

BACKGROUND PAPER

How to Review the
Defence Budget

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PREFACE

Parliamentary Control and Oversight of the Defence Sector is an accepted democratic principle in the world. Major part of this control and oversight is exercised through the work of parliamentary committees. In the peculiar civil military relations of Pakistan, Pakistan's Parliament and its committees have a long road to cover in terms of exercising their constitutional role of oversight over the defence sector.

This background paper on “*How to Review the Defence Budget*” is authored by **Mr. Amiya Kumar Ghosh**, Distinguished Fellow, Centre for Air Power Studies and former Secretary Defence-Finance, India, traces the role played by the Indian Parliamentary Committee vis-à-vis the Indian defence budget over the years. The paper, a succinct summary of the role, powers and various approaches employed by the Indian Parliamentary Committee on Defence, answers questions such as the level of contribution Parliaments and Parliamentary committees make in overview of the defence budget in India.

The paper has been commissioned by PILDAT in order to assist Pakistan's Parliamentary Committees on Defence in the discharge of their roles of oversight.

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PROFILE OF THE AUTHOR

Mr. Amiya Kumar Ghosh (b. Sept. 1937) is MA in Economics from Delhi School of Economics, Delhi University. He had a bright academic career. He joined the Indian Defence Accounts Service in 1961. After various assignments in the field and in the office of Controller General Defence Accounts at senior level, he joined the Ministry of Defence as Additional Financial Adviser and Joint Secretary in February 1986. Among other things, he dealt with defence budgeting and defence planning in the Ministry of Defence. In August 1991, he headed a Task Force to give recommendations for effective budget formulation, expenditure control and management as also for better accounting classification to help in better budgetary management. Mr. Ghosh was later appointed as Additional Secretary, Defence Production and Supplies. He took over as Financial Adviser Defence Services in February 1994 and held that post till his retirement in September 1995. He was appointed by Ministry of Education as a member of a Committee to make recommendations regarding financing of IIMs and IITs in the 9th plan period. Later in 1997 he joined as a Senior Consultant in National Institute of Public Finance and Policy in a project financed by the Ministry of Education. He then served as Controller of Finance and Accounts in India International Centre, New Delhi. In 2002 he was awarded the Special Chair at the United Service Institution of India to carry out research on "Defence Budgeting System for Better Planning and Control of Expenditure."

Mr. A. K. Ghosh has two well known books on defence budgeting and planning to his credit:

- 'India's Defence Budget and Expenditure Management in a Wider Context' Lancers publishers, Sept. 1996
- 'Defence Budgeting and Planning in India, The Way Forward' (Jan. 2006, USI in collaboration with Knowledge World)

In the middle of 2006 he joined as Distinguished Fellow in Centre for Air Power Studies (CAPS). Mr. Ghosh was appointed as Member of the Review Committee on Defence Research and Development Organisation (DRDO) in March 2007. In the same year he joined as Senior Consultant in the National Institute of Public Finance and Policy for undertaking a project for Administrative Reforms Commission on 'Strengthening Financial Management Systems.' The report was submitted in April 2008. At present Mr. Ghosh is appointed as Distinguished Fellow in the Centre for Air Power Studies, Delhi.

INTRODUCTION

This paper discusses various aspects of the processes involved in the parliamentary review of the defence budget in India. The paper first explains the budgeting process adopted in India. It describes the ingredients of the defence budget in some detail. It reviews the functioning of the Parliament's Standing Committee on Defence which indicates an examination of defence budgets and finally summarizes the manner in which defence budget is reviewed in India and the lessons which can be learnt from the Indian experience.

It needs to be noted that under the India's parliamentary system of governance making of budgets is the exclusive responsibility of the Executive. However, the overall budget is to be approved by the Parliament each year as a Money Bill. The Parliament can approve or reject the budget or any of its demands but cannot modify it. The system thus differs significantly from the American system e.g. where the Congress has the authority to modify the budget. The parliamentary review of the budget undertaken in India should be seen in this context.

The defence budgeting process in India starts along with the budgeting process of other Ministries and Departments of the Govt. of India, on the basis of Budget Circular Issued by the Budget Division of the Ministry of Finance (MoF) in middle of September each year, containing instructions and guidance for the preparation "of the Revised Estimates of the Current Year and Budget Estimates of the next year. The budgets are finalised by the end of December.

The estimates of expenditure are to be furnished to the Budget Division in stages. In the first stage Statement of Budget Estimates (Proposed) are furnished. The estimates are discussed in the MoF with the Financial Advisers of Ministries /Departments in October /November. After the pre-Budget meetings are over, approved ceilings of expenditure, as finalized in these meetings, are communicated to the Ministries / Departments, on the basis of which Financial Advisers are to prepare the Statement of Budget Estimates (Final).

As per Article 112 of the Constitution of India, the Annual Financial Statement (Budget) shall distinguish expenditure on revenue account from that of other expenditure including expenditure on capital account. General Financial

Rules defines the Revenue and Capital expenditure and the Ministries/Departments are to prepare Budget Estimates in compliance with these rules.

The Budget Circular is accompanied by various instructions issued in the past by the Department of Expenditure regarding Economy measures, rationalization of expenditure, and measures for augmentation of revenues, for being kept in view while preparing estimates. Particular attention is drawn to the instruction regarding exchequer control system introduced from 1st April 2006, known as Modified Cash Management System whose main aim is to obtain greater evenness in budget expenditure and reduce rush of expenditure in the last quarter of financial year. Under this Monthly Expenditure Plan is to be worked out, and in the last quarter not more than 33% of budgetary provisions can be spent.

Entire defence expenditure is treated as Non-Plan expenditure, which gives Ministry of Defence more autonomy in the preparation of the budget than other Ministries/Departments, whose budgets are divided between Plan and Non-Plan segments.

Defence Budgeting process takes place within this framework.

Key Ingredients of the Defence Budget in India

In India the Defence Budget is known as the Defence Services Estimates (DSE). The budgetary requirements for the Defence Services are included in the following six Demands for Grants presented to Parliament:

- Demand No.21, Defence Services Army
- Demand No.22, Defence Services Navy
- Demand No.23, Defence Services Air Force
- Demand No. 24, Defence Services Defence Ordnance Factories
- Demand No.25, Defence Services Research and Development Organisation
- Demand No. 26, Capital Outlay on Defence Service

For each Demand in the DSE, there is a Major Head of account which indicates the total allocation made for the

Demand, which is subdivided into allocations under Minor Heads, Sub-Heads and Detailed Heads of expenditure.

The first five Demands for Grants (Demands 21 to 25) are categorized as Revenue Expenditure of defence budget. Revenue Expenditure includes expenditure on Pay & Allowances, Transportation, Revenue Stores like Ordnance stores supplied by Ordnance Factories (stores other than heavy and medium vehicles and other major equipment), expenditure on spares and expendable items, general stores, armament stores, clothing stores, light mechanical transport vehicles etc, on rations, petrol, oil and lubricants. It also includes Revenue work (which include maintenance of buildings, water and electricity charges, rents, rate and taxes, etc.) and other miscellaneous expenditure. Thus the running or 'operating' expenditure of three Services, Ordnance Factories, Director General of Quality Assurance, National Cadet Corps, etc. are included in the five Demands mentioned above.

Requirements for Capital Expenditure are contained in Capital Outlay (Demand No. 26), which cater to the requirements of capital expenditure of all the Services, Ordnance factories, Research and Development organization. It includes expenditure on land, construction works, plants and machinery, equipments, tanks, naval vessels, Aircrafts and Aeroengines, Dockyards, etc.

One particular point needs to be noted which relates to Demand for Ordnance factories. This budget is formulated on a net basis and approval of Parliament is taken for the net amount. The net amount is arrived at in the DSE, by deducting the value of supplies to be made to Army, Navy and Air Force during the year, from the expenditure proposed to be made under various items by Ordnance factories. The cost of supplies made by the Ordnance Factories to the Army, the Navy and the Air Force is provided for in the budget estimates for those Services, to avoid double counting. This change was deliberately made in defence budgetary system 1987, by segregating the Ordnance Factory budget from that of Army Budget and compute the budget on net basis, with a view to bring in more accountability in the expenditure management of the Ordnance Factories. It introduced the concept of price negotiations and control of cost on that basis. This has an important message for defence budgeting, which we shall bring out later.

The sum of net expenditure under the six Demands for Grants mentioned above, in common parlance, is referred to as the Defence Budget of India for a particular financial year.

The requirements for Civil expenditure of the Ministry of Defence and Defence Pensions are provided in two other Demands for Grants. Expenditure on Coast Guard Organisation is included in one of the Demands.

Defence budget formulated on the basis of structure mentioned about, makes it a totally input oriented budget. Control of expenditure is the main theme of defence budgeting in India, for which an input oriented budget is well suited.

The fundamental rule on which the system of budgetary control may be said to rest, is that no item of public expenditure may be incurred, unless provisions exists to meet it in the sanctioned budget estimates of the year concerned. This rule applies to the nature of expenditure as well as the amount.

The defence budget in India is mainly summation of the budgets of three Services, which represent 92% of the total budget. It is prepared keeping in view projections made by Services on the basis of:

- i. Current trend of expenditure
- ii. Inflationary trends, committed liabilities
- iii. Anticipated requirement of stores
- iv. Annual Acquisition Plan,
- v. Requirements on accounts of new units /formations/establishments
- vi. Annual Works Programmes, etc.

The budget takes its final shape after the Ministry of Finance imposes its "ceilings" keeping in view competing demands and overall constraint of resources.¹

The key ingredients of defence budget can be looked at from these 'requirements' approach, going into their reasonableness or otherwise. But it can take us only up to a point, for there is a "ceiling" which is imposed and has to depend to a large extent on the judgement of the Services who have their financial planning wing and effective control mechanism.

¹ Para 2.27 of Report of the Standing Committee on Defence, on the Demands for Grants 2008-09, p-13, Lok Sabha Secretariat, April 2008
<http://164.100.47.132/committeereports/Defence/29th%20DFG%202008-09-REPORT.pdf> As accessed on June 20, 2009

Different Approach towards Scrutiny of the Defence Budget

There is another approach towards scrutiny of defence budget which appears more productive i.e. by treating it as composed of various costs that the defence services have to incur or the prices they have to pay, from their respective budgets, to maintain the forces and supporting staff, to achieve acceptable level of defence preparedness and build up necessary capability. The basic ingredients are the costs which are to be incurred to meet the requirements, and many requirements cannot be met because costs of other items exhaust the total budgetary resources made available to a Service. Prioritization is the only answer, but that keeps many requirements unsatisfied.

The perception that should prevail while scrutinizing the defence budget from this point of view is that these costs, which are the basic ingredients of defence budget, are not more than what is 'reasonable' and should be reflective of 'good management practices'. 'Cost consciousness' should prevail all along the line so that costs borne by defence budget in carrying out various defence related activities is not more than what is 'fair' and 'reasonable'.

Some of these costs are controllable and some are not. The manpower costs, inventory costs and many other costs are controllable by adopting proper manpower policies and good management practices.

The prices that are charged by the suppliers of stores and equipment are not controllable in this sense, but should not be taken as given. Often the suppliers are monopoly suppliers and defence is charged prices which may be more than occasion demands. One should go into their cost structure and pricing policy, and ensure that fair prices are charged, so that defence budget is not unnecessarily burdened and defence services do not have to pay for their inefficiencies. How to introduce the element of competition and accountability for the suppliers is one of the challenges in budgetary management of defence.

Looking into manpower management with a view to reduce its cost including the pension liability is one such area. Efficient management of logistics with a view to reduce its per unit cost for achieving a given objective, is another potent area for achieving economy.

The concept of treating defence expenditure as an insurance cost to be borne by a nation also draws attention to the validity of cost approach as also to the point that a

country has to consider and how much of insurance premium it can afford to bear, keeping in view other pressing needs.

Concentrating on cost aspects is also helpful in decision making in adopting alternative courses, as defining an output in defence is not easy. It is not often realized that the method of budgeting also can be a potent instrument of cost control. We have referred to the introduction of net budget concept in the budgetary management of Ordnance Factories. The aim was to establish a customer-producer relationship between the Services and Director General of Ordnance Factories (DGOF), with a view to bring about cost control and accountability. This has helped in a significant way in achieving the desired objective. This practice can be emulated in other areas of support services with a view to reduce their cost which are reflected in defence budget. It would also call for looking into pricing policies of Public Sector Undertakings who are suppliers of defence for which budgetary provisions have to be made, so that they do not make inflated profits.

Budget reflects the costs and costs are to be looked into with a view to economise on them without reducing efficiency so that public money is not wasted and we get cost-effective defence.

In other words, the key ingredients of defence budget in India are the costs. In defence budgetary literature most of the costs are often treated as 'obligatory,' for which, it is held that budgetary provisions, in any case are to be made. These are treated as policy related costs, determined by the strength and composition of the armed forces. But these costs are also controllable through periodic review of the force structure which should be resource driven.

Some of the infrastructure costs are controllable in the medium term, by taking effective measures from now on so that future defence budgets are less burdened by these costs. For this, a longer term view regarding cost control, is necessary.

This also underlines the need for medium term and long term planning and linking defence budgeting with it, so that savings can be generated for modernization efforts. Defence planning and linking it with budgeting is, therefore, not a luxury, but a necessity for evolving an affordable and effective defence. Planning should be regarded as necessary ingredient of defence budgeting.

As would be seen from brief discussion, which follows, of

the general approach adopted by India's Parliamentary Committee on Defence (Standing Committee) on Defence Budget that they seem to have mainly concentrated on cost aspects of defence budget though they have mentioned about the requirement aspects also.

Review of the Defence Budget by the Defence Committee

The Departmentally related Standing Committee system in India was inaugurated by the Vice President and Chairman of the Rajya Sabha (Upper House) on March 31, 1993. The committees were constituted soon thereafter. It was a historical landmark in the evolution of the committee system in the Indian Parliament. Each of the Standing Committees consists of not more than 45 members-30 to be nominated by the Speaker from among the members of Lok Sabha and 15 to be nominated by the Chairman Rajya Sabha from among the members of Rajya Sabha. The term of the members of these committees is not to exceed one year.

After the general discussion on the budget is over, the Lok Sabha (Lower House) adjourns for a fixed period and the Standing Committee consider the Demands for Grants during the recess. The Demands are thereafter considered by the Lok Sabha in the light of the reports of the Committee.²

As would be seen, the Standing Committee has no role in the preparation of the budget of the department concerned. Its role is confined to undertaking a review of the Demands for Grants for the Ministry/Department concerned. Its recommendation on the basis of review, if they pertain to certain allocations made, are, however, given due weightage in the preparation of the next year's budget.

As per the first report on the Demands for Grants 1993-94, the scrutiny of the Demands was conducted on the basis of the following information:

- i. Policy/programmes/activities brought out by the Ministry of Defence in the Annual Report
- ii. Past commitments carried over in the current year i.e. 1993-94
- iii. Anticipated liabilities for the current year; and
- iv. Increase over previous year's estimates

Above documents were consulted by the Committee while scrutinizing the demands for grants for subsequent years also. This reflected the concern regarding the 'requirement' aspects of defence budget.

In the first two years of its review of the Demands for Grants for the Ministry of Defence, the Standing Committee went into the aspect of 'reasonableness' of the increase sought in the revised estimates of the previous year's budget as also that for the budget of the current year over the revised estimates. They went into the reasons for the increases and found the increases given as reasonable and modest.

The Committee also looked into allocations which had been provided for modernisation schemes in the Budget of 1993-94 both in the Capital and Revenue accounts. It was noted that the term "modernization" was not a classification for budgetary purposes. The Committee was informed that the budgetary constraints had an impact on the modernization programmes. The Committee came to the conclusion, keeping in view the overall constraint in resources that the best way to generate funds for modernisation of the armed forces, was through generating internal savings by taking well considered economy measures.

The Committee took particular interest in various measures of economy being undertaken by the Services and the Ministry. They gave special emphasis to these in their reports on defence budgets 1993-94 and 1995-96. Apparently, they succeeded in conveying an effective message to the Ministry of Defence and Armed Forces to manage defence expenditure in a cost effective way.

The Standing Committee referred to the earlier recommendations of the Committee on Defence Expenditure (CDE) set up in June 1990 regarding achieving economies in specific areas of defence expenditure. In response, the Ministry of Defence explained that action had already been taken to reduce expenditure relating to manpower, petrol, oil, transportation, inventory management etc. The Standing Committee expressed the hope that the economies will be suitably reflected in the Demands for Grants of the future years.

The Committee also went into the specific details relating to the economy measures initiated by the Services. In

² Reports of the Indian Parliament Defence Committee can be accessed at the Committee webpage on Lok Sabha website at <http://164.100.47.134/news/committeereport.aspx>

response the Ministry explained that in the Army savings were achieved through reduction in the authorization of equipment, one time reduction in the inventory in the Army Ordnance Corps, reduction of land norms, introduction of fuel efficient vehicles, introduction of transportation model, etc. These had resulted in a saving of about Rs. 1000 crores (Rs. 10 billion) per annum. These savings were envisaged in the Budget and had been observed in practice. Similarly, the economy measures initiated by the Navy, were likely to result in an annual savings of Rs. 49.93 crores (Rs. 499.3 million) and economy measures initiated by the IAF were to result in a saving of Rs. 67.19 crores (Rs. 671.9 million). The Committee recommended that the measures regarding conserving of petroleum products should be undertaken by all organisations under the Ministry of Defence more vigorously.

The Committee made very significant recommendations for achieving economy in the inventory of ordnance stores. Similarly, personnel requirement of the manpower for non-combat duties, the Committee felt, needed constant review for all the services.

By emphasizing that money saved by a particular Service should be available for modernization (presumably for the same Service who effected the saving), the Committee was enunciating an important principle. It was: economy achieved by these measures by a particular Service which required efforts and sacrifice, should not lead to reduction in their overall allocation of the budget, but should be redistributed to increase its allocation, say under capital head, for expenditure on modernization. This is an important principle. If this kind of incentive is not provided, then Services may not be enthusiastic in achieving economy in areas where it is possible.

In the report pertaining to Demands for Grants 1994-95 the Committee also looked into the economy aspects with lot of attention. Some of the important steps taken and consequent savings per annum, which the Committee were informed about by the Ministry, were:

- i. Rationalisation of the non-combatant manpower in the Army (Rs. 200 crores or 2 billion)
- ii. Rationalisation of authorization of tanks per regiment (Rs. 60 crores or 600 million)
- iii. Modernisation of inventory management and introduction of the Central Inventory Control Point System (Rs. 100 crores or 1 billion)
- iv. Off-loading of the requirements hitherto met by EME & other units of the Army to the civil market

(Rs. 20 crores or 200 million)

- v. Introduction of a new transportation model including decentralization of the supply system (Rs. 12 crores or 120 million)
- vi. Use of simulators for training (Rs. 300 crores or 3 billion) and
- vii. The rationalization of plinth area for residential accommodation for offices and men (Rs. 8 crores or 80 million)

The Committee observed that measures regarding conservation of petroleum products as recommended by their first report has not led to reduction in allocation under the POL head. They noted that the budget estimates under these items for 1993-94 were revised at a higher figure and still higher amount was planned to be spent in 1994-95. It was explained by the Ministry in its Action Taken Note that the increase was due to increase in the prices of POL and in actual terms there was no increase in the consumption of POL.

The Standing Committee also reiterated the need for the report of the Committee on Defence Expenditure to be made public as early as possible. The Committee was of the view that "a little more openness even in the matters relating to the Defence will not militate against the national interest. . . ." (para 37 of the report).

This is an important point for a democratic system of government. Reports dealing with the efficacy with which public money is spent and how this could be improved upon should be made public as also measures taken by the government to implement the recommendations as the taxpayers should be satisfied that public money was well spent.

The Committee was concerned at the fact that there has been an increase of 10.87 % in the budget estimates of 1995-96 as compared to that of 1994-95 whereas the rate of inflation during 1994-95 was 11.41%, allowing no increase in real terms in the Defence Budget, 1995-96. The Committee also noted that the gross capital expenditure which was 29.45% in 1994-95 (RE) declined in 1995-96 (BE) to 28.84%, indicating a deceleration of the modernization effort.

As per the next report, the increase in the Budget Estimates for 1996-97 over the previous year's Revised Estimates worked out to 3.2% only as against the existing rate of inflation of about 4.5%. In other words, there had been no increase in real terms in the Defence Budget for 1996-97 at

all.

The Committee in its report for 1996-97 gave a table showing that how Defence Expenditure as a percentage of Central Government Expenditure had fallen from 17.55% in 1986-87 to 13.58% in 1996-97. It also indicated that defence expenditure as a percentage of GDP had fallen from 3.58% in 1986-87 to 2.72% in 1994-95.

Referring to the budget provision for 1997-98 which represented 20.75% increase over that of the previous year, the Committee observed if the amount required for implementation of the 5th Pay Commission was excluded, the actual budgetary hike would only be 8.5% over the RE 1996-97 against the existing inflation rate of about 7.8% "thus, in real terms the hike in the Defence Service estimates for 1997-98 is only notional." (para 23 of the report of the Standing Committee on Defence Demands for Grants 1997-98).

The inadequacy of the increase in the defence budget was again commented upon by the Committee while reviewing the Demands for Grants 1998-99 when they observed that the hike in defence budget was just about enough to meet the outflow of the Fifth Pay Commission's recommendations and general inflation. The rupee devaluation had further eroded budget capacity. "Thus in real terms the provision for items other than salary in the defence budget remains static, if not reduced. In terms of percentage of GDP also the defence budget has stagnated at 2.4% over the last decade. This low level of funding is totally insufficient to meet crucial requirements including modernisation of Armed Forces" they observed. The Committee emphasized that in the interest of the security of the country, defence spending should be raised at least to the level of 3 per cent of the GDP. (para 24 of the report of the Standing Committee on Demands for Grants 1998-99).

The same kind of comments were made while examining the Demands for Grants 1999-2000. In real terms, the hike in defence outlay for the year 1999-2000, appeared to the Committee as "notional" (para 26 of the report).

In a table presented in the report, it was shown that the recommendations made by the MoD for budget were much lower than the projections made by the Services/Departments and allocations made by the MoF were still less. In effect, the amount allocated by the MoF by imposing a ceiling was about 18% less than the amount projected by the Services/Departments.

In scrutinizing the Demands for Grants for 2001-2002 similar table was presented which showed that the amount allocated as per ceiling made by the MoF was about 16% less than the amount projected by Services/Departments. (para 23 of the report on Demands for Grants 2001-2002)

In the Action taken Notes, the government in their replies relating to Committee's observations on inadequacy of the increases in defence budget have all along stated that the observations had been communicated to the Ministry of Finance for their consideration and necessary action. In one of the replies the government categorically stated, "As already brought to the notice of the Committee, Ministry of Finance makes final allocations for defence taking into consideration all relevant factors." (Report of Standing Committee 1998-99, Action taken on recommendations on Demands for Grants, Min. of Defence 1997-98, p-7).

The recommendations of the Standing Committee of the presentation of the budget do not result in any increase for defence allocations. As per India's system of financial administration and governance, this really should be accepted as a final point. Reiteration of this point leads to needless discussions, points and counterpoints, without any tangible result. Therefore, it is felt that discussing the adequacy or otherwise of the overall defence budget after it is finalized, is not a very productive exercise and the Committee should rather look into other aspects which relate to economy and efficiency of defence expenditure. This point was appreciated by the Committee while scrutinising the Demands for Grants 2001-2002 when it stated, "The Committee are of the view that effective security cannot be had by merely presenting a bigger defence budget. It requires effective defence finance procedures which in turn needs integrated defence planning organization." (para 27 of the report Demands for Grants 2001-2002). The reason for this observation was that an analysis of the figures showed that an amount of Rs. 4100 crores (Rs. 41 billion) of the allocated defence budget remained unspent during the year 2000-2001. The Committee felt that the tedious and time consuming procedures that had led to delay in defence spending, particularly those relating to procurement. The Committee desired that the procedure should be streamlined. While scrutinizing the Demands for Grants 2002-2003 the Committee again took note of unspent funds amounting to Rs. 5000 crores (Rs. 50 billion), the major portion of which related to capital expenditure. This story of surrender of funds from the allotted budget, year after year, has been a recurring one.

In the report on the Demands for Grants for 2006-2007 a table has been furnished indicating provisions in the Budget Estimates, Revised Estimates, Actuals and Short fall. The figures shown in the table indicated that there was reduction of allocation from BE to RE and from RE to actual since 2000-01, except in the year 2004-05. These again indicated shortfall/under utilization of budgetary allocations. What bothered the Committee was reduction of the amounts allocated at the RE stage compared to BE provisions. It was stated by Ministry of Defence that the Ministry of Finance reduced the amount at the RE stage based on the progress of expenditure and their assessment of requirements of funds during the remaining part of the financial year. The MoF also stated that in all these years during the course of mid-year review it was found that capital expenditure of MoD was much below the amount provided in the budget. The Revised Estimate was arrived at keeping the pace of expenditure and absorptive capacity of the MoD in the next two months in view. The MoD indicated that the streamlining the acquisition procedures through the procurement manual would help reduce the time between various stages of acquisition proceedings. The Committee was not satisfied with the explanation. To quote "Expressing strong displeasure, the Committee feel that there is a need for better financial planning and management in the Ministry of Defence." (para 1.43 of the report Demands for Grants for the year 2006-07).

The Committee in their earlier reports had recommended creation of a non-lapsable Defence Modernisation Fund (DMF) to ensure timely availability of Funds for acquisition of defence equipments. It was brought out by the MoF that it would not help matters as parliamentary approval would be required for utilizing the money from the fund. But the Standing Committee has reiterated its recommendation regarding creation of the DMF for better budgetary management of the defence procurement. But the position taken by the MoF has been that as adequate funds were made available in the beginning of each financial year for meeting the requirements of capital expenditure, there appeared "to be no need for sequestering scarce public resources in a Fund." (Reference para 1.58, Report on Demands for Grants (2006-07) and Para 2.33 of the Report on the Demands For Grants, 2008-09, p-16.)

The attention of the Committee while examining the Demands for Grants for 2008-09 was focused on "Curbing of Wasteful Expenditure." The Committee's attention was drawn to various studies that have been undertaken by the Services 'in-house' and by Integrated Defence Staff (IDS) to identify wasteful expenditure. Reference was also made to

findings of IDS that:

1. Optimization of defence resources could be achieved, for example, by amalgamation of assets in several areas through promotion of tri-service institutes; by
2. Pragmatic review of reserve levels which fall in the realm of over assurance
3. Effective exploitation of IT revolution backed up by sound networking system and in other ways

The Committee has all along emphasized in their reports the need for achieving self reliance in Defence acquisitions and in this context recommended higher percentage of allocation of budget to defence R&D which was about 4.5 % of the defence budget in 1994-95 so that R&D programmes are completed on schedule. Their reports also drew attention to Ten Year Self Reliance Plan to achieve self reliance index of 0.7 per cent.

Following the Standing Committee's recommendations, the percentage of allocation of defence R&D is now higher at 6% of the defence budget.

For better management of defence budget, the Committee had desired that the Ninth Defence Plan for the period 1997-2002 be finalized on time. They also wanted that a firm commitment be made by the Government for allocation of resources for five years rather than year to year. In the Action Taken note submitted in 1998, the Ministry of Defence had submitted that the 9th Defence Plan was approved by the Cabinet Committee on Security in December 1997 for which a firm commitment of funds for 5 years was given. In fact, this became possible because of the combined efforts made by MoD, Minister of Finance, Service Chiefs, the Cabinet and the then Principal Secretary to the PM. The yearly budgetary allocations made from 1997-98 to 2001 to 2002 to Defence i.e., in the 9th Plan period and the expenditure made broadly conformed to the figures originally approved in the beginning of the plan period. But this could not be repeated for the 10th Defence Plan (2002-2007), in spite of the concern shown by the Standing Committee in several of their reports. The same problem continues for the 11th Plan. It only shows that a well formulated Defence Plan can get approved in time, only when concerted efforts are made at the higher level of decision making in the government, though Standing Committee could help by repeatedly referring to its need, in their reports.

Scope of the Defence Committee

Although legally and technically the recommendations of the Standing Committees are not binding, the Government generally accepts most of them. For example, in its report on Demands for Grants 2008-09, in the very first chapter a reference is made to the Action Taken Report on the recommendations relating to the Demands for Grants 2007-08. It contained 76 observations/recommendations of which 57 were accepted. For reasons put forth by the government, in respect of 10 recommendations, the Committee did not wish to pursue Action Taken replies. One of the recommendations referred to allotment of 3 per cent of the GDP for Defence Budget, another related to separate Pay Commission for the Armed Forces. In case of 4 recommendations it did not accept the replies of the government, one of which related to the need for increasing the budgetary allocation to the Navy. In 5 cases, replies for the government were awaited.

One should not forget the limits within which the Parliamentary Committees are required to function. They have to function as per the rules of procedures. The Standing Committee can express its views and make recommendations in the form of a report, but it does not fall within its purview to direct any authority or government to do or not to do any particular act or do it in a certain way. Its main function would be to influence the government for taking such action which it considers desirable.

The Standing Committee through their reports have succeeded in putting Defence budgeting in proper perspective. Today, through the medium of their published reports, there is a wealth of information in the public domain about Defence budgeting process, trends in budgetary allocation and various considerations which go in Defence budgeting. By inviting representatives of Finance Ministry in their deliberations and asking them to put their point of view before the Committee regarding budgetary allocations alternative points of view and putting them on record, the reports have succeeded in making the analysts, decision makers and the public aware of various issues that are relevant in Defence budget making and managing it.

The Standing Committee on Defence has gradually expanded its scope of examination of Defence related activities to gain better insight into Defence expenditure management. They have furnished reports on Defence Public Sector Undertakings, Defence Research and Development-Major Projects, Welfare of Servicemen and

Ex-Servicemen, Upgradation and Modernisation of Naval Fleet, Manpower Planning and Management Policy in Defence, etc.

The last report rendered in 2001 is of particular importance as 35 per cent of Defence expenditure are manpower related. The Committee noted that the Army had formulated a plan for effecting under-posting of 50,000 soldiers over a period of financial years till 31.3.1999, covering all types of units and formations. The basic aim was to cut down on manpower cost so as to release resources for more investment in higher technology weaponry. The Committee wanted it to be done in a time bound manner. (para 13, Twelfth Report, Standing Committee on Defence (2001) Manpower Planning and Management Policy in Defence.)

The Committee also expressed its unhappiness about the deficiencies in the cadre strength of officers in the Army and advised the government for taking necessary steps to fill up the vacancies. The Committee noted that about 50,000 service personnel who constitute a rich source of trained and disciplined manpower retired or were released from active service every year. The Committee recommended that more ex-arm forces personnel should be retrained and absorbed in Paramilitary Forces. (para 40 *ibid*). In this context, they supported the recommendation of the Fifth Pay Commission regarding engagement of one third of the annual intake into the combat and combat support arms of the Army Personnel Below Officer Rank (PBOR) on a shorter term of 7 years with the provision of their re-mustering into the other supporting arms and services within the Army. The Committee did not understand the reasons for the government not considering favourably any proposal to reduce the colour service. Reduction in colour service would reduce the pension bill of the Service personnel (para 42).

The Committee also stressed the need for improving the "teeth to tail" ratio to reduce manpower cost by economizing on support staff in the Army (para 88 to 90). Eminent experts from outside were also invited to present their point of view in this respect. One expert commented that the manning strength in the IAF in certain activities were more than the standard adopted abroad for similar activities. These affected the teeth to tail ratio in IAF (Para 98.)

The Committee, in this context reviewed the functioning of the Standing Establishment Committees of the three services which are the expert bodies to examine the staffing strength of various units, with a view to optimize

the manpower strength. The Committee expressed their unhappiness on the functioning of the one of the Standing Establishment Committee.

By giving a very detailed report on manpower planning in the Defence the Committee not only provided very useful information relating to manpower in the Army, Navy and Air Force but also put the issues in proper perspective to enable defence analysts and decision makers to arrive at correct conclusions.

The most important skill in scrutinizing defence budget and expenditure is to select an appropriate item for review which can be studied easily on the basis of general experience of public expenditure management and which has the scope to give very good return in terms of cost control and savings.

It is seen from the Indian experience that it may be worthwhile for the Standing Committee to concentrate on aspects relating to costs of manpower, inventory, infrastructure, costs relating to supporting staff, teeth to tail ratio with a view to bring about economy in defence expenditure. It will be worthwhile also to go into the pricing policies adopted by the Defence PSUs for charging for their supplies. In this regard it may be necessary to go into the management of costs in the PSUs by undertaking specific studies.

The skill that is required is to go into specific details and pursue them until satisfactory replies are received. Wherever possible help of experts can be taken for clarifying issues involved.

The reports of the Standing Committee on Defence have been a great help in focusing attention on important aspects of Defence budgeting, on necessity for cost control and curbing of wasteful expenditure as also the need for early approval of Defence plans so that money for Defence is spent efficiently for achieving the strategic objectives in a cost effective way.