POLICY BRIEF

Defence Budget 2023-2024: More of the Same

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Cover Photographs:

The Union Minister for Defence, Shri Rajnath Singh attends the Manthan start-up event at Aero India 2023 in Bengaluru on February 15, 2023. Source: Press Information Bureau.

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Introduction

India’s Union budget for the Financial Year (FY) 2023-24 was presented in the Parliament on February 01, 2023 – a yearly event watched with keen interest within the country and abroad. Nearly 13-15% (13.18% for the current FY) of this budget, the single largest share, has been allocated to Defence in recent years.

Being the fifth largest global economy (US $3.67 trillion)¹; the third largest spender on defence²; and amongst the top (highest or the second highest)³ global importer of arms, India’s Defence budget evokes keen interest amongst defence analysts and the industry. To the former, it is an indicator of the combat capabilities being created, and to the latter an indicator of the potential market opportunities.

Year after year, however, the demand for grants for Defence presented in Parliament leave most stakeholders guessing about its adequacy and provisioning of capability development. Persisting shortfalls in combat assets of the Armed Forces and capacities in the emerging domains of warfare (cyber, electronic warfare, space, cognitive warfare etc.) suggest that the defence planners are unable to derive full value out of the money being spent.

Also, there exists a disconnect between national geopolitical aims, aspirations, and the capabilities required to be created over a given time frame, and the resources being provisioned for the same. The Services endeavour to build their cutting edge in an environment where there is a seeming “lack of ownership” on part of the executive and the legislature for building hard power, commensurate to the country’s global and regional stature.

For an emerging economy (aspiring to be a US $5 trillion economy by 2025) and a middle power of India’s stature, leaving the Defence budget-related

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issues only to the Services and doing more of the same, again and again, is not an appropriate option. There is a need for greater critical evaluation and refinement of the current Defence budgeting process, in order to “do more with less”. It is also imperative to arrive at an “optimum size” of the Defence budget, balancing other competing requirements but in tune with national goals and objectives, to be achieved over determined timelines. This analysis is an endeavour towards that end.

Background: Summary of Defence Budget Allocations FY 2023–24

Comprehensive details of the Defence Budget 2023 – 24 have been covered in the DPG Policy Brief, Volume VIII, Issue 9, of February 07, 2023.\(^4\) Salient extracts are given below for ready reference.

**Table 1: Overall Defence Budget Allocation**

<table>
<thead>
<tr>
<th>Sl.</th>
<th>With/ Without Pension</th>
<th>FY 2023–24(^5)</th>
<th>FY 2022–23(^6)</th>
<th>FY 2021–22(^7)</th>
<th>FY 2020–21(^8)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>With Pension</td>
<td>5.94(^@) (US $ 72.2)(^9)</td>
<td>5.25 (US $ 71.9)(^10)</td>
<td>4.78 (US $ 65.5)(^11)</td>
<td>4.71 (US $ 66.9)(^12)</td>
</tr>
<tr>
<td>b</td>
<td>Without Pension</td>
<td>4.55 (US $ 55.4)</td>
<td>4.05 (US $ 55.5)</td>
<td>3.62 (US $ 49.6)</td>
<td>3.38 (US $ 47.8)</td>
</tr>
</tbody>
</table>

\(^@\): An increase of 13\% over Budget Estimates (BE) of 2022–23


\(^10\) US $ 1 = Rs 82.19, at rates prevalent in February 2023.

\(^11\) US $ 1.0 = Rs 73.

\(^12\) US $ 1.0 = Rs 70.48 (This was the average of previous 10 months, then).
Table 2: Defence Budget as Percentage of GDP and as Percentage of the Union Government Expenditure

<table>
<thead>
<tr>
<th>SL</th>
<th>Percentage of</th>
<th>FY 2023-24</th>
<th>FY 2022-23</th>
<th>FY 2021-22</th>
<th>FY 2020-21</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>Percentage of GDP (With Pension)</td>
<td>1.97%(^{15})</td>
<td>2.07%(^{14})</td>
<td>2.15%</td>
<td>2.10%</td>
</tr>
<tr>
<td>b</td>
<td>Percentage of GDP (Without Pension)</td>
<td>1.50%</td>
<td>1.59%</td>
<td>1.63%</td>
<td>1.5%</td>
</tr>
<tr>
<td>c</td>
<td>Union Government Expenditure</td>
<td>13.18%</td>
<td>13.31%</td>
<td>13.7%</td>
<td>15.5%</td>
</tr>
</tbody>
</table>

Table 3: Total Allocations for Each Service – Capital and Revenue Heads

<table>
<thead>
<tr>
<th>Service</th>
<th>FY 2023-24 (In Lakh Crores and US $ Billions)(^{15})</th>
<th>FY 2022-23 (In Lakh Crores and US $ Billions)(^{16})</th>
<th>Capital BE/RE</th>
<th>Revenue BE/RE</th>
<th>Ratio – Cap: Rev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>1.63 ($19.7)</td>
<td>2.77 ($33.7)</td>
<td>1.52/1.50 ($20.9/20.5)</td>
<td>2.33/2.67 ($32/36.6)</td>
<td>39:61</td>
</tr>
<tr>
<td>Army</td>
<td>0.37 ($4.5)</td>
<td>1.87 ($22.7)</td>
<td>0.32/0.33 ($4.39/4.5)</td>
<td>1.65/1.79 ($22.6/24.5)</td>
<td>16:84</td>
</tr>
<tr>
<td>Navy</td>
<td>0.53 ($6.4)</td>
<td>0.33 ($4.0)</td>
<td>0.48/0.48 ($6.6/6.6)</td>
<td>0.25/0.32 ($3.5/4.4)</td>
<td>65:35</td>
</tr>
<tr>
<td>Air Force</td>
<td>0.57 ($7.0)</td>
<td>0.46 ($5.6)</td>
<td>0.56/0.54 ($7.61 billion)</td>
<td>0.33/0.46 ($4.5/6.3)</td>
<td>63:37</td>
</tr>
</tbody>
</table>


\(^{15}\) US $ 1 = Rs 82.19
\(^{16}\) US $ 1 = Rs 73
Some aspects of the defence budget as highlighted by the Indian Ministry of Defence are as follows:

a. Significant enhancement in the non-salary Revenue outlay to enable procurement of additional munitions, sustenance of in-service weapons and equipment, leasing and for the build-up of stipulated War Wastage Reserves (WWR).

b. An overall increase of 6.7% in the Capital budget allocation over the previous year.

c. Increase of 9% to the DRDO budget allocation over the previous year. The current allocation is Rs 23,264 Crores ($ 2.8 billion).

d. Allocation of Rs 116 Crores to iDEX (Innovation for Defence Excellence) and Rs 60 Crores to DTIS (Defence Testing Infrastructure Scheme). This is an increase of 93% and 95% respectively, over the previous year’s allocations.

e. Provisioned for acquiring training aids and simulators to meet the training requirement of recruits to be inducted under the newly promulgated “Agniveer” scheme.

f. Enhancement of 43% in the Capital budget allocation for the Border Roads Organisation (BRO), which has been increased from Rs 3500 Crore ($ 0.4 billion) to Rs 5000 Crores ($ 0.61 billion).

Analysis

Is this Budget Adequate?

The most common query raised by any defence budget analyst is, “Is the budget allocation adequate?”. Illustrative responses from some of the regular commentators on the current Defence budget are: “the hike is reasonable but not sufficient, considering requirements of military modernisation”; “(the government has) allotted reasonable funds for defence forces while balancing other priorities during pre-election budget”; “the overall increase in the armed forces budget is as anticipated but lower than what was asked for to beef up operational capabilities”; and “given the imperatives of boosting national

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The above responses clearly indicate that the judgement regarding the adequacy of allocations for defence is highly subjective. Further, there appears to be no commitment to any specific or time-bound military capability development; the allocations are subject to fluctuations in the pre-election budget and for other internal (political) compulsions, leaving it to the Services to do the best that they can. The most serious question, however, is, "Whose budget (Defence budget) is it anyway – the nation’s or of the Services (alone)?"

On the adequacy of the Defence budget, as has been stated in an earlier Policy Brief, there is no quantified rationale for allocation of any fixed percentage of either GDP or of the Union Budget for defence. The allocations of 1.5–1.6% being made in recent years, or the expectation of 3%, are just arbitrary. The fact is that the adequacy of the defence budget must be assessed in terms of threat mitigation through capability creation in prioritised areas, and the need for force sustenance and modernisation. Also, this must invariably be in a defined time period. The desired end-state, in our case, however, remains undefined.

**Budget Ownership: Whose Budget is it?**

Whose defence budget is it – the Services’ or the nation’s? On this larger issue, there is need for greater deliberation. In this context, the perceptions of a financially inclined defence budget analyst are relevant. He states, "No finance minister in over a decade has ever met the Armed Forces’ expectations for budget allocations – but that has not prevented them (the Services) from making financially unviable demands on the exchequer". He further states that, "economic realities are generally ignored in India’s strategic discourse and rarely if at all, factored into defence planning. Consequently, the armed forces continue to make financially unviable plans. The 10th, 11th and 12th defence five-year plans, spanning 15 years from 2002-03 to 2016-17, and the one prepared in 2017 with an estimated outlay of Rs 26,83,294, simply ran aground due to the financial unviability of each of them". It is on account of this

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rationale that budget allocations well below the projections made by the Services have become an acceptable norm and are in fact being considered a reasonable act of prudence.

There exists a simplistic perception amongst the country’s financial planners that budgeting is a zero-sum game. It is also believed that it is futile for the Services to expect priority allocations, irrespective of the revenue generated, against competing critical sectors. This “embedded perspective” has been at the root of abdication of the responsibility for military capability development to the military alone. An important fact being lost sight of is that this is an all-of-the-nation effort towards building a significant component of the comprehensive national power (CNP). In fact, military power is considered a panacea, by soldiers and non-soldiers alike, for safeguarding against all threats to national security. Under this overarching financial-bureaucratic thinking, we have lost the innovative streak of “doing more with less”. Also, by conceptually relating capability development only to affordable budget allocations, with open-ended timelines, we have divorced the process from the evolving threats to national security, and from our national vision, aspirations and security strategy. This is where the challenge lies, both for the national security planners and the Services.

In the context of “ownership of defence budget”, the process of the US National Defence Authorisation Act (NDAA) is illustrative. This process, of providing yearly authorisation of appropriation for the Department of Defence (DoD) and to the Department of Energy for nuclear programmes, has been honed over six decades. The process begins with the submission of the President’s budget request (based on the inputs from the DoD) to Congress, nearly eight months ahead of the commencement of the ensuing financial year. These requests are scrutinised thoroughly by the House Armed Services Committee (HASC) and the Senate Armed Services Committee (SASC), through their specialised sub-committees. Further deliberations take place in both houses between the elected representatives and through interviews with concerned DoD/Services’ officials. After bipartisan and bicameral agreement, the bill is finally signed by the President, in form of the NDAA. The ownership, commitment and

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22In the 117th Congress, the **HASC established seven subcommittees**: Tactical Air and Land Forces; Military Personnel; Readiness; Seapower and Projection Forces; Strategic Forces; Intelligence and Special Operations; and Cyber, Innovative Technologies, and Information Systems.

The **SASC also established seven subcommittees**: Airland; Cybersecurity; Emerging Threats and Capabilities; Personnel; Readiness and Management Support; Seapower; and Strategic Forces Sub Committees.

alignment to the national security priorities are thus ensured at the highest level.

The level of consideration/involvement would be evident from the fact that the funding approved for NDAA 2023 is $45 billion over and above the request made by the President (on behalf of the Services). This is to address the effects of inflation (on purchases, construction and fuel prices). The US Congress also approved its national priorities as: strategic competition with China and Russia; disruptive technologies like hypersonic weapons, AI, 5G, Quantum computing; modernisation of ships, aircraft, and vehicles; and improving the lives of servicemen and their families.

While it would be worth studying this US process for relevance to the Indian environment, there definitely exists a case for the Finance Minister to invariably include in her/his budget speech amplifications to the defence budget, affirming its alignment to the nation’s geopolitical interests and priorities, and setting out thrust areas for capability development. The civil–military integration in fields of border infrastructure and villages; cooperation in the “sunrise sectors” of AI, geospatial systems, space, genomics, clean mobility systems; critical and emerging dual-use technologies; and the IT sector, including rolling out 5G services, can also be highlighted to ensure synergy at the functional level.

Responsibility of the Services

Formulation of Integrated Capability Development Plan

Till the 12th Plan Period (2012–2017), the Armed Forces had a streamlined system of long-term capability development plans. There was a 15-year Long Term Integrated Perspective Plan (LTIPP) (2007–2022). This included three five-year defence plans (also referred to as SCAP – Services Capital Acquisition Plans), coinciding with the national five-year plans; and Annual Acquisition Plans, prepared on a two-year roll-on basis. All capital acquisitions considered by the Defence Acquisition Council (DAC), or its feeder committees, had to derive from the five-year plans/Annual Acquisition Plans.

In May 2016, while the MoD / HQ IDS were in the process of finalising the 13th Defence Plan for the period 2017-22, the government announced that it will do

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away with five years plans and institute "a more focussed National Development Agenda; 15 years’ vision; and seven years’ action plan with a review every three years". For Defence, which already had a system of 15 years’ long-term planning in place, this system became counterproductive. The existing LTIPP lost its relevance and the 13th Defence Plan never got finalised or approved. Ad-hocism came to prevail, which continues till now. Post implementation of the "Defence Acquisition Procedure (DAP) 2020" (the basic manual for Capital Acquisitions), which superseded the Defence Procurement Procedure (DPP) 2016, the Services were supposed to make a 10 years’ integrated capability development plan, but this has since remained a work in progress.

This serious lacuna needs to be addressed, failing which acquisitions will continue to be done in an ad-hoc manner, and without actually enhancing operational capability, in priority domains. Much more can be done, even within meagre budgets, so long as thrust areas and continuity in allocation are maintained. An environment of predictability supports capability enhancement as well as stabilisation of the indigenous defence industrial base for Atmanirbharta. Other issues of providing `adequate' budgetary support to major programmes, and planning priority two / three acquisitions to fill up for the slippages in the procurement process of Priority 1 requirements, are issues to be addressed. Notably, the estimated outlay of Rs 26,83,294 for the 13th Plan alluded to above included the P1 to P3 list and was not intended to be the demand for allocation of budget. The misconception of these plans being mere “wish lists” needs to be corrected, since it indicates a gap in understanding between the Services and financial planners and a void in our budgeting process. A two-track process needs to be followed – formulation of inter and intra-service prioritised acquisition plans, and a predictable and regular pattern of allocation of Capital budgets. The extent of funding can be calibrated as per national priorities, the spending ability of acquisition officials at the Ministry of Defence and the urgency of threat mitigation.

Rationalisation of Force Levels and Structures

Till the 2020 standoff with China, there existed a strong narrative in academic and policy circles that the two-front threat was a myth created by the Armed Forces in their quest for larger resource allocations. The perception changed with the compulsions of augmented deployments along the Line of Actual

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24 The aim was to have adequate planned acquisitions available, to be put into the ‘Acquisition funnel’ should some priority acquisitions get stalled/delayed, as often happens.
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Control (LAC). Also, till the occurrence of war in Ukraine in February 2022, which is continuing, the perspective was of short and swift wars. These perceptions resulted in a dilution of the sanctity of maintaining stipulated force and equipment levels, including the war wastage reserves. The current security environment suggests the need to remedy this thought process. The levels of ammunition expenditure and equipment losses in the Ukraine war, carry important lessons for us. The onus of highlighting the implications of shortfalls lies on the services.

In recent days, the Army leadership has been highlighting its intent of "rightsizing" the Army, to correct the Revenue-heavy bias of the Army budget, which has remained at over 80% of its total allocation in recent years. This is sought to be done by "substituting manpower by technology infusion and force multiplication achieved through the integration of forces". This is a progressive thought. However, to prevent the premature downsizing of the Army, ahead of the induction of the desired levels of technology and integration, the Army would do well to map the timelines/milestones of technology induction (with matching budget allocations), with only corresponding reductions being affected. This would be a safeguard against operational imbalance in these challenging times.

Similarly, to support the Army's aspirational transition from vintage /existing technology predominant inventories (nearly 86% equipment being in this category) to state of art / current technology weapon systems (80% equipment to be of this category) by 2030, there is a need to formulate a time-lined and budget-supported - acquisition plan. Also, this needs to be accepted as a national endeavour, rather than the wish list of a particular Service.

Planned Induction of Technology, Modernisation and Transformation of Armed Forces

In the current day lexicon, military modernisation, transformation and indigenisation are being used interchangeably. For optimum planning and utilisation of meagre budgets, it is imperative to be clear about the distinction between modernisation and transformation.

Modernisation broadly entails: enhancing capabilities of existing weapon systems; induction of force multipliers for ISR, domain awareness; improving battlefield and platform management systems; better securing own networks and degrading enemy's capabilities through cyber, EW, space etc. Fundamentally, the warfighting doctrine and the design of battle remain unchanged, and the newer technologies are inducted as force multipliers.

Transformation in which we allude to the employment of swarms of drones; armed/unmanned autonomous aerial vehicles in place of (or complementing) tanks and aircraft; unmanned surface or underwater vessels in place of surface ships/submarines; and AI-enabled platforms, Quantum communications, computing, and sensing, hypersonic weapons, which are the new areas of digital-era warfighting. Their optimum employment entails the evolution of doctrine, tactics, organisational structures, revised equipment tables etc., which must precede induction of these systems. Expending budget on these elements in the absence of a doctrine would be wasteful.

With limited budgets, “modernisation” should remain the priority. Military commanders, however, must concurrently start conceptualising the future battlefield, to prepare themselves to embark on a major transformation. The modernisation programmes should thereafter be progressively “nudged” in the direction of visualised transformation, to be achieved in the next 10-12 years. Besides serious conceptual thinking by the military leadership, this would require long-term, assured budgetary commitment. Transformation of the Armed Forces should in fact be seen as the end state of India's various strategic partnerships, and of ongoing initiatives on critical and emerging technologies.

Finally, mindful of the multiple national development challenges and competing demands on the limited financial resources, the nation needs to align national goals and aspirations with its hard power. To achieve optimum capability in priority domains, with limited resources, the existing defence budget process needs to be refined substantially and related to timelines. This “all-of-nation effort”, has to be leadership driven, and cannot be abdicated to the Services alone.

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