The secrecy in China's actual military spending notwithstanding, Beijing has sustained a double digit growth in its defence

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spending. As a result, it has emerged as one of the largest military spenders in the world. It is noteworthy that in 1999, China was the 9th largest military spender in the world. In 2006, it ranked 4th and in the process surpassed Japan to become the largest spender in Asia. In 2008, it surpassed France and UK to become the 2nd largest spender, only behind the US whose military spending continues to dominate world defence expenditure.

The sustained rise in military expenditure has paid Beijing rich dividend in terms of enhanced military capability. The deployment of advanced weaponry such as intercontinental ballistic missiles, nuclear submarines, and the successful tests of anti-satellite (ASAT) weapon and the recent anti-ballistic missile capability are a few telling examples of the capability that it has achieved over the years. However, the lack of transparency in defence posture and its military spending is a source of concern to many countries including India. Taking 'note' of China's rapid progress, India's Ministry of Defence states that "China's defence modernization needs to be monitored carefully in the foreseeable future for the implications that it can have on the security and defence of India."<sup>9</sup>

## Pakistan

Pakistan's defence budget for 2009-10 totalled PKR 342.9 billion (about \$4.17 billion).<sup>10</sup> Although, this allocation constitutes a small fraction of India's defence expenditure, it is Islamabad's military aid from the US that causes trouble for India. Since 2002 the US has provided or committed 'direct overt aid and military reimbursement' amounting to \$17.5 billion - including \$11.6 billion worth of 'Security-Related' aid - in return for Islamabad's cooperation in the ongoing 'war on terror'. However, US's decision to supply sophisticated weaponry to Pakistan (see Annexure-II) has been questioned by India for its utility of fighting Al Qaeda and Taliban. India has often voiced its concerns over Pakistan's diversion of such aid against its eastern neighbour. Expressing its concern on US's decision, India's defence minister AK Antony recently stated, "given our bitter past experience of how Islamabad used such aid against India, Washington should ensure that the latest tranche of military aid is used only for the purpose of countering Al Qaeda and Taliban terrorists and not against India."<sup>11</sup>

## Conclusion

Keeping in view the void in India's defence preparedness and the rising military expenditure and capability in its neighbourhood, a meagre increase of 3.98 per cent in India's defence budget for 2010-11 seems inadequate. Considering the fact that India spends a moderate portion of its gross national output, there is a scope for progressively enhancing defence allocation, to at least

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2.5-3.0 per cent of GDP. However, the enhancement of allocation would largely be dependent on timely utilisation of such allocations. As the evidence shows, the MoD has repeatedly surrendered significant portions from the capital budget which is primarily meant for modernising the armed forces.

Despite periodic review of Defence Procurement Procedure, the MoD does not seem to have achieved its goal of expediting arms acquisition. The existing system, as highlighted by CAG, needs reforms. In order to fix accountability, the MoD needs to have an integrated acquisition system, with all the related functions carried under its supervision. There is also a need to have a dedicated pool of personnel who are well versed in acquisition tasks.



## Annexure-I

	2009-10	2010-11
Defence Budget (Rs in Crore)	1,41,703	1,47,344
Growth of Defence Budget (%)	34.19	3.98
Revenue Expenditure (Rs in Crore)	86,879	87,377
Growth of Revenue Expenditure (%)	50.85	0.57
Share of Revenue Expenditure in Defence Budget (%)	61.3	59.3
Capital Expenditure (Rs in Crore)	54,824	60,000
Share of Defence Budget in Central Government Expenditure (%)	13.88	13.29
Growth of Capital Expenditure (%)	14.20	9.44
Share of Capital Expenditure in Defence Budget (%)	38.7	40.7
Share of Army (Rs in Crore)	76,679.73	74,589.79
Share of Army (%)	54.1	50.6
Share of Navy (Rs in Crore)	20,604.02	21,467.51
Share of Navy (%)	14.5	14.6
Share of Air Force (Rs in Crore)	34,432.26	40,462.45
Share of Air Force (%)	24.3	27.5
Share of Defence Budget in GDP (%)	2.30	2.12
Government Expenditure (%)		

## Annexure-II

### Major US Arms Sale and Grants to Pakistan Since 2001


- Major post-2001 defense supplies provided under Foreign Military Financing (FMF) include:
  - eight P-3C Orion maritime patrol aircraft and their refurbishment (valued at \$474 million);
  - about 5,250 TOW anti-armor missiles (\$186 million; 2,007 delivered);
  - more than 5,600 military radio sets (\$163 million);
  - six AN/TPS-77 surveillance radars (\$100 million);
  - six C-130E transport aircraft and their refurbishment (\$76 million); and
  - 20 AH-1F Cobra attack helicopters granted under EDA, then refurbished (\$48 million, 12 delivered, 8 pending refurbishment for an additional \$65 million).

Supplies paid for with a mix of Pakistani national funds and FMF include:

- up to 60 Mid-Life Update kits for F-16A/B combat aircraft (valued at \$891 million, with \$477 million of this in FMF, Pakistan currently plans to purchase 35 such kits); and
- 115 M-109 self-propelled howitzers (\$87 million, with \$53 million in FMF).

Notable items paid for entirely with Pakistani national funds include:

- 18 new F-16C/D Block 50/52 combat aircraft (valued at \$1.43 billion; none delivered to date);

- F-16 armaments including 500 AMRAAM air-to-air missiles; 1,450 2,000-pound bombs; 500 JDAM Tail Kits for gravity bombs; and 1,600 Enhanced Paveway laser-guided kits, also for gravity bombs (\$629 million);
- 100 Harpoon anti-ship missiles (\$298 million);
- 500 Sidewinder air-to-air missiles (\$95 million); and
- six Phalanx close-in naval guns (\$80 million) 

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Notes:

- 1 This section is taken from Laxman Kumar Behera, "India's Defence Budget 2010", *Indian Military Review*, Issue 2010, No.3, p. 20.
- 2 See Report of the Comptroller and Auditor General of India for the year ended March 2007, Union Government (Defence Services) Air Force and Navy, No PA 5 of 2008 (Performance Audit)
- 3 See Prime Minister's Speeches at <http://pmindia.nic.in/speeches.htm>
- 4 Lok Sabha Secretariat, 16th Report of the Standing Committee on Defence (14th Lok Sabha), *Demands for Grants 2007-08*.
- 5 See Comptroller and Auditor General of India, Report No. 13 - Accounts of the Union Government, <http://www.cag.gov.in/html/reports/2009.htm>
- 6 Government of India, Ministry of Defence, *Defence Procurement Procedure (Capital Procurement) 2008*, p. 6.
- 7 "China's defense budget to grow 7.5% in 2010: spokesman", *Xinhua*, March 04, 2010, [http://news.xinhuanet.com/english2010/china/2010-03/04/c\\_13196769.htm](http://news.xinhuanet.com/english2010/china/2010-03/04/c_13196769.htm)
- 8 Office of the Secretary of Defense, Annual Report to Congress, *Military Power of the People's Republic of China 2009*, p. 31; and
- 9 Government of India, Ministry of Defence, *Annual Report 2008-09*, p.6.
- 10 Government of Pakistan, Ministry of Finance, *Budget in Brief 2009-10*, p.19
- 11 Government of India, Press Information Bureau, "Antony expresses concern over supply of Sophisticated US Military Equipment to Pakistan", MoD Press Release, March 04, 2010, <http://www.pib.nic.in/release/release.asp?relid=58843&kwd=>
- 12 K. Alan Kronstadt, *Major U.S. Arms Sales and Grants to Pakistan Since 2001*, Report prepared for the Congressional Research Service, <http://www.fas.org/sgp/crs/row/pakarms.pdf>