



# Delhi Policy Group

Advancing India's Rise as a Leading Power



## DPG POLICY BRIEF

### Optimising Capability Building with the Defence Budget

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**Delhi Policy Group**

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## Cover Photograph:

*Union Finance Minister Nirmala Sitharaman presenting the Union Budget 2022-23 in Lok Sabha during the Budget Session of Parliament, New Delhi, February 1, 2022. Source: Sansad TV/ANI*

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# Optimising Capability Building with the Defence Budget

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## Introduction

In keeping with usual practice, the Defence Budget for the Financial Year (FY) 2022-2023 was announced as part of the Union Budget on February 01, 2022. Like the defence budgets of all major powers, the Indian defence budget is also watched with great interest. It is an indicator of the inter-se priority accorded by the nation to its military capability development, and an indicator of the power index. It is of interest to the three Services to determine areas in which they can plan modernisations and acquisitions; to the global and indigenous defence industry to gauge the size of the business opportunity that may be generated; to incubators of technology and start-ups, to identify priority areas of research and development; and to strategic partners and regional neighbours to discern the domains in which Indian defence and security capability is being developed. In other words, it carries a range of messages for different stakeholders.

## Details of Defence Budget Allocation, FY 2022 - 2023<sup>1</sup>

The total Union Budget outlay for the FY 2022-23 is Rs. 39.45 Lakh Crores (US \$ 540 billion), in comparison to the outlay of Rs. 34.83 Lakh Crores (US \$ 477 billion) in FY 2021-2022. The overall allocation for defence this year is 13.3% of the Union government expenditure, while it was 13.7% of the expenditure in the FY 2021-22. Salient details of the Defence Budget 2022-2023 and its broad comparison with the two preceding years are given below. This will form the basis for subsequent comments and analysis.

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<sup>1</sup> Demands for Grant of Central Government. Demands for Grant (Full) Pp 19-23.  
<https://www.indiabudget.gov.in/doc/eb/alldg.pdf>

**Table 1: Overall Defence Budget Allocation**

Ser	With/Without Pension	FY 2022-23 <sup>2</sup>	FY 2021-22 <sup>3</sup>	FY 2020-21 <sup>4</sup>
(In Lakh Crores and US \$ Billions)				
a	With Pension	5.25 <sup>a</sup> (US \$ 71.9) <sup>5</sup>	4.78 (US \$ 65.5) <sup>6</sup>	4.71 (US \$ 66.9) <sup>7</sup>
b	Without Pension	4.05 (US \$ 55.5)	3.62 (US \$ 49.6)	3.38 (US \$ 47.8)

<sup>a</sup> An increase of 9.82% over Budget Estimates 2021-22

**Table 2: Defence Budget as Percentage of GDP and as Percentage of the Union Government Expenditure**

Ser	Percentage of	FY 2022-23	FY 2021-22	FY 2020-21 <sup>8</sup>
a	Percentage of GDP (With Pension)	2.07% <sup>9</sup>	2.15%	2.10%
b	Percentage of GDP (Without Pension)	1.59%	1.63%	1.5%
c	Union Government Expenditure	13.31%	13.7%	15.5%

<sup>2</sup> Press Information Bureau, Government of India, Ministry of Defence. Union Budget 2022 – 2023. February 01, 2022. <https://www.pib.gov.in/PressReleaseDetail.aspx?PRID=1794415>

<sup>3</sup> Budget 2021-22. Press Information Bureau (Defence Wing), Government of India. February 01, 2021. <https://pib.gov.in/PressReleaseDetail.aspx?PRID=1693987>

<sup>4</sup> Press Information Bureau, Government of India, Ministry of Defence. 02-February-2020. Defence Budget 2020-21. <https://pib.gov.in/newsite/PrintRelease.aspx?relid=197859>

Bhalla Abhishek. India's defence spending in terms of total govt expenditure for 2021-22 lowest in six years. India Toda. March 17, 2021. <https://www.indiatoday.in/india/story/india-s-defence-spending-in-terms-of-total-govt-expenditure-for-2021-22-lowest-in-six-years-1780407-2021-03-17>

<sup>5</sup> The Exchange rate as on February 01, 2022 is \$ 1.0 = Rs 74.57. However, for ease of comparison with the FY 2021-2022, the conversion has been done on \$ 1.0 = 73 only (As for the previous financial year).

<sup>6</sup> \$1.0 =Rs 73

<sup>7</sup> \$ 1.0 = Rs 70.48 (This was the average of previous 10 months). Has been retained as such.

<sup>8</sup> PRS Legislative Research. <https://prsindia.org/budgets/parliament/demand-for-grants-2020-21-analysis-defence#:~:text=Overview%20of%20finances&text=The%20expenditure%20on%20defence%20constitutes,estimated%20GDP%20for%202020%2D21>.

<sup>9</sup> GDP for the Year 2022-2023 is calculated from the data of GDP for 2021-2022, as given in Press Note on "First Advance Estimate of National Income 2021-22". National Statistical Office. Ministry of Statistics and Programme Implementation. Government of India. Released on January 07, 2022. Extrapolated for 2022 -23 at 9.2% GDP Growth

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

Service	FY 2022-23 (In Lakh Crores and US \$ Billions)			FY 2021-22 (In Lakh Crores and US \$ Billions)		
	Capital BE	Revenue BE	Ratio - Cap: Rev	Capital (BE/RE)	Revenue (BE/RE)	Ratio – Cap: Rev
Overall	1.52 (\$ 20.9 billion)	2.33 (\$ 32 billion)	39:61	1.35/1.39 (\$ 18.5/ 19.0 billion)	2.12/2.30 (\$ 29/ 31.4 billion)	39:61
Army	0.32 (\$ 4.39 billion)	1.65 (\$ 22.6 billion)	16:84	0.36/0.25 (\$ 5 billion)	1.49/1.59 (\$20.4/ 21.7 billion)	20:80
Navy	0.46 (\$ 6.34 billion)	0.25 (\$ 3.5 billion)	65:35	0.33/0.46 (\$4.5 billion)	0.23/0.24 (\$3.2/ 3.3 billion)	60:40
Air Force	0.56 (\$7.61 billion)	0.33 (\$4.5 billion)	63:37	0.53/0.52 (\$ 7.3 billion)	0.31/0.34 (\$ 4.2/ 4.7 billion)	63:37

(BE – Budget Estimates. RE – Revised Estimates. Cap - Capital. Rev – Revenue)

Besides the details provided in the three tables above, certain additional provisions of the defence budget also merit attention. [These can also be seen in the PIB (Defence Wing) Press Release of February 01, 2022].<sup>10</sup>

- To promote “Aatmanirbharta”, 68% of the Capital budget allocation is earmarked for domestic capital procurement. This continues the practice followed since FY 2020-21. As against nearly 64% of the capital budget (Rs. 70,000 Crores approximately) earmarked for domestic procurement last year, the current year’s allocation, earmarked in the capital budget, is approximately Rs. 84,598 Crores.
- Allocations have been made to hand-hold seven newly-created Defence Public Sector Undertakings (DPSUs), carved out of the erstwhile Ordnance Factories. This is in addition to some allocations already made at the RE stage during the last financial year.

<sup>10</sup> Press Information Bureau, Government of India, Ministry of Defence. Union Budget 2022 – 2023. February 01, 2022. <https://www.pib.gov.in/PressReleaseDetail.aspx?PRID=1794415>.

- 25% of the defence R&D budget is being earmarked for the conduct of research by industry, start-ups and academia. Private industry is to be encouraged to take up the design and development of military platforms and equipment.
- There is a minor allocation of Rs. 60 Crores to encourage “Innovations for Defence Excellence (iDEX)”.
- An independent nodal umbrella body is to be created to support the wide-ranging testing and certification requirements for weapons/equipment/ammunition to be inducted into the services. Rs. 23 Crores have been earmarked for creating facilities under the Defence Testing Infrastructure Scheme (DTIS).
- To promote the development of border infrastructure, in particular all-weather road connectivity, the budget for the Border Roads Organisation has been enhanced by 40%, to Rs. 3500 Crores.
- To enhance coastal security, the Capital budget of the Coast Guard has been enhanced by 60.24% to Rs. 4246 Crores.

## Analysis

In this paper, no comments are being made on the adequacy (or otherwise) of the budget allocations made for defence. This is because neither the projections from the Ministry of Defence/services nor the allocations by the Ministry of Finance are based on any defined parameters or end-state of capability development. Even the inter-se priority between the continental and maritime domains has not been pre-defined in any policy document. However, the growing significance of the maritime domain, and thereby of the Navy and Coast Guard, could well have emerged, by default, as a function of the current year's budget allocations.

The analysis primarily addresses the following aspects:

- a. Capital budget allocation and its utilisation by the services.
- b. Inter-se priority between operational capability development and promoting indigenisation, through the Defence budget.
- c. Optimising the Union budget for creating nationwide multidomain Defence capability.

## Capital Budget Allocation/ Utilisation

Conforming to the overall national approach of ramping up Capital expenditure, the Defence Capital budget has been enhanced to Rs. 1.52 Lakh Crores, an increase of Rs. 17,308 Crores (12.82%) over the previous year's BE. There is, however, a substantial **reduction** in the Army's capital budget allocation, both at the RE stage of FY 2021-2022 and in the current budget. Concurrently, the Capital budget of the Navy has been increased substantially (Table 3 above refers). Reports appearing in the media suggest that the Capital budget allocation is determined by the pattern of expenditure in FY 2021-22, which, till the time of budget formulation, had been 40%/70%/90% of the original BE allocations in respect of the Army/Air Force/Navy respectively.<sup>11</sup> The downward trend of capital budget allocation to the Army, the most operationally committed service at the current time, is a symptom of a systemic malaise that needs to be remedied.

The yardstick of ascribing the onus of inability to utilise the budget allotted to the concerned service, the Army in the instant case, seems rather simplistic. The maximum delegated financial power for Capital acquisition, to each of the Services, is Rs 300 Crores. This rests with the respective Vice Chiefs. Even this expenditure can be incurred only with the concurrence of the adviser from Defence Finance. It is well known that there are only a minuscule number of viable Capital acquisition proposals which fall within these meagre limits. Most of the significant acquisitions, being of much higher value, are processed by the Acquisition Wing, either within the powers of the Raksha Mantri (Defence Minister) or of the Ministry of Finance. This aberration, of the services (or even the HQ Integrated Defence Staff) having little control over military capability development, needs to be addressed holistically.

A matter of greater concern would be if the low Capital expenditure by Army (40%) is a result of mid-course change in the policy of incurring Capital expenditure since nearly 2/3<sup>rd</sup> of the budget is now being earmarked for acquisition from domestic industry. It is possible that the equipment operationally required by the Army may not be available indigenously, at the desired state of readiness. The recent (December 2021) decision to set up an empowered "Defence Indigenisation Committee"<sup>12</sup> under the CDS, to oversee

<sup>11</sup> Dutta Amrita Nayak. Defence Budget: With IOR Focus, Navy Gets 43% Capital Outlay Hike, Army Modernisation Funds Dip 12.2%. News 18. February 1, 2022. <https://www.news18.com/news/india/defence-budget-with-focus-on-ior-navy-gets-43-capital-outlay-hike-army-modernisation-funds-dip-12-2-4722110.html>

<sup>12</sup> Peri Dinkar. MoD makes exemption for import of items notified in 'Positive Indigenisation Lists' The Hindu. December 2, 2021. <https://www.thehindu.com/news/national/modmakes-exemption-for-import-of-items-notified-in-positive-indigenisationlists/article37813923.ece>



implementation of the negative import list, maybe a pointer in this direction. This committee has been empowered to allow exceptions for imports if there is an immediate operational requirement, or if the safety of soldiers is at stake due to inadequate indigenous products.

While it is difficult to gauge the underlying rationale for such “under-spending”, in the absence of specific details in the public domain, it is for the Army and the functionaries in the acquisition organisation in the MOD to remedy this serious lacuna.

### **Inter-se Priority between Operational Capability Development and Promoting Indigenisation, through Defence Budget**

At the macro level, the strengthening of the national security apparatus and the armed forces, for which the defence budget is primarily meant, has two distinct facets. One entails maintaining the operational preparedness of the armed forces at all times. Towards this, the likely construct of the future battlefield needs to be visualised and the critical capability voids made up regularly. The second facet is of promoting indigenous defence capability, promoting R&D, acquiring/developing technology, design, development and manufacturing. These activities need to be promoted across both public and private sectors. The approach in the current budget, of highlighting “Atma Nirbharta” in Defence (Paras 87 & 88 of the budget speech),<sup>13</sup> as well as the trend of policies and pattern of budget allocations, suggest a greater emphasis being laid on using the defence sector as a vehicle for promoting indigenisation and industrial development. While this is welcome, it is imperative that the services are engaged in a dialogue to balance this with the task of maintaining operational readiness. Earmarking of substantial Capital funds for indigenous acquisitions, and promulgation of negative import lists, though well-intended, should not result in undermining the operational readiness of the military. The onus of advising the government on adopting a balanced approach rests with the three Services.

### **Optimising the Union budget for creating nationwide multidomain capability**

As is well appreciated, the present-day threats to national security emanate across multiple domains, beyond the traditional battlefields on land, sea and air. Cyber, space, electromagnetic and information domains, which hitherto provided only an enabling environment, today constitute separate domains by

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<sup>13</sup> Budget 2022-2023 Speech of Nirmala Sitharaman, Minister of Finance.  
<https://static.pib.gov.in/WriteReadData/specificdocs/documents/2022/feb/doc20222111601.pdf>

themselves, in which comprehensive competition/war is being waged. Meeting these challenges entails a whole of the nation effort, positioning military capability in concert with other instruments of national power. While the armed forces will remain the lead instrument of orchestrating combat, it is essential to synchronise their operations with national-level structures for cyber, space, technical intelligence and internal security. Technology will also need to be harnessed to achieve national-level information and communication integration, to generate a comprehensive cross-domain picture, and to employ smarter weapons/tools.

The current budget has numerous proposals and programmes which can contribute towards building the national capability to address such issues. The budget envisages creating "Vibrant Villages" (Para 59) along the Northern borders, to support settlement in sparsely populated areas. It is proposed to provide them road and telecommunications connectivity, renewable energy, housing and job opportunities, and the like. Each of these dovetails with border infrastructure development and needs to be coordinated. Further, the budget also alludes to formulating supportive policies and regulations for "sunrise sectors" (Para 89) of Artificial Intelligence (AI), geospatial systems, space, genomics, and clean mobility systems. These dual-use technologies can be developed concurrently for civil and military use, and for the creation of capabilities in asymmetric domains, in collaboration with the armed forces. Likewise, the defence needs of the development of strategic railways can well be synchronised with the Railway budget (Para 21-23). Development of the IT sector, in particular rolling out of 5G (Para 82) and initiatives for the development of the North East (Para 57), also need to be oriented to serve the needs of defence and security.

The institutional synergy of various schemes announced in the budget for creating national security capability across multiple domains requires an overarching conceptual framework. Appropriate National Security and Defence Policy documents defining multidimensional threats and conceptualizing a whole of nation approach to counter these is fundamental to getting the best value out of national budgets. In addition, to streamline Defence capability development and to mitigate critical capability voids, there is also a need to evolve guiding parameters for arriving at "optimum" budget requirements for Defence. This is the only way to set benchmarks for what would be considered "adequate" and to extract the best value out of each Rupee of expenditure.

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