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**STANDING COMMITTEE ON DEFENCE
(2022-23)**

(SEVENTEENTH LOK SABHA)

MINISTRY OF DEFENCE

DEMANDS FOR GRANTS (2023-24)

**CAPITAL OUTLAY ON DEFENCE SERVICES, PROCUREMENT POLICY AND
DEFENCE PLANNING**

(DEMAND NO. 21)

THIRTY-SEVENTH REPORT



LOK SABHA SECRETARIAT

NEW DELHI

March, 2023 / Phalguna 1944 (Saka)

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STANDING COMMITTEE ON DEFENCE
(2022-23)

(SEVENTEENTH LOK SABHA)

MINISTRY OF DEFENCE

DEMANDS FOR GRANTS
(2023-24)

CAPITAL OUTLAY ON DEFENCE SERVICES, PROCUREMENT POLICY AND
DEFENCE PLANNING
(DEMAND NO. 21)

*Presented to Lok Sabha on 21.03.2023
Laid in Rajya Sabha on 21.03.2023*



LOK SABHA SECRETARIAT
NEW DELHI

March, 2023 / Phalgun 1944 (Saka)

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COMPOSITION OF THE STANDING COMMITTEE ON DEFENCE (2022-23)

SHRI JUAL ORAM

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CHAIRPERSON

Lok Sabha

2. Shri Nitesh Ganga Deb
3. Shri Rahul Gandhi
4. Shri Devaragunda Venkappa Sadananda Gowda
5. Shri Annasaheb Shankar Jolle
6. Choudhary Mehboob Ali Kaiser
7. Shri Suresh Kumar Kashyap
8. Shri Rattan Lal Kataria
9. Prof. (Dr.) Ram Shankar Katheria
- 10.@ Shri Durai Murugan Kathir Anand
11. Kunwar Danish Ali
12. Dr. Rajashree Mallick
- 13.★ Shri Reddeppa Nallakonda Gari
14. Shri Uttam Kumar Nalamada Reddy
15. Shri Anumula Revanth Reddy
16. Shri Jugal Kishore Sharma
17. Dr. Shrikant Eknath Shinde
18. Shri Prathap Simha
19. Shri Brijendra Singh
20. Shri Mahabali Singh
21. Shri Durga Das Uikey

Rajya Sabha

22. Dr. Ashok Bajpai
23. Shri Prem Chand Gupta
24. Shri Sushil Kumar Gupta

25. Shri Venkataramana Rao Mopidevi
26. Shri Kamakhya Prasad Tasa
27. Dr. Sudhanshu Trivedi
28. Smt. P.T. Usha
29. Shri G.K. Vasani
30. Lt. Gen. (Dr.) D. P. Vats (Retd.)
31. Shri K.C. Venugopal

@ Nominated w.e.f 08.12.2022.

★ Nominated w.e.f 16.11.2022.

Dr. T.R. Paarivendhar and Shri Kotagiri Sridhar, MPs, Lok Sabha ceased to be Members of the Standing Committee on Defence w.e.f 16.11.2022

SECRETARIAT

1. Smt. Suman Arora - Joint Secretary
2. Dr. Sanjeev Sharma - Director
3. Ms. Suvaiba Shaikh - Assistant Executive Officer

INTRODUCTION

I, the Chairperson of the Standing Committee on Defence (2022-23), having been authorised by the Committee, present this Thirty-seventh Report (Seventeenth Lok Sabha) on Demands for Grants of the Ministry of Defence for the year 2023-24 on 'Capital Outlay on Defence Services, Procurement Policy and Defence Planning (Demand No. 21)'.

2. The Demands for Grants of the Ministry of Defence were laid on 8th February, 2023 in Lok Sabha. The Committee took evidence of the representatives of the Ministry of Defence on 20, 22 and 24 February, 2023. The draft Report was considered and adopted by the Committee at their Sitting held on 16th March, 2023.

3. The Committee wish to express their thanks to the officers of the Ministry of Defence and representatives of the Services/Organisations for appearing before the Committee and furnishing the material and information which the Committee desired in connection with examination of the Demands for Grants.

4. For facility of reference and convenience, Observations/Recommendations of the Committee have been printed in bold letters in Part II of the Report.

New Delhi;
17 March, 2023
26 Phalguna, 1944 (Saka)

JUAL ORAM
Chairperson
Standing Committee on Defence

REPORT

CHAPTER – I

CAPITAL OUTLAY ON DEFENCE SERVICES

The Committee learnt that Capital Outlay provides allocation for Land & Construction Works of the three Services and others, Capital Expenditure of various Defence Departments and for Capital Acquisitions of the Services, etc. It also caters for the expenditure incurred on building or acquiring durable assets. Demand No. 21 of the Ministry of Defence pertains to Capital Outlay on Defence Services. The Capital expenditure includes expenditure on land, construction works, plant and machinery, equipment, Tanks, Naval Vessels, Aircraft and Aero engines, Dockyards, etc. It pertains to various Services/Organisations of the Ministry of Defence i.e., Army, Navy, Air Force, Joint Staff, Defence Ordnance Factories, Defence Research & Development Organisation (DRDO), Director General Quality Assurance (DGQA), National Cadet Corps (NCC), Married Accommodation Project (MAP), National Defence Academy and Rashtryia Rifles etc.

1.2 In Budget Estimates 2022,-23 RE 2022-23 and BE 2023-24 Ministry of Finance allocated funds for Defence Services for Revenue and Capital Heads as under:-

(₹ in crore)

	BE 2022-23	RE 2022-23	BE 2023-24
Revenue (Net)	2,12,027.56	2,59,500.48	2,70,120.14
Capital	1,35,060.72	1,50,000.00	1,62,600.00
Total	3,47,088.28	4,09,500.48	4,32,720.14

1.3 The year-wise allocations in Budget Estimates, Revised Estimates and Actual Expenditure under Defence Services Estimates (DSE) since 2017-18 and BE for 2022-23 are as under:

(₹ in crores)

Year	BE	RE	Actual Expenditure
2017-18	2,59,261.90	2,63,003.85	2,72,559.83
2018-19	2,79,305.32	2,82,100.23	2,87,688.65
2019-20	3,05,296.07	3,16,296.07	3,18,664.58
2020-21	3,23,053.00	3,43,822.00	3,40,093.51
2021-22	3,47,088.28	3,68,418.13	3,66,545.90
2022-23	3,85,370.15	4,09,500.48	2,67,523.08*
2023-24	4,32,720.14		

*up to Dec,2022

1.4 The Ministry of Defence forwarded the following information during the Sitting of the Committee through Power Point Presentation elaborating summary of the Defence Budget (DSE) bringing out a comparison between 2022-23 vis-a-vis 2023-24.

Summary of Defence Services Estimates- 2022-23 vis-à-vis 2023-24:

(₹ in crores)

	BE 2022-23			BE 2023-24		
	Allocation	% of Rev. Exp.	% of DSE	Allocation	% of Rev. Exp.	% of DSE
Revenue Expenditure						
Pay & Allowances	1,67,343.74	71.82	43.42	1,77,244.64	65.62	40.96
Stores & Equipment	40,009.14	17.17	10.38	56,617.73	20.96	13.08
Transportation	6,203.43	2.66	1.61	7,094.04	2.63	1.64
Miscellaneous	5,851.87	2.51	1.52	11,024.75	4.08	2.55
Revenue Works, etc	13,592.36	5.83	3.53	18,138.98	6.72	4.19
(a) Total Revenue Expenditure	2,33,000.54	100.00	60.46	2,70,120.14	100.00	62.42
(b)Capital Outlay						
	1,52,369.61	-	39.54	1,62,600.00	-	37.58
Capital Acquisition/ Modernisation	1,24,408.64	-	32.28	1,32,301.27	-	30.57
Total (a & b)	3,85,370.15	-	100.00	4,32,720.14	-	100.00

1.5 It was further explained by a representative of the Ministry to the Committee during the evidence that the Defence Budget consist of four Demands for Grants. Grant nos. 20 and 21 representing the revenue and capital allocation of the Defence Services and DRDO are commonly referred to as the Defence Services Estimates (DSE). Elaborating on the allocation made under DSE, the representatives of the Ministry submitted that:-

“The Defence Service estimate has registered an increase of 12.29 per cent from Rs. 3,85,370 crore to Rs. 4,32,720 crore. The enhancement under the Civil Budget is Rs. 2,512 crore which is 12.5 per cent under the Pension Budget, the augmentation is 15.46 per cent. In absolute terms, the increase is Rs. 18,509 crore and it caters to the enhanced pension expenditure on account of OROP as also the general increase in the pension..... The Defence Services estimates at Rs. 4,32,720 crore constitutes about 73 per cent of the total Defence Budget.”

1.6 It was further explained by a representative of the Ministry to the Committee during the evidence:

“Capital outlay on defence services is bifurcated into capital acquisition and other than capital acquisition. With outlays of Rs.1,32,301 crore as capital acquisition and Rs.30,298 crore as other than capital acquisition.”

1.7 The Ministry informed the Committee that the break-up of the allocations for Capital Outlay which provides allocation for Land and Construction Works of the three Services and others, capital expenditure of various Defence Departments and for Capital Acquisitions of the Services by giving the following information:

(₹in crores)

	BE 2022-23	RE 2022-23	BE 2023-24
Revenue (Net)	2,33,000.54	2,59,500.48	2,70,120.14
Capital (Acquisition)	1,24,408.64	1,22,690.98	1,32,301.27
Capital (Other Than Capital Acquisition)	27,960.97	27,309.02	30,298.73
Total Capital	1,52,369.61	1,50,000.00	1,62,600.00
Total (Revenue+Capital)	3,85,370.15	4,09,500.48	4,32,720.14

Details of Capital Budget

(₹in crores)

	BE 2022-23	RE 2022-23	BE 2023-24
Capital Acquisition	1,24,408.64	1,22,690.98	1,32,301.27
Capital (other than Acquisition)			
Land & Works of 3 Services (including Married Accommodation Projects)	12,149.16	11,505.71	16,113.73
DRDO, DGOF and Other Defence Departments	15,811.81	15,803.31	14,185.00
Total Capital	1,52,369.61	1,50,000.00	1,62,600.00

Giving information about percentage increase in capital allocation budget of the defence forces in the financial year 2023-24, the Ministry furnished the following information:-

(₹in crores)

<u>Items</u>	<u>BE</u> <u>2022-23</u>	<u>BE</u> <u>2023-24</u>	<u>% in cr. from</u> <u>previous FY</u>
Capital Acquisition (Modernisation)	1,24,408.64	1,32,301.27	6.3%
Other Than Capital Acquisition (OTCA)	27,960.97	30,298.73	8.3%
Total Capital	1,52,369.61	1,62,600.00	6.3%

1.8 Regarding the distribution of capital budget under three Defence Services Estimates, the Ministry informed as follows:-

The capital budget of defence services has registered an increase of 6.71 per cent from Rs.1.50 lakh crore to Rs.1.62 lakh crore. The capital acquisition expenditure representing the modernisation budget of the services – Army, Navy, Air Force and Joint Staff – reflects an increase of 6.34 per cent. In the last five years from 2018-19, the capital acquisition which is also known as modernisation budget of the defence service has registered an increase of about 78.5 per cent. In absolute terms, it is about Rs.58,185 crore.

1.9 Giving information about percentage increase in capital allocation budget of the defence forces in the financial year 2023-24, the Ministry through a power point presentation furnished the following information:-

(₹in crores)

<u>Items</u>	<u>BE</u> <u>2022-23</u>	<u>BE</u> <u>2023-24</u>	<u>% in cr from</u> <u>previous FY</u>
Capital Acquisition (Modernisation)	1,24,408.64	1,32,301.27	6.3%
Other Than Capital Acquisition (OTCA)	27,960.97	30,298.73	8.3%
Total Capital	1,52,369.61	1,62,600.00	6.3%

With regard to dissemination of funds allocated to each of the armed forces for the purpose of modernization and other operational acquisitions, the Ministry intimated:-

(₹in crores)

Services	BE 2022-23	BE 2023-24	% Incr over previous FY
IA	25,908.85	30,163.00	16.4%
IN	45,749.81	48,113.90	5.2%
IAF	52,749.98	54,024.37	2.4%
TOTAL	1,24,408.64	1,32,301.27	6.3%

Projections made by the three Services and allocations made by the Ministry of Finance under Revenue and Capital Head of the three Services

1.9 Details as provided to the Committee regarding the projections, allocations made at BE, RE, and actual expenditure incurred under Capital and Revenue heads for the three Services in a tabular during the last five years are as follows:

A. REVENUE

(Rs. in Crore)

Year	Service	BE		RE		Expenditure
		Projected	Allocated	Projected	Allocated	
2018-19	Army\$	1,51,814.73	1,27,059.51	141456.91	1,29,812.34	1,34,241.38
	Navy	23,747.75	19,571.37	24420.58	20,795.04	20,856.23
	Air Force	35,260.79	28,821.27	32407.37	28,105.43	28,291.25
2019-20	Army	1,52,321.32	1,40,398.49	1,52,424.82	1,42,773.83	1,42,529.38
	Navy	27,086.29	22,211.71	28,737.09	22,786.71	22,387.31
	Air Force	34,849.50	29,601.69	40,382.40	29,951.69	30,124.31
2020-21	Army	1,65,228.28	1,45,785.88	1,53,436.68	1,44,545.67	1,39,903.33
	Navy	32,237.96	22,934.75	28,379.84	23,347.69	23,166.05
	Air Force	43,904.17	29,962.66	44,605.21	31,742.07	32,825.23

2021-22	Army	1,70,705.28	1,47,644.13	1,68,657.23	1,57,619.06	1,57,092.05
	Navy	34,256.83	23,360.68	30,069.08	23,925.91	23,834.99
	Air Force	44,992.90	30,652.53	48,816.59	34,283.02	34,375.46
2022-23*	Army	1,74,038.35	1,63,713.69	1,80,526.71	1,73,335.62	1,27,935.76
	Navy	34,701.66	25,406.42	34,441.48	30,734.58	19,840.03
	Air Force	50,692.44	32,873.46	54,997.72	44,728.10	29,214.45
2023-24	Army	1,84,989.60	1,81,371.97	-	-	-
	Navy	36,605.04	32,284.20			
	Air Force	68,081.58	44,345.58			

(\$ - Excludes Military Farms and ECHS which were shifted from Army to modified Grant –MoD (Miscellaneous) in FY 2016-17 and reverted back to DSE in FY 2019-20).

* Expenditure figures are upto December, 2022.

Note:- Navy includes Joint Staff. RE 22-23 and BE 23-24 are yet to be approved by the Parliament.

B. CAPITAL

(Rs in Crore)

Year	Service	BE		RE		Expenditure
		Projected	Allocated	Projected	Allocated	
2018-19	Army\$	44,572.63	26,815.71	41614.41	26,815.71	27,438.66
	Navy	35,695.41	20,848.16	30735.65	20,890.87	21,509.60
	Air Force	77,694.74	35,770.17	68579.46	35,770.17	36,451.74
2019-20	Army	44,660.57	29,511.25	46,032.00	29,666.90	29,000.88
	Navy	37,220.98	23,156.43	40,123.18	26,156.43	27,446.68
	Air Force	74,894.56	39,347.19	81,301.99	44,947.19	45,104.23
2020-21	Army	50,373.60	32,462.38	39,019.17	33,283.28	26,320.93
	Navy	45,268.31	26,688.28	51,769.28	37,542.88	41,666.76
	Air Force	66,207.29	43,281.91	72,955.18	55,083.91	58,207.95
2021-22*	Army	51,492.10	36,531.90	38,344.90	25,377.09	25,130.94
	Navy	70,920.78	33,253.55	50,011.38	46,021.54	45,028.64
	Air Force	77,140.56	53,214.77	71,176.39	53,214.77	53,217.19
2022-23	Army	46,844.37	32,115.26	32,598.49	32,598.49	21,600.25
	Navy	67,622.96	47,590.99	47,727.03	47,727.03	24,206.45
	Air Force	85,322.60	56,851.55	56,264.54	53,871.17	27,631.50

2023-24	Army	37,341.54	37,341.54	-	-	-
	Navy	52,804.75	52,804.75			
	Air Force	58,808.48	58,268.71			

(\$ - Excludes Military Farms and ECHS which were shifted from Army to modified Grant –MoD (Miscellaneous) in FY 2016-17 and reverted back to DSE in FY 2019-20).

* Expenditure figures are upto December, 2022.

Note:- Navy includes Joint Staff. RE 22-23 and BE 23-24 are yet to be approved by the Parliament.

1.10 Regarding service-wise information on the projections and allocations made under Capital and Revenue heads combined for 2022-23 and the BE for 2023-24, the Ministry through a statement submitted as under:

(₹ in crore)

Service/ Deptt.	R.E. 2022-23	%age of Total Budget	B.E. 2023-24	%age of Total Budget
Army	2,05,934.11	50.29%	2,18,713.51	50.55%
Navy	78,461.61	19.16%	85,088.95	19.66%
Air Force	98,599.27	24.08%	1,02,614.29	23.71%
DGOF/ DoO(C&S)	4,212.00	1.03%	1,741.50	0.40%
R&D	21,130.20	5.16%	23,263.89	5.38%
DGQA	1,163.29	0.28%	1,298.00	0.30%
Total	4,09,500.48	100%	4,32,720.14	100%

Note: Net Revenue plus Capital provision has been shown here

The Gross Revenue Expenditure in the Budget Estimates for 2023-24 is 63.01% of the gross allocation as compared to 64.03% in the Revised Estimates 2022-23. The Gross Capital Expenditure in the Budget Estimates 2034-24 is 36.99% as against 35.97% in the Revised Estimates 2022-23.

The Net Revenue expenditure in the Budget Estimates for 2023-24 is 62.42% as compared to 63.37% in the Revised Estimates, 2022-23. The Net Capital expenditure in the Budget Estimates 2023-24 is 37.58% as against 36.63% in the Revised Estimates 2022-23.

1.11 When enquired about sufficiency of the funds allocated to meet the actual requirement of the armed forces in the present volatile global scenario, it was submitted as under:-

“Our allocation will meet our security requirements. In fact, the Finance Ministry has been very liberal towards the Defence Ministry and they have provided whatever we have requested. Secondly, the technology is such a thing that no other country would like to give us 100 per cent. They will give only part which can be shared. There is that crucial part which cannot be shared, which we ourselves have to invent and development and produce on our own. This is the crux. Even if you buy the best of equipments from outside, when it comes to its use, we will again have to depend on them.”

1.12 Elaborating the data of growth of Indian Capital Budget in comparison to Central Budget and GDP in both absolute and relative terms for the last five years. The Ministry submitted as under:-

“The total Defence Budget (including MoD (Civil) and Defence Pensions) is Rs. 5,93,537.64 Crore for the year 2023-24, which is 13.18% of total Central Government Expenditure and 1.97% of GDP for the year 2023-24. Also, Capital Budget of Ministry of Defence for 2023-24 is approximately 17.12% of the total Central Government Capital Expenditure. It may not be relevant here to compare Defence budget as a %age of GDP as India’s expenditure on Defence is the largest amongst the Central Ministries and it has been growing consistently since 2014-15 onwards. Defence preparedness is the result of the capabilities acquired over the years and not merely on budget allocation of a particular year. Allocation made for defence is adequate to sustain the desired level of defence preparedness. Further, based on expenditure during the year, pending committed liabilities and critical/operational requirements, threat perception etc., additional funds, if required, are sought at Supplementary/RE stage. The progress of expenditure is reviewed from time to time to ensure that the allocated funds are optimally utilized towards operational activities so that urgent and critical capabilities are acquired without any compromise to operational preparedness of the Defence Services.”

Data on growth of Indian Capital Budget in comparison to Central Government Expenditure (CGE) and GDP, in absolute and relative terms, for the last five years and 2023-24 (BE) is given below:

(₹in crores)

Year	Indian Capital Expenditure	Total CGE	Indian Cap. Exp as % of CGE	GDP	Indian Cap. Exp as % of GDP
2018-19 (Actual)	3,07,714	23,15,113	13.29	1,88,99,668 (3rd RE)	1.63
2019-20(Actual)	3,35,726	26,86,330	12.50	2,00,74,856 (2nd RE)	1.67
2020-21 (Actual)	4,26,317	35,09,836	12.15	1,98,00,914 (1st RE)	2.15
2021-22 (Actual)	5,92,874	37,93,801	15.63	2,36,64,637 (PE)	2.51
2022-23 (RE)	7,28,274	41,87,232	17.39	2,73,07,751 (1st AE)	2.67
2023-24(BE)	10,00,961	45,03,097	22.23	3,01,75,065	3.32

Note: GDP figures from FY 2018-19 to 2022-23 are as per Economic Survey 2022-23 – Table 1.6-Components of GDP at Current Prices and for FY 2023-24 are from Budget at a Glance (2023-24). CGE figures for 2021-22 (Actuals), 2022-23 (RE) and 2023-24(BE) are as per Budget at a Glance (2023-24)

BE= Budget Estimates, RE=Revised Estimates,
PE = Provisional Estimates, AE= Advanced Estimates”

1.13 As regards information sought on comparative data of the Capital Budget of neighbouring countries as well as developed/ advanced countries with their central budget and GDP, it is found that the said information was not readily available in the Ministry. In the past also, a like to like comparison of the data on defence spending vis-à-vis that of other countries was difficult to compile due to lack of uniformity in treatment of different components of expenditure and non-availability of reliable published data. However, based on inputs from Stockholm International Peace Research Institute (SIPRI) Military Expenditure Database, data on defence budget in respect of some neighbouring/ advanced countries, including defence spending as percentage of their GDP and share of government spending was being provided. The SIPRI website does not contain Capital Budget of any country. In absence of comparative data of the Capital Budget of neighbouring countries as well as developed/ advanced countries with their central budget and GDP, the Committee noted that the Ministry was not in a position to furnish reply in regard to comparative data of the Capital Budget of neighbouring countries with their Central budget and GDP.

1.14 Furthermore, on being asked about the impact on the modernization/acquisition plans of the Forces, as the current Defence budget is merely 1.9 per cent of the GDP whereas ideally and as also recommended by the Standing Committee on Defence in their earlier Reports, it should be around three per cent of the GDP, the Committee were apprised as under:

“जीडीपी का डिफेंस को तीन प्रतिशत, हेल्थ को दो प्रतिशत और एग्रिकल्चर को तीन प्रतिशत मिलना चाहिए। यह ग्लोबल लेवल पर एस्टिमेट किया जाता है। उतना प्रतिशत मिलने से उस सेक्टर को कुछ फायदा होगा। यह इस एजम्पशन पर किया जाता है कि टैक्स जीडीपी रेश्यो 10 प्रतिशत, 12 प्रतिशत या 13 प्रतिशत तक है। जीडीपी डायरेक्टली सरकार के लिए रेवेन्यु के रूप में कन्वर्ट नहीं होता है। भारत सरकार के लिए टैक्स जीडीपी रेश्यो 8 प्रतिशत या 9 प्रतिशत है, तो सरकार के पास जितने पैसे आते हैं, उतने पैसे में ही बजट बनाना होता है। यदि टैक्स जीडीपी रेश्यो को बढ़ाना है, रेवेन्यु को बढ़ाना है, तो टैक्स परसेंटेज को बढ़ाना होता है।

आप जानते हैं कि इन्डस्ट्रीज को बढ़ावा देने के लिए हमें टैक्स रेट को कम करना है। इस बार इनकम टैक्स को भी कम किया गया है। Three per cent of the GDP will be around Rs. 10 lakh crore, if we take our next year's GDP to be around 3.2 Trillion US Dollar. So, it will be much more than what we can absorb. The Ministry of Defence may not be able to absorb three per cent of the GDP. We may not require that much. What is required for the Defence Ministry has been allocated.”

1.15 On being asked about the details of projections and actual allocations in BE 2023-24 in Defence Budget, the Ministry replied as under:-

“The details of funds projected in BE 2023-24 and ceilings conveyed by Ministry of Finance for Defence Services Estimates are indicated below separately for Revenue and Capital heads:

(₹in crores)

Revenue (Net)		Capital		Total	
Projection	Allocation	Projection	Allocation	Projection	Allocation
3,02,320.72	2,70,120.14	1,63,139.77	1,62,600.00	4,65,460.49	4,32,720.14

Note: BE 23-24 is yet to be approved by the Parliament.

The allocated funds will be optimally utilized towards operational activities. Though the allocations received from Ministry of Finance are not as per projections made, however, based on expenditure during the year, additional funds will be sought at Supplementary/RE stage. Also, if required, through reprioritization, it will be ensured that urgent and critical capabilities are acquired without any compromise to operational preparedness of the Defence Services.”

1.16 When the Ministry was asked to furnish the reasons for any mismatch between the projections and allocations in Defence Budget, the Ministry submitted as under:-

“प्रोजेक्टेड एक्सपेंडिचर एक प्रीलिमिनरी एस्टिमेट है। इसके उपरांत वित्त मंत्रालय में एक मीटिंग होती है। जिसमें वित्त मंत्रालय और रक्षा मंत्रालय दोनों साथ बैठकर तय करते हैं कि क्या यह सच में

आवश्यक है? क्या इस वित्तीय वर्ष में व्यय हो सकता है? इसका निर्णय किया जा सकता है। यदि हम लोग सैलरी के लिए इतने लाख करोड़ रुपए की मांग रखते हैं। आंकड़े देखने पर पता चलता है कि उतनी राशि की आवश्यकता नहीं है, तो उसके अनुकूल उसको ठीक किया जाता है। So, projected expenditure is a preliminary estimate. Generally, it will have some leeway in terms of the calculations, etc. That will be corrected in the Finance Ministry. Under the guidance of the hon. Minister of Finance and hon. Minister of Defence, there was a total and transparent discussion, and at the stage of discussion itself, we were told that all our requirements were being met without any cut. So, Rs. 637113.51 crore is shown as Budget Estimates projections. यह प्रीलिमिनरी एस्टिमेट था।”

1.17 Following details regarding additional allocation sought by the three Services separately and the actual allocation provided during last 5 years, were forwarded to the Committee by the Ministry:

“Service-wise details of Budget Estimates (BE) allocation, Revised Estimates (RE) projection and Revised Estimates (RE) Allocation for the last five years in Capital Head in respect of three Services under Defence Services Estimates are tabulated below:-

(₹in crores)

Year	Service	BE Allocated	RE		
			Projected	Additional Allocation Sought	Allocated
2018-19	Army	26,815.71	41614.41	14,798.70	26,815.71
	Navy	20,848.16	30735.65	9,887.49	20,890.87
	Air Force	35,770.17	68579.46	32,809.29	35,770.17
	Army	29,511.25	46,032.00	16,520.75	29,666.90
2019-20	Navy	23,156.43	40,123.18	16,966.75	26,156.43
	Air Force	39,347.19	81,301.99	41,954.80	44,947.19
2020-21	Army	32,462.38	39,019.17	6,556.79	33,283.28
	Navy	26,688.28	51,769.28	25,081.00	37,542.88
	Air Force	43,281.91	72,955.18	29,673.27	55,083.91
2021-22	Army	36,531.90	38,344.90	1,813.00	25,377.09
	Navy	33,253.55	50,011.38	16,757.83	46,021.54
	Air Force	53,214.77	71,176.39	17,961.62	53,214.77
2022-23	Army	32,115.26	32,598.49	483.23	32,598.49
	Navy	47,590.99	47,727.03	136.04	47,727.03
	Air Force	56,851.55	56,264.54	-587.01	53,871.17

The Committee are aware of the fact that Ministry submits the requirements as projected by the Services to Ministry of Finance for favourable consideration. While allocating funds, Ministry of Finance analyses past absorption capacity of the Services, pace of expenditure in the current Financial Year, overall resource envelope available etc. Based on the overall ceilings conveyed by M/o Finance, Ministry of Defence allocates funds among the Services and Organisations under MoD, taking into account Inter-Services priorities, pace of expenditure, pending committed liabilities etc. Also, if required, through reprioritization, it is ensured that urgent and critical capabilities are acquired without any compromise to operational preparedness of the Defence Services.

1.18 The Ministry was asked to provide the details of the rate of inflation in terms of Whole Sale Price Index (WSPI) and Consumer Price Index (CPI) respectively and also a comparison of the inflation rate with growth of the Capital Budget. The Ministry in written reply stated as under:-

“As per the Economic Survey 2022-23, Consumer Price Index (CPI) in India went up to 7.8 per cent in April, 2022 then declined around 5.7 percent by December, 2022. The monthly trend of inflation rates based on Wholesale Price Index (WPI), has been sliding downwards from its peak of 16.6 per cent in May, 2022 to 10.6 per cent in September, 2022 and further to 5.0 percent in December, 2022. Comparison with the growth of Defence Budget considering the CPI based inflation as per Economic Survey is as follows:-

(₹in crores)

Grant	2021-22 (Actuals)#	2022-23		2023-24 (BE)
		BE	RE	
Capital Outlay on Defence Services	1,37,986.97	1,52,369.61	1,50,000.00	1,62,600.00
Capital Portion of MoD(Civil) Grant	6,799.29	8,049.99	7,978.79	8,774.79
Total	1,44,786.26	1,60,419.60	1,57,978.79	1,71,374.79
Defence Capital Budget % Growth			9.11*	6.83**
Inflation Rate (CPI-C) Annually (%)			5.70@	
Actual Increase Adjusting Inflation			3.41	

* Based on increase in RE of 2022-23 over 2021-22 (Actuals).

** Based on increase in BE 2023-24 over BE 2022-23.

@ inflation rate April-December, 2022 (Provisional)"

Ratio for Capital and Revenue outlay

1.19 Statement indicating the ratio for Capital and Revenue outlay from 2018-19 onwards as furnished to the Committee is as under:

(₹in crores)

Year	Service	Outlay		Ratio	
		Revenue	Capital	Revenue	Capital
2018-19	Army	1,34,241.38	27,438.66	83	17
	Navy	20,856.23	21,509.60	49	51
	Air Force	28,291.25	36,451.74	44	56
	Total Outlay	1,83,388.86	85,400.00	68	32
2019-20	Army	1,42,529.38	29,000.88	83	17
	Navy	22,387.31	27,446.68	45	55

	Air Force	30,124.31	45,104.23	40	60
	Total Outlay	1,95,041.00	1,01,551.79	66	34
2020-21	Army	1,39,903.33	26,320.93	84	16
	Navy	23,166.05	41,666.76	36	64
	Air Force	32,825.23	58,207.95	36	64
	Total Outlay	1,95,894.61	1,26,195.64	61	39
2021-22	Army	1,57,092.05	25,130.94	86	14
	Navy	23,834.99	45,028.64	35	65
	Air Force	34,375.46	53,217.19	39	61
	Total Outlay	2,15,302.50	1,23,376.77	64	36
2022-23 (RE)	Army	1,73,335.62	32,598.49	84	16
	Navy	30,734.58	47,727.03	39	61
	Air Force	44,728.10	53,871.17	45	55
	Total Outlay	2,48,798.30	1,34,196.69	65	35
2023-24 (BE)	Army	1,81,371.97	37,341.54	83	17
	Navy	32,284.20	52,804.75	38	62
	Air Force	44,345.58	58,268.71	43	57
	Total Outlay	2,58,001.75	1,48,615.00	63	37

1.20 In this regard, during the course of evidence a representatives of the Ministry further elaborated as under:-

“For the Financial Year 2023-24, the revenue capital ratio shows a slight tilt in favour of the revenue expenses, the ratio having been changed from 60:40 to 62:38. It may be seen that this ratio is primarily on account of enhancement provided in the operational and sustenance expenditure, i.e. defence stores including ordnance stores, transportation, operational works etc.”

Modernization of Defence Forces

1.21 In regard to the Modernization of Defence Forces the Committee, through written reply were apprised as under:

“Modernisation involves the acquisition of new state-of-the-art platforms, technologies and weapon systems to upgrade and augment defence capabilities. Modernisation of Defence Forces is a continuous process based on threat perception, operational challenges and technological changes to keep the Armed Forces in a state of readiness to meet the entire spectrum of security challenges. Government attaches the highest priority to ensure that the Armed Forces are sufficiently equipped to meet any operational requirement. This is achieved through induction of new equipment and technological upgradation of capabilities. The equipment requirements of the Armed Forces are planned and progressed through a detailed process which includes 15 Year Long Term Integrated Perspective Plan (LTIPP), a five year Service-wise Capability Acquisition Plan, a two year roll-on Annual Acquisition Plan and deliberations by the Defence Acquisition Council chaired by the Raksha Mantri. Government is taking measures for modernization of the Armed Forces, through procurement of new equipment and upgrading of existing equipment and systems. The modernization projects are being progressed as per the approved Capital Acquisition Plans and in terms of the extant Defence Procurement Procedure. Since the launch of ‘Make in India’ in September, 2014 and ‘Atmanirbhar Bharat’ in May, 2020, several measures have been taken by the Government to promote indigenous design, development and manufacture of defence & aerospace equipment in the country under ‘Make in India’ by harnessing the capabilities of the public and private sector. Modernisation of Defence Forces is funded through Capital segment of the Defence budget.”

1.22 In regard to Defence Capital Acquisition Budget, the Ministry through a written note intimated:

“Defence Capital acquisition is carried out in accordance with the Defence Procurement Procedure (DPP)/Defence Acquisition Procedure(DAP) and undertaken through Ten years Integrated Capability Development Plan(ICDP), Five Years Defence Capability Acquisition Plan (DCAP) and Annual Acquisition Plan (AAP).The cases listed in the approved Annual Acquisition Plan (AAP) are progressed as per the DPP/DAP provisions and funds allocated and budgeted under the capital Acquisitions heads of concerned Service for the given financial year. In the current financial year, an amount of Rs. 1,24,408.64 Crore was allocated in BE 2022-23 under Capital Acquisition (Modernisation) Head.

The Budget Estimates(BE), Revised Estimates(RE) and Actual Expenditure on Modernisation for capital acquisition for the last five financial years is as below:-

(₹in crores)

Year	BE	RE	Actual
2018-19	74,115.99	73,882.95	75,892.85
2019-20	80,959.08	89,836.16	91,053.15
2020-21	90,047.80	1,14,320.30	1,18,966.44
2021-22	1,11,463.21	1,13,717.59	1,13,781.27
2022-23(Dec, 22)	1,24,408.64	1,22,690.98	67,020.99

During the last five financial year (2017-18 to 2021-22) and current Financial year 2022-23 (upto December, 2022), total 264 capital acquisition contracts have been signed for capital procurement of defence equipment for Armed forces, out of which 88 contracts worth about 36.26% of total contracts value, have been signed with vendors from foreign countries including Russia, USA, Israel, France etc for capital procurement of defence equipment.”

1.23 The Ministry forwarded the following details regarding Service wise Defence Modernization Budget through Power Point Presentation during the Sitting of the Committee:

(₹in crores)

Service	2022-23 (BE)			2023-24 (BE)		
	Capital Acquisition	Other than Capital Acquisition	Total Capital	Capital Acquisition (%age increase)	Other than Capital Acquisition (%age increase)	Total Capital (%age increase)
Army	25,908.85	6,206.41	32,115.26	30,163.00 (16.42)	7,178.54 (15.66)	37,341.54 (16.27)
Navy	45,250.00	1,073.31	46,323.31	47,515.00 (5.01)	3,451.00 (221.53)	50,966.00 (10.02)
Jt. Staff	499.81	767.87	1,267.68	598.90 (19.83)	1,239.85 (61.47)	1,838.75 (45.05)
Air Force	52,749.98	4,101.57	56,851.55	54,024.37 (2.42)	4,244.34 (3.48)	58,268.71 (2.49)
DoO (C&S)	-	3,810.00	3,810.00	-	1,315.00 (-65.49)	1,315.00 (-65.49)
DRDO	-	11,981.81	11,981.81	-	12,850.00 (7.25)	12,850.00 (7.25)
DGQA	-	20.00	20.00	-	20.00	20.00
Total	1,24,408.64	27,960.97	1,52,369.61	1,32,301.27 (6.34)	30,298.73 (8.36)	1,62,600.00 (6.71)

1.24 In this connection a representative of the Ministry of Defence deposed as under:

“Thrust on the modernisation and infrastructure development has been sustained in the Union Budget 2023. Capital allocation of the services has been increased to Rs.1,62,600 crore, a jump of Rs.10,230 crore, which is 6.7 per cent over the financial year 2022-23. Increase in the last five years since 2018-19 has been Rs.68,618 crore which is 73 per cent. This is a reflection of Government’s commitment towards sustainable augmentation of modernisation and infrastructure development.”

Non Lapsable Defence Modernisation Fund – Defence Renewal Fund

1.25 The Committee have found that Fifteenth Finance Commission had recommended, which was also highlighted in the Third and Seventh Report of the Committee on 'Demands for Grants 2019-20 and 2020-21; the issue of the proposal for making Capital Budget 'Non-lapsable' and 'Roll-on' in nature.

1.26 When the Ministry was enquired about the Current status in this regard, the Ministry in a written reply informed as under:

"A proposal for creation of Non-Lapsable Defence Modernisation Fund is under consideration with the Government. A suitable mechanism for operationalising the Fund is being worked out in consultation with Ministry of Finance."

1.27 When the issue of non-lapsable budget fund for capital acquisition was raised during the evidence, the Secretary while deposing before the Committee stated:-

"Regarding the non-lapsable budget for capital acquisition जब रेकमेंड किया गया था, तो यह कांसेप्ट सही था। जब प्रारंभ में एक्विजिशन की प्रक्रिया शुरू होती है, तो जितने पैसे चाहिए, उतना एकचुअल प्रोक्योरमेंट होता है। यदि यह उस बजट में नहीं है, तो मुश्किल हो सकती है। लेकिन इसे अब ठीक किया गया है। जैसा कि मैंने विवरण दिया, Budget estimation has been made by consultative process. पहले ऐसा होता था कि हम कुछ प्रोजेक्ट करते थे, उसमें फाइनेंस मिनिस्ट्री वाले कुछ एलोकेट करते थे। Finally, there was no meeting point between the two. Now, the process has been changed in the Finance Ministry..... Sir, all our requirements have been met. So, there is no need for non-lapsable fund. If in a particular year, we require this much to pay for the equipment we have ordered, we will get that. So, the concept of non-lapsable budget may not be possible in view of the Parliamentary approval required every year for the Budget process. We have a rolling budget."

Committed Liabilities and New Schemes

1.28 When asked about projected and allocated budget for Committed Liabilities and New Schemes in Defence Budget in 2023-24, the Ministry submitted as under:

"In the Defence Services Estimates (DSE), there is no separate allocation of funds for Committed Liabilities (CL) and New Schemes (NS) and these are catered through Capital Acquisition (Modernization) budget. The projected and allocated funds for the three Services under Capital Acquisition in BE 2023-24 are as follows:-

(₹in crores)

SERVICE	Projection BE 2023-24	Allocation BE 2023-24
Army	30,163.00	30,163.00
Navy (excluding Jt. Staff)	47,515.00	47,515.00
Air Force	54,564.14	54,024.37

The allocated funds are optimally utilized towards operational activities. If required, the schemes are reprioritized to ensure that urgent and critical capabilities are acquired without any compromise to operational preparedness of the Defence Services."

1.29 The Ministry was asked to provide details of budget estimates, total allocation under Committed Liabilities and New Schemes for the year 2022-23. In this regard it was submitted as under:

“In the Defence Services Estimates (DSE), there is no separate allocation of funds for Committed Liabilities (CL) and New Schemes (NS). Further, earmarking between Committed Liabilities and New Schemes is carried out by Service HQrs based on prioritization among the projects/schemes and the progress of contractual milestones. In the FY 2022-23, an amount of Rs. 52,749.98 Crore was allocated at BE stage under Modernisation (Capital Acquisition) Head (which includes Committed Liabilities and New Schemes). However, no additional funds were allocated to Air Force in RE 2022-23 over BE 2022-23. Against these allocations, an expenditure of Rs. 25,770.81 Crore (upto December, 2022) has been incurred in FY 2022-23. Surrender, if any, will be known at the time of finalization of Modified Appropriation of current financial year 2022-23.”

1.30 When asked to state whether the projections for the next financial year with regard to the financial allocation as well as the proposed acquisitions and the Command Liabilities have been finalized, the Ministry submitted as below:-

“In the Defence Services Estimates (DSE), there is no separate allocation of funds for Committed Liabilities (CL) and New Schemes (NS) and these are catered through Capital Acquisition (Modernization) budget. In BE 23-24, an amount of Rs. 1,32,841.04 Crore was projected under Capital Acquisition (Modernisation) Head and against this, an allocation of Rs.1,32,301.27 Crore has been made.

Though the allocations received are not as per projections made, however, based on expenditure during the year and pending committed liabilities, if required, additional funds will be sought at Supplementary/RE stage. The progress of expenditure is reviewed from time to time by Financial Advisor (Defence Services)/ Secretary (Defence Finance) / Defence Secretary to ensure that the budgetary allocations are utilized. All efforts are made to ensure that the allocated funds are optimally utilized towards operational activities. Also, if required, through reprioritization, it is ensured that urgent and critical capabilities are acquired without any compromise to operational preparedness of the Defence Services.”

1.31 The details of projected requirement and amount finally allocated for the Services, along with the actual expenditure (each separately as well as consolidated) for Committed Liabilities and New Schemes 2017-18 onwards have been furnished by the Ministry as under:-

“In the Defence Services Estimates (DSE), there is no separate allocation of funds for Committed Liabilities (CL) and New Schemes (NS) and these are catered through Capital Acquisition (Modernization) budget. Details of BE and RE projections for Capital Acquisition, allocations made and the actual expenditure from FY 2017-18 onwards is as under:

(₹in crores)

2018-19:

Service	BE Projection	BE Allocation	RE Projection	RE Allocation	Actual Expenditure
Army	35,581.09	21,338.21	34,738.29	21,168.21	21,879.80
Navy	32,243.37	19,083.00	28,461.73	19,148.00	19,769.87
Jt Staff	803.16	594.88	473.22	466.84	420.31
Air Force	68,612.15	33,099.90	65,144.56	33,099.90	33,822.87
Total	1,37,239.77	74,115.99	1,28,817.80	73,882.95	75,892.85

(₹ in crores)

2019-20:

Service	BE Projection	BE Allocation	RE Projection	RE Allocation	Actual Expenditure
Army	35,581.09	23,000.63	36,979.05	23,517.31	23,275.42
Navy	32,243.37	21,177.00	37,671.67	24,226.00	25,440.59
Jt Staff	803.16	371.56	373.98	635.94	295.15
Air Force	68,612.15	36,409.89	76,412.76	41,799.89	42,041.99
Total	1,37,239.77	80,959.08	1,51,437.46	89,836.16	91,053.15

2020-21:

(₹ in crores)

Service	BE Projection	BE Allocation	RE Projection	RE Allocation	Actual Expenditure
Army	41,530.80	26,068.61	31,961.00	26,068.61	22,510.29
Navy	40,927.91	24,598.00	49,376.51	35,715.67	40,084.65
Jt Staff	692.41	350.28	486.82	317.11	229.17
Air Force	60,840.17	39,030.91	69,421.59	52,281.91	56,142.33
Total	1,43,991.29	90,047.80	1,51,245.92	1,14,320.30	1,18,966.44

2021-22:

(₹ in crores)

Service	BE Projection	BE Allocation	RE Projection	RE Allocation	Actual Expenditure
Army	39,977.00	30,636.90	30,636.90	19,485.09	20,231.11
Navy	65,888.96	31,031.02	47,414.33	43,736.02	43,006.58
Jt Staff	827.42	474.52	405.71	405.71	177.78
Air Force	72,180.06	49,320.77	67,169.42	50,090.77	50,365.80
Total	1,78,873.44	1,11,463.21	1,45,626.36	1,13,717.59	1,13,781.27

2022-23:

(₹ in crores)

Service	BE Projection	BE Allocation	RE Projection	RE Allocation	Actual Expenditure*
Army	34,791.10	25,908.85	27,051.00	27,051.00	18,503.87
Navy	62,689.89	45,250.00	44,437.00	44,437.00	22,561.08
Jt Staff	616.83	499.81	581.22	581.22	185.23
Air Force	79,860.81	52,749.98	52,750.00	50,621.76	25,770.81
Total	1,77,958.63	1,24,408.64	1,24,819.22	1,22,690.98	67,020.99

*Expenditure is upto December, 2022

Note: RE 2022-23 figures are yet to be approved by the Parliament.

Though the allocations received are not as per projections made, however, based on expenditure during the year and pending committed liabilities, if required, additional funds will be sought at Supplementary/RE stage. The progress of expenditure is reviewed from time to time by Financial Advisor (Defence Services)/

Secretary (Defence Finance) / Defence Secretary to ensure that the budgetary allocations are utilized. All efforts are made to ensure that the allocated funds are optimally utilized towards operational activities. Also, if required, through reprioritization, it is ensured that urgent and critical capabilities are acquired without any compromise to operational preparedness of the Defence Services.”

CHAPTER – II

PROCUREMENT POLICY FOR DEFENCE SERVICES

Defence Procurement Policy

The Committee found that the policy for procurement of Defence equipment for the Armed Forces aims to ensure timely procurement of military equipment, systems and platforms as required by the Armed Forces in terms of performance capabilities and quality standards, through optimum utilisation of allocated budgetary resources. The aim of the Defence Acquisition Policy is to ensure timely procurement of defence equipment to meet operational requirement through optimum utilisation of budgetary resources, observing highest degree of probity, public accountability, transparency, fair competition and level-playing field and simultaneously to achieve self-reliance in defence equipment production with ultimate aim to develop India as a global defence manufacturing hub. The policy is implemented through the mechanism of Defence Procurement Procedure (DPP).

2.2 It was further submitted by the Ministry that Defence Capital acquisition is carried out in accordance with the Defence Procurement Procedure (DPP)/Defence Acquisition Procedure(DAP) and undertaken through Ten years Integrated Capability Development Plan(ICDP), Five Years Defence Capability Acquisition Plan (DCAP) and Annual Acquisition Plan (AAP).The cases listed in the approved Annual Acquisition Plan (AAP) are progressed as per the DPP/DAP provisions and funds allocated and budgeted under the capital Acquisitions heads of concerned Service for the given financial year.

2.3 When asked about the Budget Estimates(BE), Revised Estimates(RE) and Actual Expenditure on Modernisation for capital acquisition for the last five financial years and current year, the Ministry forwarded the following statement:

Year	BE	RE	Actual
2018-19	74,115.99	73,882.95	75,892.85
2019-20	80,959.08	89,836.16	91,053.15
2020-21	90,047.80	1,14,320.30	1,18,966.44
2021-22	1,11,463.21	1,13,717.59	1,13,781.27
2022-23(Dec, 22)	1,24,408.64	1,22,690.98	67,020.99

2.4 Regarding the revision and simplifying of the Defence Procurement Manual (DPM), a representative of the Ministry replied to the Committee as under:-

“It has been revised nine times during last 11 years..... Our requirements are very complex. We have to defend Himalayas on one side and desert on the other side. We also have ocean on three sides of our country. So, we have to provide for all eventualities.”

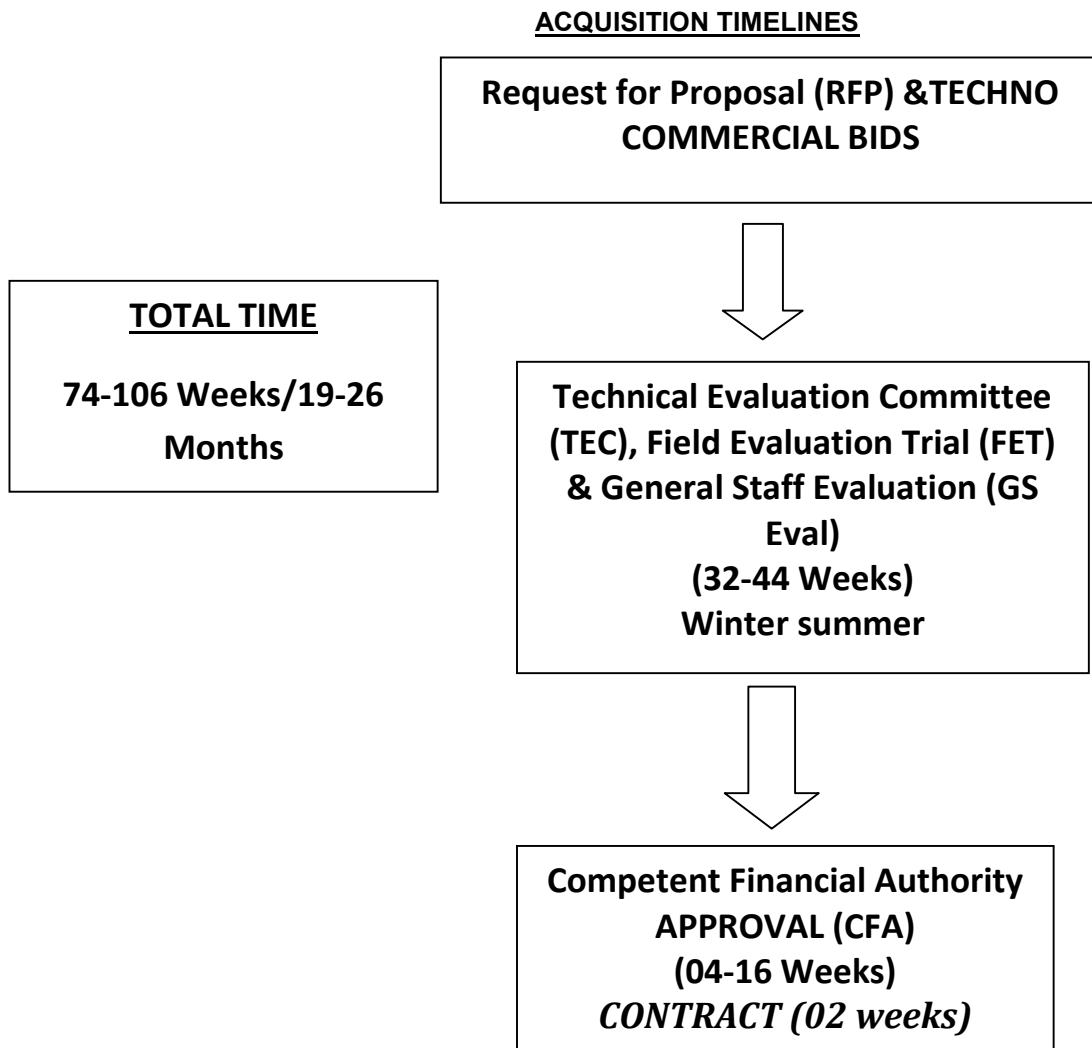
Capital and Annual Procurement Plan

2.5 Giving a detailed overview of the multi-layered acquisition process of defence equipment/arms, the representative of the Ministry deposed before the Committee as under:-

“The acquisition process has got certain steps which are distinguishable yet overlapping to each other. I shall just read them out and there are various steps which go into each of these which are mentioned on the screen. Firstly, before the Acceptance of Necessity (AoN) is accorded, there is a request for information which is sought by the service headquarters from the vendors as to what all qualitative requirements they can meet and what is the preferred mode of acquisition they would prefer. Thereafter, based on these inputs and the requirements

of the Armed Forces, certain qualitative requirements are formed. Then, for issuing it to various units and formations, scaling is carried out and the budgetary support through quantity vetting is carried out. Thereafter, the case is moved for AoN along with its category. Once the AoN is accorded, the post AoN activities start in which the first thing is floating of a request for proposal which the acquisition wing of the Ministry of Defence floats. Once the commercial and technical bids are received, the technical bids are put through a technical evaluation and the successful vendors' equipment is put through field evaluation trials. After that, the successful staff evaluation is carried out. A technical oversight is referred to in case it is required which is not mandatory. Then, only for the successful vendors, the commercial bids are open and a contract negotiation is carried out after which CFA approval is granted and a contract is signed. So, this entire process takes approximately two years.”

2.6 When asked information about procurement timeline being followed by the Ministry in acquiring defence equipment the Ministry in a power-point presentation gave the following flowchart about current acquisition timeline:-



2.7 When the Committee inquired whether our procurement policy/manual etc. is commensurate with that of other developed countries such as USA/UK/ China/Russia/France and others, the representative of the Ministry deposed as below:-

“एग्विजिशन प्रोसीजर- हमारा जो भी कॉन्टेक्ट है, हमारे देश की आवश्यकता है, उनके अनुसार बनाई जाती है। फ्रांस या यूएस की जो प्रक्रिया है, वह उनके उद्देश्यों, लक्ष्यों के आधार पर बनती है। हमारे देश में हमारे देश की कंपनियों की क्षमता बढ़ाना, एक यह काम है। जैसे जनरल दयाल ने प्रेजेंटेशन में दर्शाया था। देश की रक्षा के लिए हमारा पहला ऑब्जेक्टिव है कि डिफेंस फोर्स की क्षमता को बढ़ाना। डिफेंस फोर्स को किसी भी हालात में आपूर्ति करने के लिए देश की कंपनियों की क्षमता को बढ़ाना। इन दोनों को साथ-साथ ले जाते हुए प्रोक्योरमेंट प्रक्रिया का डिजाइन किया गया है। इसमें यह भी ध्यान रखा गया है कि यह ट्रांसपेरेंट हो। इसमें पारदर्शिता लाई जाए, ताकि बीच में कोर्ट के कारण या सीएजी के कारण प्रक्रिया में कोई बाधा न पड़े। हमारे देश में जो कंपनियां हैं, उनकी क्षमता बढ़ाने के लिए क्या प्रोत्साहन चाहिए, इसके लिए डीडीपी द्वारा डीएपी प्रक्रिया में भी कुछ इनिशियटिव्स लिए जाते हैं। जैसे आईडेक्स और टीडीएफ जैसी स्कीम्स भी हैं, जिनसे प्रोक्योरमेंट किए जाने की भी व्यवस्था की गई है।

में माननीय समिति को यह बताना चाहूंगा कि हम सभी देशों की प्रक्रियाओं का अध्ययन करने के बाद हम इस निष्कर्ष पर पहुंचे हैं कि हमारी प्रक्रिया हमारे लक्ष्यों के अनुसार होना चाहिए। इसलिए हमारा डीएपी और हमारे फाइनेंशियल रूल्स इसी तरह बनाए गए हैं।”

Accountability and Transparency in Defence Procurement

2.8 Following information was forwarded to the Committee by the Ministry on the measures instituted for ensuring accountability and transparency in Defence Procurement cases:

- Visibility of Capability Development Plan to Indian Defence Ecosystem – Technology Perspective & Capability Roadmap
- Hosting of policy changes, AoNs, RFI, etc on MoD website
- Interactive policy reviews with Indian defence industry /associations
- Use of Certification, Simulation etc.

2.9 On being asked whether there has been any delay in delivery of defence equipments/arms and in case of the delay action taken against vendors by the Ministry to ensure timely delivery, the representatives of the Ministry deposed as under:-

“विलंब बिल्कुल हुआ है। आप बिल्कुल ठीक कह रहे हैं। लेकिन, ऐसा नहीं कि यहां विलंब हो रहा है तो हमने तुरंत इम्पोर्ट कर लिया हो, ऐसा अवसर मेरे समय में नहीं आया है।... ऐसा नहीं कि यहां विलंब हो रहा है तो हमने तुरंत इम्पोर्ट कर लिया हो, ऐसा अवसर मेरे समय में नहीं आया है।”

2.10 On being asked about the steps taken by the Ministry to ensure higher transparency and providing enabling environment to the domestic manufacturers, the Ministry stated as below:-

“Coming to enhanced transparency, whatever is being done is being promulgated adequately to the vendors. The visibility of the capability development plan which is along with the ICDP which is being formed, is issued. The non-classified portion is hosted on the MoD website

which is called a Technology Perspective and Capability Roadmap. I would like to show this to you. This is the website on which DPCR, as they are called, of 2018 and 2013 are promulgated. It is done every five years. So, the new one for 2023 will be uploaded. This is the kind of visibility which is given to the vendors so as to know what is the capability in the next five to ten years, what the Indian armed forces are looking for. This is just one of the pages of that pertaining to the army wherein all things like powerpack, batteries, armour protection, etc., are signed on what the Indian Army will be looking at. This runs into several pages and the Indian defence manufacturers, vendors can look for their fields and find what they should be developing. This gives them a point to start preparing or acquiring technology.

Also, all the policy changes of the government, Office Memorandums, AOLs, RFIs, everything is hosted on the MoD website. There has been an increased interaction with the Indian defence industry and various associations like the SIDF, Assocham, FICCI. Major interactive policy reviews are carried out at the highest level through interaction with the defence industry itself. Transparency is brought into the trial and testing procedures also by use of certification and simulation wherein certificates of NABL accredited labs are accepted and are taken as qualifying parameter for accepting an equipment.

To ensure level-playing field for private defence industry vis-à-vis the DPSUs, various measures have been taken. Firstly, there are enhanced opportunities through DND categories which have been given to the private industry. Also, since the OFB has been corporatized, there are seven DPSUs which have been added, and there has been a parity in securities and payment terms between the DPSUs and the industry which earlier used to be preferential towards the DPSUs. Now the payment terms as well as the securities which are taken from them are on a common platform. The bank guarantees which were earlier five to 10 per cent were reduced to three per cent and they remain at three per cent as on today. So, a level-playing field is being ensured by various other measures as well.

No, coming to certain enabling policies which is a way forward. Firstly, the procurement is only through domestic industry. Import will be carried out as an exception with specific approval. This is the thought process and the policy which we are following. Also, to develop domestic defence ecosystem and through giving various enhanced avenues and increasing the vendor base, various measures have been taken. For most of the equipment, the splitting of the order quantity is being done between the vendors. Multiple design and production partners are considered by the DRDO or the DND agencies so that there is a redundancy in the system. Also, sustenance through domestic vendors, not only for procurement of various equipment but for components and sub-assemblies and focused indigenisation of these components and sub-assemblies through use of military materials as well as indigenous software is being carried out.”

Increasing Dependence on Foreign Suppliers for Military Hardware

2.11 The Ministry furnished the following information on Defence equipment/items currently being imported and details of price and country of origin of these equipment:

“During the last five financial year (2017-18 to 2021-22) and current Financial year 2022-23 (upto December, 2022), total 264 capital acquisition contracts have been signed for capital procurement of defence equipment for Armed forces, out of which 88 contracts worth about 36.26% of total contracts value, have been signed with vendors from foreign countries including Russia, USA, Israel, France etc for capital procurement of defence equipment. The major Defence equipment imported includes Helicopters, Aircraft, Radars, Rockets, Guns, Assault Rifles, Missiles and Ammunitions.

Capital procurement of defence equipment are undertaken from various domestic as well as foreign vendors, based on threat perception, operational challenges and technological

changes so as to keep the Armed Forces in a state of readiness. The equipment so inducted are being optimally exploited for operational purposes by the Defence Services.”

2.12 Information on the expenditure on Defence equipments Service-wise, imported from foreign vendors and acquired from indigenous sources over the last ten financial years under Capital Acquisition budget, forwarded to the Committee, is as under:

(Rs. In Crore)

Financial Year	Service					
	Army		Navy		Air Force	
	Foreign	Indigenous	Foreign	Indigenous	Foreign	Indigenous
2012-13	1,597.54	23,185.16	7,465.27	12,750.80	21,307.99	16,783.42
2013-14	1,636.08	14,443.08	13,151.13	8,268.33	23,069.06	16,924.11
2014-15	3,804.49	16,778.08	8,333.86	14,668.61	17,083.95	18,084.86
2015-16	3,150.41	19,133.03	8,205.21	12,616.95	14,834.84	18,238.36
2016-17	5,508.35	24,786.75	7,223.00	13,931.94	17,762.41	15,048.54
2017-18	5,258.80	24,960.58	5,997.47	14,844.25	22,157.04	15,146.53
2018-19	6,124.72	24,029.98	6,237.44	17,324.66	30,611.92	9,153.00
2019-20	6,046.79	25,112.86	9,985.76	18,939.83	28,585.81	19,732.06
2020-21	6,689.47	23,584.64	19,449.58	24,605.48	24,570.18	40,441.64
2021-22	5,085.74	25,507.53	17,759.60	28,926.70	25,424.98	32,922.23

2.13 When asked about the factors that have led to India being the largest Defence importer in the world, the Ministry in its written reply submitted as under:

“There is no reliable source of information confirming that India is largest defence importer. Any imports are made based on needs of equipment for which domestic manufacturing capabilities are not available. The procurement of defence equipment from domestic and foreign sources are based on threat perception, operational challenges and technological changes so as to keep the Armed Forces in a state of readiness to meet the entire spectrum of security challenges.

Government has taken various steps to develop indigenous defence industry for reducing dependency on import of defence equipment. “DAP-2020 has been driven by the tenets of Defence Reforms announced as part of the Artmanirbhar Bharat Abhiyan of the Government of India by promoting indigenous design, development and manufacturing of defence equipment, platforms, systems and sub-systems. DAP-2020 has introduced the following aspects with focus on boosting indigenous defence capability and reduction of reliance on imports: -

- (i) Notification of lists of weapons/platforms for ban on import.
- (ii) The IC has been enhanced in all procurement categories along with simplification of IC verification methodology.
- (iii) Introduction of Make III category for self-reliance through import substitution.
- (iv) Introduction of new acquisition category Buy (Global - Manufacture in India) to encourage Foreign OEMs to set up ‘Manufacturing/maintenance entities’ through its subsidiary in India under the new FDI policy.

- (v) Simplification of Make II and iDEX Procedure.
- (vi) Reservation of cases with AoN cost ≤ RS. 100 Crs, extendable to cases of AoN cost ≤ Rs. 150 Crs, if annual cashflow based on deliveries is below Rs. 100 Crs for MSMEs.
- (iv) Further, to encourage domestic defence industry, MoD vide its order dated 10 March, 2021 has earmarked funds amounting to Rs. 71,438 Cr (64.09% of the total capital budget) for domestic Capital Procurement in 2021-22. An amount of Rs. 84,598 Cr (68% of the total capital budget) has been earmarked for the domestic Capital procurement in FY 2022-23.”

2.14 The Ministry of Defence furnished the following statements containing details of Capital Procurements through indigenous and Foreign Sources and value of imports:

- i) Details of Capital Procurement through Indigenous and Foreign sources (Rs. in Crores) for the period 2017-18 to 2021-22 are appended below:-

<u>Year</u>	<u>Total Procurement</u>	<u>Procurement from Foreign Vendors</u>
2017-18	72,732.21	29,035.42
2018-19	75,913.06	36,957.06
2019-20	91,004.94	38,156.83
2020-21	1,18,860.52	42,786.54
2021-22	1,13,511.11	40,325.09

- ii) Further, imports for three services (Rs. in Crores) for the period 2017-18 to 2021-22 are as follows:-

(₹in crores)

<u>Capital - Foreign Proc</u>					
	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>
Army	4,190.41	4,189.53	3,729.86	5,027.96	3614.25
Navy	5,008.27	4,485.93	8,827.46	18,257.37	16,283.62
Air Force	19,836.74	28,281.60	25,599.51	19,501.21	20,427.22
Total	29,035.42	36,957.06	38,156.83	42,786.54	40,325.09

2.15 When asked about the value of export by DPSUs and erstwhile OFs vis-à-vis import separately for the last five years, the Ministry in written reply stated that:-

“Exports value from 2017-18 to 2021-22 in r/o DPSUs and erstwhile OFs is Rs 7465.68 Crores approximately and Imports value from 2017-18 to 2021-22 in r/o DPSUs and erstwhile OFs is Rs 68871.4 Crores approximately.”

Self Reliance and Make in India

2.16 Elaborating the action plan of the Government of India to make the country self-reliant in defence production, the Ministry stated as under:

(a) DPP 2016 has been revised as Defence Acquisition Procedure 2020, which is driven by the tenets of Defence Reforms announced as part of ‘Aatmanirbhar Bharat Abhiyan’.

(b) In order to promote indigenous design and development of defence equipment ‘Buy {Indian-IDDMM (Indigenously Designed, Developed and Manufactured)}’ category was introduced in 2016 and was accorded top most priority for procurement of capital equipment.

(c) Department of Military Affairs (DMA), Ministry of Defence, has notified Four Positive Indigenisation Lists (PILs), ‘First Positive Indigenisation list’ of 101 items on 21st Aug’20, ‘2nd Positive Indigenisation list’ of 108 items on 31st May’21, the ‘Third Positive Indigenisation List’ of 101 items on 7th Apr’22 and 4th Positive Indigenisation List of 101 items on 19th Oct’22 with the timelines beyond which the items will be procured from domestic industry. This is a big step to promote indigenisation in defence sector. This offers a great opportunity to the Indian defence industry to manufacture these items using their own design and development capabilities to meet the requirements of the Indian Armed Forces. These lists include some high technology weapon systems like artillery guns, assault rifles, corvettes, sonar systems, transport aircrafts, light combat helicopters (LCHs), radars, wheeled armoured platform, rockets, bombs, armoured command post vehicle, armoured dozer and many other items to fulfil the needs of our Defence Services.

(d) The ‘Make’ Procedure of capital procurement has been simplified. There is a provision for funding upto 70% of development cost by the Government to Indian industry under Make-I category. In addition, there are specific reservations for MSMEs under the ‘Make’ procedure.

(e) Procedure for ‘Make-II’ category (Industry funded), introduced in DPP 2016 to encourage indigenous development and manufacture of defence equipment has number of industry friendly provisions such as relaxation of eligibility criterion, minimal documentation, provision for considering proposals suggested by industry/individual etc.

(f) The Government of India has enhanced FDI in Defence Sector up to 74% through the Automatic Route for companies seeking new defence industrial license and up to 100% by Government Route wherever it is likely to result in access to modern technology or for other reasons to be recorded. So far, till October, 2022 FDI inflows of over Rs 4814 crores have been reported in the defence and aerospace sector. Further, FDI inflows of over Rs 3432 crores have been reported in defence and aerospace sector since 2014 till October, 2022. Further, till date, 45 JVs/companies have been given foreign investment approvals in Defence sector.

(g) An innovation ecosystem for Defence titled Innovations for Defence Excellence (iDEX) has been launched in April 2018. iDEX is aimed at creation of an ecosystem to foster innovation and technology development in Defence and Aerospace by engaging Industries including MSMEs, Start-ups, Individual Innovators, R&D institutes and Academia and provide them grants/funding and other support to carry out R&D which has potential for future adoption for Indian defence and aerospace needs. Contracts have been signed with 182 iDEX Winners. A Grant of Rs 498.78 Cr. has been already sanctioned for Scheme of iDEX for the period 2021-22 to 2025-26 (five years).

(h) For providing opportunities to Indian industry under 'Make in India' in Defence a portal, namely SRIJAN DEFENCE has been launched in August 2020 for DPSUs/Services with an industry interface to provide development support to MSMEs/ Startups/ Industry for import substitution. As on date (16th January 2023), Srijan portal data is given below-

Items available on SRIJAN Portal for 'Public View'	25644 items
Items indigenised	5930 items
Interested Vendors	512 vendors
Interest shown for items	6287 items

(j) Government has notified the 'Strategic Partnership (SP)' Model in May 2017, which envisages establishment of long-term strategic partnerships with Indian entities through a transparent and competitive process, wherein they would tie up with global Original Equipment Manufacturers (OEMs) to seek technology transfers to set up domestic manufacturing infrastructure and supply chains.

(k) Government has notified a 'Policy for indigenisation of components and spares used in Defence Platforms' in March 2019 with the objective to create an industry ecosystem which is able to indigenize the imported components (including alloys & special materials) and sub-assemblies for defence equipment and platform manufactured in India.

(l) An Inter-Governmental Agreement (IGA) on "Mutual Cooperation in Joint Manufacturing of Spares, Components, Aggregates and other material related to Russian/Soviet Origin Arms and Defence Equipment" was signed in Sep 2019. The objective of the IGA is to enhance the After Sales Support and operational availability of Russian origin equipment currently in service in Indian Armed Forces by organizing production of spares and components in the territory of India by Indian Industry by way of creation of Joint Ventures/Partnership with Russian Original Equipment Manufacturers (OEMs) under the framework of the "Make in India" initiative.

(m) Products list requiring Industrial Licences has been rationalised and manufacture of most of parts or components do not require Industrial License. The initial validity of the Industrial License granted under the IDR Act has been increased from 03 years to 15 years with a provision to further extend it by 03 years on a case-to-case basis. Further, 597 licenses have been issued to 367 companies till December 2022 for manufacture of various defence licensee items.

(n) Department of Defence Production has notified 46 items under the latest Public Procurement Order 2017 notified by Department for Promotion of Industry and Internal Trade (DPIIT), for which there is sufficient local capacity and competition and procurement of these items shall be done from local suppliers only irrespective of the purchase value.

(o) Defence Investor Cell (DIC) has been created in Feb-2018 by the Ministry to provide all necessary information including addressing queries related to investment opportunities, procedures and regulatory requirements for investment in the sector. As on 16th January 2023, **1549 queries** have been received and addressed by Defence Investor Cell.

In tune with government of India initiatives like Make in India and Atmanirbhar Bharat both of which aims to create and encourage companies to develop, manufacture and assemble products made in India to make India self-reliance, a representative of Ministry of Defence informed the Committee about the steps taken by the Ministry in this direction:-

The acquisition policy has got certain focus areas. These focus areas are Atmanirbhar Bharat, Make In India and Ease of Doing Business. The Atmanirbhar Bharat addresses all the facets for the Indian economy, i.e. the demand, supply and manufacturing while Make In India focuses more on the manufacturing. Under Atmanirbhar Bharat, we are wanting to achieve self-reliance in defence production and by ensuring indigenous design and development. For Make

In India, the enhanced indigenous content which we are seeking in each of our procurements and giving impetus to the MSMEs and start-ups and increase in the FDI so that good technology can come to the country are the various aspects. For Ease of Doing Business, we are looking for simplification of policies and procedures and ensuring level-playing field”

2.17 When asked about allocation of funds ‘Make-in-India’ Project, the Committee were apprised by the Ministry as under:

“The budget allocation is made for the total acquisition of defence equipment requirements of the Services. The proposals for capital acquisition in Defence Procurement Procedure (DPP) are categorized as ‘Buy (Indian-IDDM)’, ‘Buy (Indian)’, ‘Buy and Make (Indian)’ & ‘Buy and Make’ with preference over ‘Buy (Global)’ category, to make the country self-reliant in defence production after deliberations in various Committees such as SPB/ DPB/ DAC.”

Budgetary Allocation & Expenditure of Domestic Capital Procurement Fund (₹in crores)

S. No.	BE 2020-21		Actual Expenditure 2020-21		BE 2021-22		Actual Expenditure 2021-22		BE 2022-23	
	% of Total Capital Procurement Fund	Amount	Actual %	Amount	% of Total Capital Procurement Fund	Amount	Actual %	Amount	% of Total Capital Procurement Fund	Amount
1	57.67%	51,931.59	64%	57,630.08	64.09%	71,438.36	65.15%	74,130.25	68%	84,597.89

2.18 In this connection, a representative of the Ministry of Defence deposed before the Committee that:-

“Certain push for domestic defence ecosystem has been given in the Central Budget. This year, in financial year 2023-24, at the BE stage, 75 per cent allocation of the Defence Budget has been kept for domestic procurement. In the last Financial Year, it used to be 68 per cent. For participation of private industry in R&D, since the last year’s Budget, 25 per cent of the Defence R&D fund has been allocated for private industry. This year, in 2023-24 Budget, Rs. 1200 crore has been allocated for prototype development under MAKE projects wherein the industry will be taking part.”

2.19 In this context the Ministry during evidence before the Committee also stated that also stated that it took following steps in order to give a push to domestic defence ecosystem:-

- Increase in allocation of Defence budget for Domestic Capital Procurement from 68 % to **75 %** in FY 2023-24
- Participation of Pvt Industry in R&D (Allocation of **25%** Defence R&D budget)
- **Rs 1231.62 Cr** allocated for prototype development under Make projects in FY 2023-24

2.20 Furthermore, the Ministry during the evidence held informed the Committee as under:-

“For ensuring Atmanirbhar Bharat, certain policy alignments have been carried out. The first thing is the Buy Indian IDDM, which is the highest priority for every procurement, we attempt that in case we can have adequate number of vendors and vendor solutions to go in for Buy Indian IDDM category. This ensures that we get the IPR in the country and for future, the global dependence reduces or gets negated. The Government has also taken out four positive indigenisation lists since 2020 which, as on today, account for 411 items which range from guns, rifles, to submarines etc. which are kept on the Import Embargo List. That means these items will not be imported in the future. Also, some 3,738 items have been identified for the

DPSUs which will be sourced only from the Indian industry. Also, the cases which are less than or equal to Rs. 100 crore are reserved for MSMEs.

Now, we are aware that the technology threshold of the Indian industry as yet is developing. Therefore, the parameters of QRs, without compromising the operational requirement, are taken as per the domestic capability with a provision of having a spiral development in the future.”

2.21 The Ministry submitted the following information to the Committee regarding value of indigenized production:

‘The trends in Value of Production (VoP) in the last three years are indicated as below:
(₹ in crores)

Year	Total Production	Total Export
2019-20	79,071	9,116
2020-21	84,643	8,435
2021-22	94,846	12,815

2.22 Giving information on AoNs and contracts signed by both global and Indian vendors in last three years the Ministry in a powerpoint presentation submitted the information as under”

(₹ in crores)

	Total nos. & total worth	Domestic Industry
AoNs	166 - Rs 2,97,005 Crs	155 AoNs - Rs 2,86,432 Crs (96%)
Contracts	101 - Rs 1,20,322 Crs	Rs 1,04,168 Crs (87%)

2.23 Furthermore, the Ministry furnished the following information containing AONs and Contacts accorded to domestic as well global collaborators during the last three financial years:-

(₹ in crore)

Acceptance of Necessity (AON)						
Year	Indian		Global		Total	
	Schemes	Cost	Schemes	Cost	Schemes	Cost
2020-21	44 (88%)	80,337 (89%)	06 (12%)	9,588 (11%)	50	89,925
2021-22	38 (90%)	29,857 (97%)	04 (10%)	789 (3%)	42	30,646
2022-23	73 (99%)	1,76,238 (99.9%)	01 (1%)	196 (0.1%)	74	1,76,434
Total	155 (93%)	2,86,432 (96%)	11 (7%)	10,573 (4%)	166	2,97,005

CONTRACT

<u>Year</u>	<u>Indian</u>		<u>Global</u>		<u>Total</u>	
	<u>Schemes</u>	<u>Cost</u>	<u>Schemes</u>	<u>Cost</u>	<u>Schemes</u>	<u>Cost</u>
2020-21	32 (75%)	66,184 (98%)	11 (25%)	1,804 (2%)	43	67,988
2021-22	33 (73%)	29,235 (67%)	12 (27%)	14,350 (32%)	45	43,585
2022-23	13 (100%)	8749 (100%)	-	-	13	8749
Total	78 (77.2%)	1,04,168 (87%)	23 (22.8%)	16,154 (13%)	101	1,20,322

(₹ in crores)

2.24 During the evidence held with representatives of the Ministry of Defence, the Ministry submitted the following statement containing Service-wise details of total contracts signed with Indian and Foreign vendors in last five financial years and current year:-

(₹ in crore)

Year	2016-17		2017-18		2018-19		2019-20		2020-21		2021-22	
	No	Value	No	Value	No	Value	No	Value	No	Value	No	Value
Army	11	12588.06	25	31935.39	13	8357.19	14	28955.55	6	12821.47		
Air	11	63582.54	05	3257.88	4	35520.68	30	15951.75	7	1997.08		
Navy	24	18388.93	20	5497.70	30	36,535.69	26	37,757.79	12	3317.96		
Total	46	94559.53	50	40690.97	47	80413.56	70	82,665.09	25	18136.51	44	43,585

2.25 When the Committee inquired about no global contracts in 2021-22, the Ministry replied as under:-

“...yes, you are right that there is no global contract. Some of them have Indian partners. So, only the Indian vendors have signed the contract. If they have a joint venture with the foreign vendor, they will supply.”

2.26 On being asked about the value of export by DPSUs and erstwhile OFs vis-a-vis import separately for the last five years, the Ministry in the written reply stated that as given below:-

“Exports value from 2017-18 to 2021-22 in r/o DPSUs and erstwhile OFs is Rs 7465.68 Crores approximately and Imports value from 2017-18 to 2021-22 in r/o DPSUs and erstwhile OFs is Rs 68871.4 Crores approximately.”

2.27 As reported in various publications, that 84.3 per cent of the major conventional arms procured by India in 2016-20 were of foreign origin, of which licensed production accounted for 57.8 per cent. The Committee inquired about this kind of dependency on foreign players with the representatives of the Ministry of Defence, the Defence Secretary deposed that:-

“Yes. We do not have certain technologies like jet engine technology. Even, we have to depend for power packs for ships. We -- country as a whole -- are making efforts. The Government’s policies are helping our efforts. As has been pointed out, we are entering into licensed production. That itself will transfer enormous amount of knowledge into the country, and because of the new decision of the Government in 2021 that imports will be limited, we are able to get several technologies into the country through technology transfer. But as far as short term for certain critical equipment, especially power packs, is concerned, we will be dependent, and we are making all efforts to overcome that.”

Private Sector Participation

2.28 Enumerating the steps taken by the Ministry ensuring level playing field for private defence industry the Ministry apprised the Committee as under:-

- Enhancing opportunities through D&D and Make categories
- Corporatization of OFB
- Parity in securities and payment terms between DPSUs and Industry
- Reduction in Bank Guarantees (5%-10% to 3%)
-

Offset Clause

2.29 The Ministry apprised the Committee of the Offset Clause under Defence capital Acquisition as under:

“Offsets under Defence Capital Acquisition were introduced in the Defence Procurement Procedure (DPP) in 2005 based on the recommendation of Kelkar Committee. The Offset guidelines in DPP have been amended 6 times thereafter.

As per Defence Acquisition Procedure (DAP 2020), offset provisions are applicable only on “Buy Global” categories of capital acquisitions. The offset provisions apply in capital acquisition contracts which are more than ₹ 2,000 Crore. However, the offsets are not applicable to procurements under “Fast Track Procedure” and in “Option Clause” cases if the same was not envisaged in the original contract. No offsets will be applicable in all ab-initio Single Vendor Cases including procurements based on IGA/FMS. It is relevant to note that offset applicability on Indian companies under ‘Buy Global’ cases do not arise in case the indigenization component is 30% or more. Offset contracts are co-terminus with the main procurement contract and signed along with the main procurement contract after approval of Competent Financial Authority (CFA). The period of offset discharge can be extended on exceptional ground by a maximum period of 02 years. The DAP stipulates eligible products/services for discharge of offset obligations which covers defence products and MRO related to helicopters and aircrafts. The responsibility for fulfillment of offsets obligations lies with the main vendor. However, the vendor is permitted to discharge his obligations through Tier 1 sub-vendors based on their work share. In case of investment and/or transfer of technology the offset discharge can be permitted by entities other than vendor/Tier-I Sub-vendor on case to case basis. The vendors are free to select their Indian Offset Partners (IOP) from DPSU/DRDO/Private Industry. The Offset Policy further allows vendors to submit offset details at later stage after signing of the contract i.e. either at the time of seeking offset credits or one year prior to discharge of offset obligations.

Offset obligations can be discharged by any one or a combination of the following avenues as per Defence Acquisition Procedure (DAP) 2020:

Sl. No.	Discharge Avenue	Indian Offset Partner	Features
1	Direct purchase of or executing export order for eligible Products or Services	Private Sector/DPSU	Eligible product/services Listed (Investment in civil infrastructures & training has been excluded)
2	Investment in Defence Manufacturing through FDI or direct investment or JV or through non-equity route for co-production, co-development and production or licensed production of defence products.	Private Sector/DPSU	Through FDI
3	Investment in Transfer of Technology for manufacture of eligible products	Private Sector/DPSU	Through JV/non equity route
4	Acquisition of technology through ToT to Government Institutions & establishments	DRDO/DPSU	
5	Critical Technology Acquisition	DRDO	Critical technologies listed

centives for offsets in targeted areas, to promote MSME and acquisition of critical technology. The following multipliers are permitted under DAP 2020:

Incentives	Multiplier
Eligible Products	1.0
Components of eligible products	0.5
Investment in defence manufacturing	1.5
Investment in Defence Industrial Corridors for defence manufacturing	2.0
IOP	
MSME	1.5
Private Industry (ToT)	2.0
DPSUs/DRDO (ToT)	3.0
DRDO (Critical Technology)	4.0

2.30 Simplifying the offset policy and its benefits further, the representatives of the Ministry deposed before the Committee as under:-

“If I am importing goods worth Rs.100 from some country, then either at least 30 per cent of the contract value should be sourced from my country, or goods and services worth 30 per cent of the contract value should be imported by that particular OEM. That is the kind of commitment. The overarching idea is, as the hon. Member has mentioned, the objective of the policy is to build the capacities within India. Most important of all, build such capacities in terms of manufacturing in the country so that these industrial units get integrated in the global supply chain of the original equipment manufacturer. That is the ultimate objective, and if we can achieve it, that is the best.

Suppose, we buy 1 billion dollar worth of goods from being, 300 million dollar worth of exports have to take place from India against that order. If being could invest in the vendor development programme in India, prepare 100 vendors here and integrate them in its value chain, so that beyond the present contract the business relationship is sustained, employment generation is there in my country, and also there is a substantive technology transfer.

2.31 On being asked about the gains of the offset provisions and changes in existing provisions in the new DPP. The Ministry submitted as under:

“The key objectives of the offset provisions as contained in DAP 2020 is to leverage capital acquisitions to develop Indian defence industry by:-

- (a) Fostering development of internationally competitive enterprises and
- (b) Augmenting capacity for Research, Design and Development related to defence products and services and

The offset policy mandates foreign OEM's to discharge offset obligations through combination of permissible avenues w.r.t. eligible product & services in all procurements cases where cost of the capital acquisitions is ₹. 2000 Crores or more as per DAP 2020.

As on date, a total of 57 Defence Offset contracts have been signed in MoD. The contracted offset obligations due as on 11.01.2023, is US\$ 8.17 billion against which the vendors have submitted offset claims amounting to US\$ 6.30 billion. Out of the submitted claims, offset claims worth US\$ 5.22 billion have been disposed.

Offset contracts are under different stages of implementation by the foreign OEMs. Once executed, it is estimated that the respective contract shall cause generation of substantial business to Indian industries thus strengthening the defence industrial base. It shall also facilitate the Indian domestic industry to be a vital part of the supply chain of the major global defence industries reaping in more benefits. As a result of offsets, 293 Indian Offset Partners (IOPs) have been created which has contributed to the strengthening of the defence eco-system.

Learning from the experience in implementing the Offset policy over the years since DPP 2005, the Ministry has gradually liberalized and fine-tuned the Offset Policy and the guidelines thereof to factor in the difficulties encountered in the implementation of the offsets to strengthen the domestic defence industrial base together with other synergic sectors including civil aerospace and internal security. This has resulted in the enlargement of the available avenues for discharge of offsets together with amplification of the products and services and specifying other measures making them more user friendly , notably-

- (a) Graduating successively from only public enterprises to include both private and public enterprises as offset partners.
- (b) Specifying and enlarging the products and services qualifying as eligible.
- (c) Equity and non-equity investments.
- (d) Investment in kind in terms of transfer of technology/ equipment to Indian enterprises, Govt. Institutions and establishment including DRDO through incentivising by higher multiplier up to 4.
- (e) Incentivizing active involvement of MSME, by inclusion of multipliers.
- (f) Incentivizing investment in defence manufacturing in Defence Industrial Corridors notified by the Department of Defence Production, MoD.
- (g) Enabling acquisition of state of art critical technologies by DRDO.
- (h) Allowing discharge of obligations through entity other than vendor/Tier-I sub-vendor for investment and/or ToT on case to case basis; extension of the discharge timeframe;

enhancing the reporting cycle to real time submission of offset claims through online portal (earlier as per DPP 2016 it was on 6 monthly basis).'

2.32 When the Committee sought details about information about selection of Indian off-set partners from DPSUs or DRDO or private industries, the representative of the Ministry of defence stated as under:-

“Suppose there is an aircraft OEM, as a principal contractor. It has a missile manufacturer along with an aero engine manufacturer as Tier-1 vendors. Their names are disclosed like, who all will be liquidating the offsets as part of the contract. It is not just the OEM. Tier-1 vendors will also be there. That is part one which is negotiated as part of the offset contract.Who is going to be the Indian Offset Partner (IOP)? That entirely rests on the OEM its Tier-1 vendors as applicable...”

2.33 Elaborating further on operational aspect of Offset Clause, one of the representatives of the Ministry deposed before the Committee as under:

“इसमें निवेदन यह है कि ऑफसेट दो तरीके से मीट कर सकते हैं या तो आप इंडिया से प्रोडक्ट्स को सोर्स करें, लेकिन अभी आपने जो कहा कि जनरल गुड्स एंड सर्विसेस को एक्सपोर्ट करने से वह पर्याप्त होगा, वह नहीं है। वह एक्सेप्टेबल नहीं है। वर्तमान ऑफसेट पॉलिसी एकदम क्लियर है कि जहां तक सम्भव हो डिफेंस गुड्स को उसमें कवर किया गया है। कुछ हैं जो एमआरओ सर्विसेस हैं, जैसे इंडिया में सिविलियन एयरक्राफ्ट का एमआरओ हो रहा है, लीप इंजन का एमआरओ करती है, जो कि पैसेंजर एयरक्राफ्ट में लगता है उसको भी हम इनकारपोरेट करते हैं। यह जो क्षमता है, सिविल सेक्टर की क्षमता है, यह मिलिट्री सेक्टर की क्षमता को बनाने के लिए जरूरी है। क्योंकि हमारी संख्या बहुत कम होती है। यदि हमारे पास 100 जहाज होंगे, तो कमर्शियल एयरक्राफ्ट में आप देखेंगे, जैसे अभी एयर इंडिया में 500 जहाज हैं, जब उन 500 जहाजों के एमआरओ की फैसिलिटी आएगी तभी हमारे 100 जहाजों के एमआरओ की फैसिलिटी उसके साथ एकोनॉमी ऑफ स्केल बनेंगी। उस दृष्टि से हमने कुछ एक्सेप्शन दिए हुए हैं। लेकिन ऐसा कोई एक्सेप्शन नहीं है, जैसे आपने कहा कि जनरल गुड्स को यदि एक्सपोर्ट करेंगे तो उसके अगैस्ट काउंट होगा।

दूसरा, हमारा जो मेजर ऐवेन्यू है, आज वर्तमान परिवेश में जिसको हम ज्यादा एनसिस्ट कर रहे हैं वह है- टेक्नोलॉजी ट्रांसफर। क्रिटिकल टेक्नोलॉजीज आइडेंटिफाई डीआरडीओ ने की है। कुछ टेक्नोलॉजीज हमारे यहां अलग से लिस्टेड भी हैं, जो कि डीपीएसयूज को चाहिए। उन टेक्नोलॉजीज के ट्रांसफर पर हम लोगों का खास तौर से बल है।... मैं यह फिर से स्पष्ट कर दूँ कि general goods and services are not acceptable. Technology transfer is a high priority. Export of Defence goods is the priority.”

2.34 When asked about the challenges, if any, being faced by the Ministry of Defence in executing the offset contracts, the Ministry stated as under:

‘Offset obligations are cast upon the vendors under capital acquisition wherein the vendor is required to discharge their offset obligations in line with the agreed schedule as provided in the

offset contract with the Indian Offset Partners and the transactions are reported on real time basis (earlier on quarterly/six monthly basis). Earlier, the vendors were required to give details of Indian Offset Partners, products and work share along with supporting documents in the technical offset proposal as per offset guidelines. However, the vendors have been expressing difficulties in providing these details at technical evaluation stage sighting that these activities would be undertaken number of years later which would then cause seeking changes to the contract. One of the major challenges towards post contract management had been timely and meaningful disposal of contract amendment requests received from the vendors for change of IOP/Product etc. Resolution of these issues was a long drawn out procedure since the earlier DPPs were silent on handling such issues. The resolution of these issues have been catered by introducing an amendment to the offset guidelines after approval of Defence Acquisition Council (DAC) headed by Hon'ble Raksha Mantri, where vendors have been given an option to provide details of IOPs and products even after signing of contracts making it more realistic. Further, the process for contract amendment has been made flexible by allowing change of Indian Offset Partners (IOPs) and offset components for the signed contracts.'

2.35 On being asked about instances during the last five years where offsets as promised could not be materialized. and whether any action has been taken in this regard, the Ministry informed the Committee as follows:-

'Offset obligations are to be discharged within a time frame that can extend beyond the period of the main procurement contract by a maximum period of two years. The period of the main contract includes the period of warranty of the equipment being procured under the main contract. Offset contracts are long term and complex in nature. These contracts are at various stages of implementation. Vendors report the offset discharge undertaken through online portal (previously, on quarterly/six monthly basis) which are monitored. The offset guidelines provide for imposition of penalty in case of shortfalls in annual offset discharge by the vendor. In twenty three offset contracts, penalty/interim penalty has been imposed on shortfalls in offset discharge by the vendor. The total penalty that has been imposed works out to be US\$ 87.78 Million.

In order to dis-incentivise vendors from frequent requests of rephasing of offset obligations to tide over shortfalls and escape penal provisions, the rephasing clauses have been modified in the Defence Offset Guidelines in DPP 2016 and DAP 2020 w.e.f 08/08/2019. As per the revised provisions, a vendor may, giving reasons, request re-phasing of the offset obligations within the period of the offset contract. The first re-phasing request of the vendor will be processed without any disincentives if the spread of re-phasing is restricted up to the following year. However, if the re-phasing of offset value is proposed over the subsequent years, then 5 % additional obligation will be imposed on re-phased value of every year. The re-phasing request for second and subsequent attempts will be processed by imposing additional 5% on proposed yearly re-phased offset value irrespective of the spread of re-phasing. This yearly additional 5% offset obligation for processing re-phasing request will be over and above the outright financial penalty on shortfall specified at Para 8.11 of Defence Offset Guidelines. JS (DOMW) may allow the request, with the approval of Secretary (Defence Production). Re-phasing will not be permitted beyond the period stipulated in Para 5.2 of the guidelines'.

2.36 During the deliberations with the representatives of the Ministry of Defence the Committee asked about non-fulfilment of offset agreements and steps taken by the Ministry to penalise such violators, the representative of the Ministry stated as under:-

“यदि सभापति महोदय की अनुमति हो तो हम इस प्रश्न का जवाब लिखित में भेज देंगे।”

Foreign Direct Investment (FDI)

2.37 On being asked about the current FDI Limit, the Ministry informed the Committee as under:

“The Government has reviewed the Foreign Direct Investment (FDI) policy in Defence Sector in September 2020 thereby allowing FDI under Automatic Route up to 74% and beyond 74%

through Government Route wherever it is likely to result in access to Modern technology or for other reasons to be recorded. Since, the notification of revised policy there has been an inflow of over Rs 566 crores till October, 2022.”

2.38 Further, the Committee were informed that current FDI policy facilitate upto 100% by Government route wherever, it is likely to result in access to modern technology or for other reasons to be recorded. Increasing the automatic route till 100% will nullify the ownership of domestic partner.

2.39 The details of the FDI/JV proposals which have been approved in the Defence Sector in the past five calendar years have been forwarded to the Committee as follows:

Name of JV	Activity
Russian Helicopters Ltd	manufacture, supply, maintain and service Helicopters to the Indian Defence Forces.
Indo Russian Rifles Pvt Ltd	
Omni-dyne Systems Pvt Ltd	
Elbit Systems Ltd	Primarily undertaking research and development in the defence sector in India, executing design and development programs and also for engaging in upcoming defence programs in the Indian defence sector as well as in the international market by providing services as a sub-contractor in compliance with applicable law including Defence Procurement Procedure issued by the Government of India, as amended from time to time. Further, the applicant has stated that it will undertake research and development in the Indian defence sector, execute design and development programs, as well as undertake manufacturing of products that do not require industrial license.

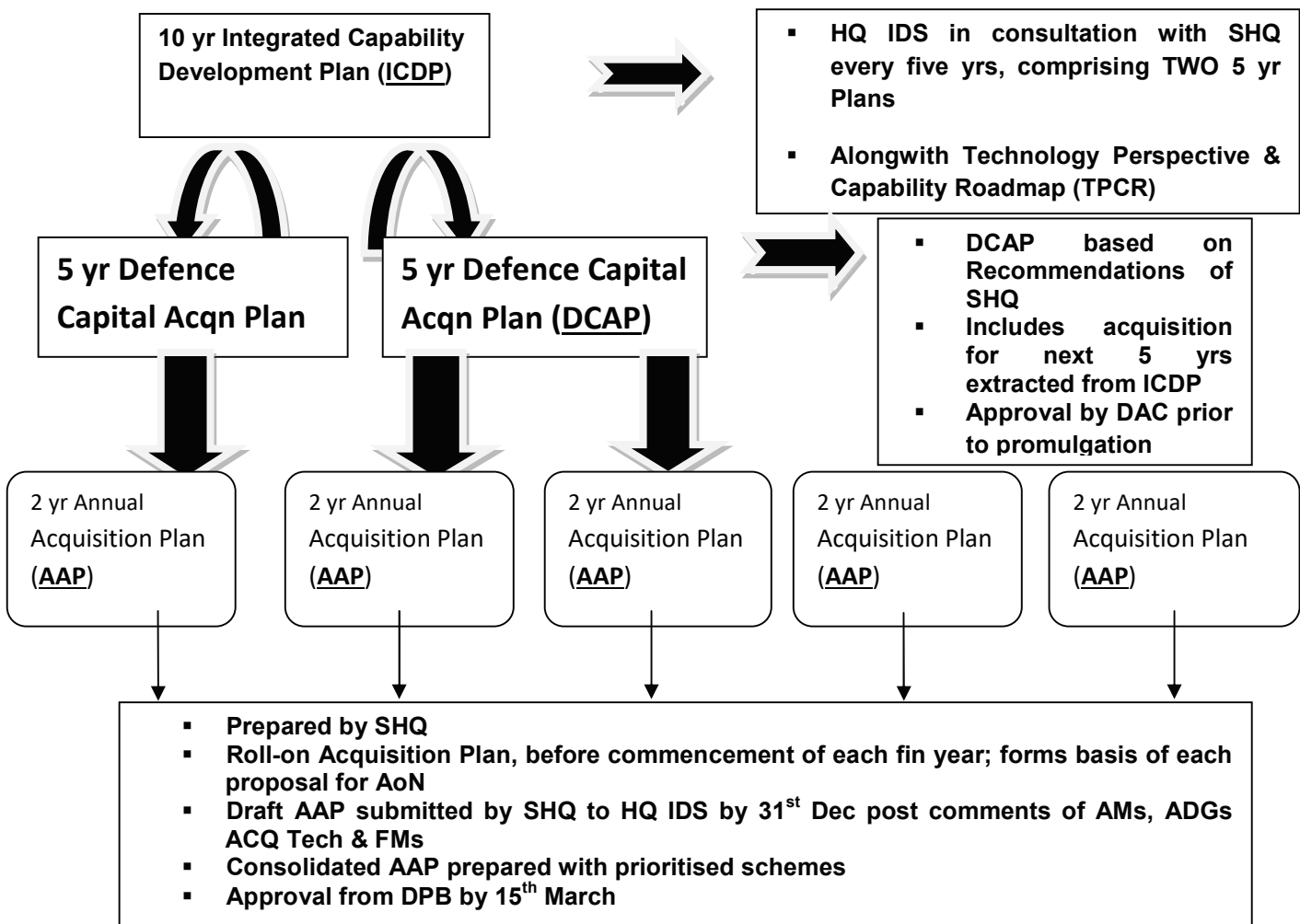
Everchem Asia Pvt. Ltd	Engage exclusively in holding indirect investment in M/s Calimara Matters Pvt Ltd, subject to 74% acquisition of M/s Calimara Matter Ltd by M/s Calibre Chemicals.
- Nil	

CHAPTER – III

DEFENCE PLANNING

3.1 The Committee found that defence planning process, as caters for the current and future modernization needs of the Armed Forces which are in terms of weapon platforms, ammunitions, equipment, infrastructure and manpower. Since this is an exhaustive process involving lot internal and external variables of dynamic nature wherein each factor changing in the domestically or globally could have an impact on country's war preparedness. It is therefore, imperative that the defence planning has to be dynamic and adaptive. Keeping in mind the diverse need of all the three services, Headquarters, Integrated Defence Staff (HQ IDS) had been made as a single point contact to ensure a joint planning for all the three services. HQ IDS has developed system called the Integrated Capability Development System (ICDS) which is a top down iterative process through which the defence planning is carried out. A brief about various level of planning in the form of flowchart is enclosed below:-

ACQUISITION PLANNING PROCESS



3.2 The Committee desired to know the rationale for formulating Defence Five Year Plans. In this regard, the Ministry in written reply stated as under:-

“The 13th Defence Plan was foreclosed in view of the formulation of the new joint capability development process termed as Integrated Capability Development System (ICADS). Notwithstanding, all procurements are being carried out in consonance with the long term requirements which are part of LTIPP (2012-2027). However, actual capital procurements are carried out on the basis of the two-year roll on Annual Acquisition Plan (AAP).

2. Further, Government has set up a Defence Planning Committee (DPC) to facilitate comprehensive and integrated planning for defence matters. The DPC is a permanent body under the chairmanship of the National Security Adviser (NSA). The DPC comprises of the Chairman, Chief of the Staff Committee (COSC), the Service Chiefs, Defence Secretary, Foreign Secretary and Secretary (Expenditure), as members.

3. The DPC analyses and evaluates all relevant inputs relating to defence planning, inter alia, national defence and security priorities, foreign policy imperatives, operational directives and security related doctrines, defence acquisition and infrastructure development plans, including the Long Term Integrated Perspective Plan (LTIPP), defence technology and development of the Indian defence industry and global technological advancements.”

3.3 Giving an overview of the achievements so far made in the Defence Five Year Plans the Ministry in written reply submitted as below:-

“The achievements of the 12th Defence Plan (2012-17), are as follows:-

- (a) **Army:-** 113 AoNs worth Rs. 1,61,363 Crore were accorded and 98 contracts worth Rs. 66,502 Crore were signed.
- (b) **Navy:-** 102 AoNs worth Rs. 1,22,961 Crore were accorded and 96 contracts worth Rs. 75,097 Crore were signed.
- (c) **Air Force:-** 47 AoNs worth Rs. 2,38,376 Crore were accorded and 39 contracts worth Rs. 1,29,199 Crore were signed.’

2. The Capital procurements in terms of contracts signed in the last two years are as follows:-

FY	Total	
	No. of Schemes	Cost
2020-21	43	67,988
2021-22	44	43,585
Total	87	1,11,573

When the Committee inquired about the targets/ projects/activities, if any, which could not be achieved in accordance with the Defence Five year Plans and reasons therefore, the Ministry in a written reply stated as under:-

“Activities included in the Plans proceeded during the Plan period within the available budget allocations. The schemes are reprioritized to ensure that urgent and critical capabilities are acquired without any compromise to operational preparedness of the Defence Services”

3.4 The Ministry was asked to state the projections, allocations, and actual expenditure of each year of the thirteenth Defence Five Year Plan (2017-2022) including the projection for the year 2022-23. In this regard Ministry replied as under:

(₹ in crores)

Year	BE	RE	Actual Expenditure
2017-18	2,59,261.90	2,63,003.85	2,72,559.83
2018-19	2,79,305.32	2,82,100.23	2,87,688.65
2019-20	3,05,296.07	3,16,296.07	3,18,664.58
2020-21	3,23,053.00	3,43,822.00	3,40,093.51
2021-22	3,47,088.28	3,68,418.13	3,66,545.90
2022-23	3,85,370.15	4,09,500.48	2,67,523.08*
2023-24	4,32,720.14		

***up to Dec.2022**

3.5 When Committee sought to know the details about the Long Term Integrated Perspective Planning (LTIPP), which primarily included the 'Capability Development' Plan of the Armed Forces' and is also a perspective planning process that aims to provide an opportunity to the Indian Industry to conceptualise and operationalise defence production, as the technical aspects of the LTIPP were shared with the Industry in the form of Technology Perspective Capability Roadmap (TPCR), the Ministry in written reply informed the Committee as below:-

"The LTIPP, *per se*, was not an Acquisition Plan in itself but it broadly defined the contours for the same, with a view to attain the desired military capabilities.

The LTIPP 2012-27 was prepared for a 15-year period. This period was divided into three Five Year Plans, viz., the XIIth Plan (2012-17), the XIIIth Plan (2017-22) and the XIVth Plan (2022-27). The first subset of LTIPP 2012-27 i.e. the XIIth Defence Plan (2012-17) has already been implemented. The XIIIth Defence Plan (i.e. year 2017-22) had also been approved by the Chairman Chief's of Staff Committee (COSC). However, this entire capability development process was reviewed in accordance with Defence Acquisition Procedure (DAP)-2020 guidelines, and is being replaced with a framework bound mechanism, termed as Integrated Capability Development System (ICADS).

The ICADS model is likely to enhance even greater integration and jointness amongst the Services, besides enlarging the share of indigenisation in the Capability Planning and Acquisition. The ICADS process will entail formulation of ten year prioritized Integrated Capability Development Plan (ICDP), comprising two Defence Capital Acquisition Plans (DCAPs), of five years period each and a two-year roll on Annual Acquisition Plans. This model is being crystallized and post approval of Defence Acquisition Council (DAC), the ICDP will replace LTIPP."

3.6 The Committee were supplied information regarding financial targets of Services/Departments during the financial year 2023-24 in the broad categories which is as follows:

(₹ in crores)

S. No.	Service/ Deptt.	Allocation in BE 2023-24		
		Revenue	Capital	Total
1.	Army	1,81,371.97	34,341.54	2,18,713.51
2.	Navy	32,284.20	52,804.75	85,088.95
3.	Air Force	44,345.58	58,268.71	1,02,614.29
4.	DGOF	426.50	1,315.00	1,741.50
5.	R&D	10,413.89	12,850.00	23,263.89
6.	DGQA	1,278.00	20.00	1,298.00

3.7 When asked to give achievements of the LTIPP so far, the Ministry in written reply submitted as below-

“LTIPP 2012-27 was formulated to encompass three five year plans, i.e. XIIth Defence Plan from 2012-2017, XIIIth Defence Plan from 2017-22 and XIVth Defence Plan from 2022-27. The achievements of the XIIth Defence Plan (2012-17) are as follows:-

- (a) **Army.** For the XIIthPlan period, **113** Acceptance of Necessity (AoN) worth **Rs 1, 61,363 Cr** were accorded and **98** contracts worth **Rs 66,502 Cr** were signed.
- (b) **Navy.** For the XIIthPlan period, **102** AoNs worth **Rs 1,22,961 Cr** were accorded and **96** contracts worth **Rs 75,097 Cr** were signed.
- (c) **Air Force.** For the XIIthPlan period, **47**AoNs worth **Rs 2,38,376 Cr** were accorded and **39** contracts worth **Rs 1,29,199 Cr** were signed.

As highlighted above, the XIIIth Defence Plan was foreclosed in view of the formulation of the new joint capability development process [termed as Integrated Capability Development System (ICADS)]. Notwithstanding, all procurements are still being carried out in consonance with the long term requirements, as envisaged in the LTIPP 2012-27. The capital procurements in terms of contracts signed in the last three years are as follows:-

(₹in crores)

FY	Indian		Global		Total	
	No. of Schemes	Cost (in Crs.)	No. of Schemes	Cost (in Crs.)	No. of Schemes	Cost (In Crs.)
2020-21	32 (74.41%)	66,184 (97.84%)	11 (25.59%)	1804 (2.16%)	43	67,988
2021-22	33 (75%)	29,235 (67.07%)	11 (25%)	14,350 (32.93%)	44	43,585
2022-23	9 (100%)	5496 (100%)	-	-	9	5496
Total	74 (92.41%)	1,00,915 (95.30%)	22 (7.59%)	16154 (4.70%)	96	1,17,069

3.8 The Committee inquired whether the procurement of weapon systems ammunition etc was taken as per the LTIPP and if not reasons thereof and steps taken by the Ministry to ensure that acquisition takes place as per plan. The Ministry in this regard through a written reply stated as below:-

“Majority of the capital acquisitions of the Armed Forces have been as per LTIPP, which as highlighted, articulates the broad framework for acquiring capabilities/ platforms, over a defined period of horizon. However, sometimes certain procurements have been carried out to cater for certain operational emergencies [which are not part of the Annual Acquisition Plan (AAP)], again, after taking due approval of the Defence Acquisition Council, chaired by the Hon’ble Raksha Mantri and subsequently, included in the modified AAP. Again, as underscored above, the future procurements shall be undertaken under the revised ICADS model, consequent to its approval.”

3.9 When asked to furnish details of any long-term plan formulated by the Ministry to meet the requirements of weapons systems, aircrafts, aircraft carriers, critical ammunition for the future, the Ministry of Defence in written reply informed as under:-

“Joint Capability Development Process. In order to meet the future operational imperatives, a Joint Capability Development (JCD) model has been evolved. This framework bound process, aims to make the Capability Development endeavour objective, implementable and acceptable. The process caters for identification/ acquisition of niche technologies to meet the future threats and challenges. It significantly enhances Tri-Services integration in Capability Planning, duly factoring inter-Service prioritisation and optimisation of the capital budget.

As part of this process, it is intended to crystallise of a 10 years Integrated Capability Development Plan (ICDP), five year Defence Capital Acquisition Plan (DCAP) and two-year roll on Annual Acquisition Plan (AAP), as envisaged in DAP 2020.

Furthermore, to cater for the longer horizon period, beyond 10 years, a “Roadmap for Defence Technology Development 2032-47” is being prepared, which would enunciate a clear linkage between capabilities required by the Services in timeline of 2032-47 and methodology for their design, development and induction, in a time bound manner.”

3.10 The Ministry have forwarded following information regarding service-wise position of amount earmarked during previous three years for the Defence Services and the amount spent against the allocation which is given below:

The Service/Department wise position of amount earmarked during previous three years for the Defence Services and the amount spent against the allocation is as under:

(₹ in crores)

Service/ Deptt	Amount Earmarked Final Grant			Amount Spent		
	2019-20	2020-21	2021-22	2019-20	2020-21	2021-22
Army	1,73,405.32	1,70,677.21	1,82,862.81	1,71,530.26	1,66,224.26	1,82,223.00
Navy	48,261.58	64,725.13	69,619.46	49,833.99	64,832.81	68,863.62
Air Force	74,906.18	90,817.31	87,660.98	75,228.54	91,033.18	87,592.64
DGOF	888.33	435.72	8,601.81	3,678.76	1,379.95	8,624.00
R & D	17,730.78	16,145.74	18,720.44	17,375.17	15,706.96	18,291.00
DGQA	1,103.88	1,003.00	952.63	1,017.86	916.35	951.64
Total	3,16,296.07	3,43,804.11	3,68,418.13	3,18,664.58	3,40,093.51	3,66,545.90

3.11 The Committee in their earlier Reports have been recommending the Ministry to adopt measures for foolproof budgetary planning and implementation. Till now, the Five Year Defence Plans have never been got final approval of Ministry of Finance, therefore the Ministry was asked about the steps taken in this regard. Through a written note, the Ministry submitted as under:

“i) The 12th Plan was approved by the Hon'ble RM. M/o Finance, however, did not approve the Plan. While formulating the guidelines for the 13th Defence Plan, it was decided that the Plan may be sent to Ministry of Finance only for information and not for its approval. Accordingly, the Ministry of Finance will be kept informed about the requirements of the Defence Forces in the coming years. The 13th Defence Plan was foreclosed in view of the formulation of the new joint capability development process termed as Integrated Capability Development System (ICADS). Notwithstanding, all procurements are being carried out in consonance with the long term requirements which are part of LTIPP (2012-2027). However, actual capital procurements are carried out on the basis of the two-year roll on Annual Acquisition Plan (AAP).

ii) Further, Government has set up a Defence Planning Committee (DPC) to facilitate comprehensive and integrated planning for defence matters. The DPC is a permanent body under the chairmanship of the National Security Adviser (NSA). The DPC comprises of the Chairman, Chief of the Staff Committee (COSC), the Service Chiefs, Defence Secretary, Foreign Secretary and Secretary (Expenditure), as members.

iii) The DPC analyses and evaluates all relevant inputs relating to defence planning, inter alia, national defence and security priorities, foreign policy imperatives, operational directives and security related doctrines, defence acquisition and infrastructure development plans, including the Long Term Integrated Perspective Plan (LTIPP), defence technology and development of the Indian defence industry and global technological advancements.”

OBSERVATIONS/RECOMMENDATIONS

CAPITAL OUTLAY

Ministry of Defence Budget and Demands for Grants 2023-24: An Overview

The Committee learn that the allocation for the Ministry of Defence is distributed into four grants, which are Demands for Grants viz., Demand No. 19 – Ministry of Defence (Civil), Demand No. 20– Defence Services (Revenue), Demand No. 21 – Capital Outlay on Defence Service and Demand No. 22 – Defence (Pension). They also learn that Demand Nos. 19 and 22 come under Civil/Pension Estimates and Demand Nos. 20 and 21 fall under Defence Services Estimates. The Grant no. 19 is MoD Civil grant which caters to the revenue and capital budget of the following seven organisations:-

- (i) Border Roads Organisation,
- (ii) Coast Guard,
- (iii) Defence Estate,
- (iv) CSD,
- (v) Defence Accounts Department,
- (vi) JKLI, and
- (vii) AFT.

They found that Grant nos. 20 and 21 constitute the Defence Service Estimates comprising the revenue and capital allocation of Army, Navy, Joint Staff including Integrated Defence Staff, Air Force, DRDO and Directorate of Ordnance.

The revenue segment of these organisations is catered through grant no. 20 and capital expenditure of these organisations is allocated through grant no. 21. The fourth grant is the Defence Pension grant which is grant no. 22 and it provides for the pension budget of the Defence Services. The Committee note that the total allocated budget for the Ministry of Defence for Financial Year 2022-23 is ₹ Rs. 5,93,537 crore. The Committee also take note of the fact that in the total Defence Budget as compared to 2022-23, the budgetary estimate for the next financial year registers an increase of 13.02 per cent, which in the opinion of the Committee is a positive step in the right direction. They are happy to note that in absolute terms, the amount of increase is Rs. 68,371.49 crore. The Defence Service estimate has also registered an increase of 12.29 per cent from Rs. 3,85,370 crore to Rs. 4,32,720 crore. The Defence Services estimates at Rs. 4,32,720 crore constitute about 73 per cent of the total Defence Budget.

2. The Committee note that Defence Service estimates distributed over revenue and capital outlay reflected an increase of 12.29 per cent, i.e. Rs. 47,350 crore from Rs. 3,85,000 crore to Rs. 4.33 lakh crore in the current year in comparison to the BE of 2022-23. The capital outlay budget of defence services is bifurcated into capital acquisition and other than capital acquisition with outlays of Rs.1,32,301 and 30,298 crore respectively. The Committee note with satisfaction that the capital budget of defence services has registered an increase of 6.71 per cent from Rs.1.50 lakh crore to Rs.1.62 lakh crore. The capital acquisition expenditure which is also known as the modernisation budget of the defence services – Army, Navy, Air Force and Joint Staff – reflects an increase of 6.34 per cent. In the last five years from 2018-19,

the capital acquisition budget has registered an increase of about 78.5 per cent. In absolute terms, it stands at about Rs.58,185 crore. Other than capital acquisition segment which consists of the land and works expenditure of the armed forces and the capital budget of DRDO, DGQA and Directorate of Ordnance represents an increase of 8.36 per cent.

This also includes an amount of Rs.1310 crore for the modernisation of plants of the newly created seven defence PSUs. The Committee appreciate the persistent efforts made by the Ministry of Defence with the Ministry of Finance at various levels for obtaining this enhanced budgetary allocation and in this regard recommend that the Ministry of Defence would utilize this budget efficiently for developing and acquiring the latest state of the art fighting platforms, which can match prowess of volatile neighbours in the light of current security threats on the frontiers of the country.

The Committee further note that the Ministry could utilize only Rs. 2,67,523.08 crores (upto Dec. 2022) out of RE of Rs. 4,09,500.48 crore in 2022-23 at the time of furnishing the replies to the Committee. The Committee, at this stage would like to be apprised of the reasons as to why only about 65 percent of the grants could be utilized till the completion of the third quarter of the Financial Year. While they are informed of the reasons by the Ministry, they would like also to be apprised within one month of the presentation of this Report as to what are the plans/schemes/channels/trajectory in place for utilizing the remaining 35 percent until the time this Financial Year draws to a close.

The Committee are of the firm view that the complete utilization of the allocated funds would help the armed forces by creating a fleet of officers equipped with advance training and by acquiring latest weaponry, air craft, ships, tanks and other platforms along with optimum capital intensive projects including logistical infrastructure.

3. The Committee are trifle disconcerted to note the figures of allocation made for the financial year 2023-24. The Ministry of Defence, though feel contended with the sanctioned BE allocation which almost matches the projected allocation submitted to the Ministry of Finance. From the information furnished on actual expenditure by the Ministry, the Committee note that in every financial year with an exception for the year 2020-21 the actual expenditure is far greater than the allocation made at RE stage.

In this context the Committee would like to state that at no cost the compromises should be made in regard to the allocations sought to meet the current threat perception of the country. Therefore they recommend that at RE stage Ministry should be consistently pragmatic to seek further allocations to meet all their requirements keeping in mind the realistic assessment of the sought allocations. The Committee, here also recommend that in the backdrop of the security threats from across the borders, Ministry of Defence must ensure best of security equipment and logistical support for the armed forces by optimum

utilization of the funds as sanctioned at any stage whether it be the Budget Estimate or Revised Estimate.

Additional Allocation

4. The Committee are satisfied to note that the allocation made to the Ministry of Defence for the financial year 2023-24 has put forth the Demand of Rs. 37,341.54, 52,804.75 and 58,808.48 for Army, Navy and Air Force respectively under Capital Head and was granted the same by the Ministry of Finance without any deductions. In the light of this fact the Committee would like to reiterate that Ministry of Defence is expected to make prudent use of the funds allocated by prioritising operational preparedness of Defence Forces and the Ministry should ensure optimum utilization of the these funds for developing critical projects and operational activities of the three services. The Committee, therefore, recommend that it is incumbent upon the Ministry to take insightful analysis of the expenditure of the allocated funds during the first two quarters of the ongoing financial year so that in case of need of supplementary grant, timely approval can be obtained from the Ministry of Finance at Revised Estimate stage.

Ratio for Capital and Revenue Outlay

5. The Committee note from the information furnished by the Ministry that capital component of the budget has declined due to which the ratio for Capital and Revenue outlay for the financial year 2022-23 is 62:38, (Revenue: Capital) which

clearly reflects the tilt towards Revenue expenditure as is evident from the shift from the earlier 60:40 ratio. The Ministry attributed this tilt to enhancement provided in terms of the operational and sustenance expenditure, i.e. defence stores including ordnance stores, transportation, operational works etc.—Both Revenue and Capital expenditure play significant roles in operational preparedness of our forces. However, the Committee note with concern that with each passing year, the ratio of Revenue to Capital outlay is tilting towards Revenue component of the Budget which is not withstanding of their recommendations in their earlier Reports. The Committee comprehend that implementation of One Rank One Pension and Seventh Pay Commission would also impacting favor of higher Revenue expenditure but a twisted ratio has a tendency to adversely affect the modernization of forces. In the light of this observation, the Committee, therefore unanimously recommend that the Ministry of Defence along with the armed forces should collaborate to take measures to strike a healthy balance between the Capital and Revenue in respect of all three armed forces without compromising on the operational expenditure of the forces.

Modernization of Defence Forces

6. The Committee were apprised that Union Budget 2023 gave impetus to modernisation and infrastructure development for armed forces as a result of which capital allocation of the services has been increased to Rs.1,62,600 crore, i.e. a jump of Rs.10,230 crore, which is 6.7 per cent over the financial year 2022-23 and since 2018-19 this has increased Rs.68,618 crore which is 73 per cent rise in last five years. This is a reflection of Government's commitment towards sustainable

augmentation of modernisation and infrastructure development. The equipment requirements of the Armed Forces are planned and progressed through a detailed process which includes 15 Year Long Term Integrated Perspective Plan (LTIPP), a five year Service-wise Capability Acquisition Plan, a two year roll-on Annual Acquisition Plan and deliberations by the Defence Acquisition Council. The Committee note that an overview of the BE, RE and AE on Modernization for capital acquisition since 2018-19 shows that Actual Expenditure incurred has been by and large more than the allocated funds even-after RE Stage. Although the Ministry has utilized Rs 67,020.99 crore out of BE of Rs. 1,24,408.64 crore in 2022-23 by December, 2022, the Committee recommend that the target of full utilization of funds must be achieved by the Ministry under this head by the end of current financial year 2022-23.

7. The Committee note that modernization of Armed Forces through procurement of new equipment and upgrading of existing equipments and systems is a continuous process which are progressed as per the approved Capital Acquisition plans, therefore, in this regard, the Committee recommend that enhanced and adequate budgetary allocation should be made under Capital Head for modernization purpose as and when demanded so that the procurement and upgrading procedures be carried out without any restraint of funds.

Inflation

8. The Committee were apprise that the total budget allocation for Ministry of Defence for the financial year 2023-24 is Rs. 5,93,537.64 crore which is an increase of 13.03 per cent and in absolute terms amounts to 68,371.49 crore. Subsequently, there has been an increase of 12.29 per cent in the Defence Service estimate. In particular the capital budget has been raised from Rs 1.50 lakh crore to Rs 1.62 lakh crore which is about 6.71 per cent increase over the previous financial year. On closer examination of the allocations, the Committee find that on comparing the RE for the year 2022-23 which is 4,09,500.48 crores to the BE of the financial year 2023-24, the Committee discern that the actual rise was less than 5 per cent. Keeping in mind of inflation of about 6 per cent (for calendar year 2022), this rise as projected by the Ministry of Defence tends to decline further. Most of our defence purchases are transacted in dollars, depreciation of rupees against dollar has also to be factored in calculating the actual rise in the financial sanction vis-à-vis previous financial year. The Committee acknowledges the notional jump in the capital outlay meant for modernization of armed forces, nevertheless they would like to recommend that the funds provided must be utilized in such a manner as to give actual boost in modernizing our forces. Therefore, the Committee is of the considered view that the Ministry of Defence while submitting its demands for grants to the Ministry of Finance needs to have more holistic approach by considering tangibles as well as non-tangible factors so that avant-garde

equipments and infrastructure is available to all the wings of armed forces and threat perception at the borders of our nation is completely neutralized.

Committed Liabilities and New Schemes

9. Committed Liability refers to payments anticipated during a financial year in respect of contracts concluded in previous years. Under the Defence Services Estimates, Committed Liabilities constitute a significant element in respect of the Capital acquisition segment, since one project may span over several financial years. As such, it is important to track the element of Committed Liabilities that hold first charge on the budget allocation. New Schemes include new projects/proposals, which are at various stages of approval and are likely to be implemented in near future. The Committee learnt that in the Defence Services Estimates, there is no separate allocation and these are catered through Capital Acquisition (Modernization) budget. During the deliberations with the representatives of the Ministry of Defence, the Committee were also informed that though the allocations received are not as per projections made, however, based on expenditure during the year and pending committed liabilities, if required, additional funds will be sought at Supplementary/RE stage. In this regard, the Committee in unequivocal terms recommend that if required, through reprioritization, it must be ensured that urgent and critical capabilities are acquired without any compromise to operational preparedness of the Defence Services. The Committee also recommend that if the need is felt the allocations may be revised in regard to Committed Liabilities and New Schemes.

10. The Committee infer from the information furnished by the Ministry that actual expenditure incurred since last five years exceeded the financial allocation granted. In 2018-19, the RE allocation was 73,882.95 whereas actual expenditure incurred was 75,892.85. Similarly in 2020-21, the allocation amounted to 1,14,320.30 and expenditure incurred for that financial year was 1,18,966.44. Further, the reduced allocation in committed payments may lead to possibility of additional interest and unwanted litigation thereby hampering the process of modernization of forces as funds for Committed Liabilities, as informed by the Ministry is catered through Capital Acquisition (Modernization) budget. Therefore, the Committee recommend that adequate allocations should be made for Committed Liabilities and New Schemes in order to ensure that the modernization process of the Defence Forces is not interrupted for shortage of funds.

Defence Procurement Policy

The policy for procurement of defence equipment for the Armed Forces aims to develop the capability of the armed forces and by meeting the security and operational needs; procuring equipment with contemporary technology because the technology is changing very fast, in a very time bound manner for modernisation of the armed forces; and in the process creating a climate in which Indian defence industry can thrive. Simultaneously, it also envisages to make India self-reliant in defence equipment production with the ultimate aim to develop India as a global defence manufacturing hub. The policy is implemented through the

mechanism of Defence Procurement Procedure (DPP). The Committee also find that the Defence Procurement Procedure 2016 has been revised as Defence Acquisition Procedure 2020 which is driven by the tenets of Defence Reforms announced as part of Aatmanirbhar Bharat Abhiyan. In order to promote indigenous design and development of defence equipment 'Buy {Indian-IDD (Indigenously Designed, Developed and Manufactured))}' category which was introduced in 2016 and was accorded top most priority for procurement of capital equipment, has been retained in DAP 2020. The Committee were also informed that Ministry of Defence has notified a second positive Indigenization List comprising 108 items for which there would be an interim embargo on the import. Some special features, which have been included in the DAP 2020 are special chapters on Information and Communication Technology since this being the latest requiring more security, ruggedness as well as technological obsolescence in a faster timeframe.

11. The Committee were informed by the Ministry that the last Defence Procurement Manual (DPM) came out in 2016 and is presently under revision to incorporate the latest orders and other developments. The Ministry in its submission has stated that it has been revised nine times during last 11 years and due to diversity of our geographical terrain the procurement manual has to cater for all eventualities. Though the Committee take cognizance of the fact that the requirements of each of the armed forces are very complex yet the Committee expect that the Ministry to accelerate the revision of Manual on Defence Acquisition Procedure as this will not only put the procedure for procuring fast track the arms, ammunition and defence equipment in fast lane and but also propel the country

towards self-reliance. Hence, the Committee recommend that time bound and determined efforts must be made by all the stakeholders involved in the process of procurement such as the Ministry, DPSUs the Armed Forces and private sector as this is vital for realization of the goal of self-reliance in Defence Sector.

12. The Committee note from the information furnished by the Ministry that procurement of defence equipment is a long drawn and exhaustive process. As per the Ministry of Defence the final purchase of equipments comes about in 74-106 Weeks/19-26 Months, which according to the Committee is a much stretched period of time in terms of strategic risks involved. The Committee is of the view that with high level of dynamism in the field of technology such a long timeline can result in technology becoming obsolete and redundant hence directly having adverse impact on the security of the country. Furthermore, the dynamism of international geopolitics relations can also threaten the acquisition through traditional channels and allies which is evident in the recent Russo-Ukraine War. Therefore, in the wake of dynamism exhibited in terms of technological development and global relations, the Committee recommend that Ministry should try to identify ways in which the defence equipment acquisition can be accelerated without compromising on the transparency and accountability of the process. This would not only help in empowering our forces but will also act as deterrent for hostile countries. The Committee may be apprised of the action taken in this regard.

Accountability and Transparency in Defence Procurement

13. The Committee note that for ensuring accountability and transparency in Defence Procurement cases, the Ministry has taken various measures like interactive policy reviews with Indian defence industry, use of certification, simulation, visibility of Capability Development Plan to Indian Defence Ecosystem, hosting of policy changes, AoNs, RFI, etc on MoD website, etc. The Committee appreciate the steps taken by the Ministry for ensuring accountability and transparency in the Defence Sector but would also recommend the need to warrant that all the measures/steps taken are implemented stringently at all levels and a robust monitoring mechanism must be formulated for ensuring fair and timely procurement of weapon systems. At the later stage the Committee may also be apprised of the number of cases, if any, when persons were found guilty after implementation of guidelines.

14. The Committee note that to ensure level-playing field for private defence industry vis-à-vis the DPSUs, various measures like enhanced opportunities through DND categories which have been given to the private industry since the Ordinance Factory Board (OFB) has been corporatized, there are seven DPSUs which have been added, and there has been a parity in securities and payment terms between the DPSUs and bank guarantees which were earlier five to ten per cent were reduced to three per cent and they remain at three per cent as on today. The Committee applaud the initiatives taken to attract the private enterprisers in the defence sector but there is still a lot more to be done in this direction. Amongst the private players in defence sector, the Committee prescribe that the Ministry should try to encourage indigenous private enterprises instead of foreign conglomerates.

Considering long and arduous gestation period in defence manufacturing sector, the Committee would recommend the Ministry to enhance capital buoyancy and bolster design and research assistance for indigenous players in order to create vibrant indigenous private defence manufacturing hub which is also the essence of the Atma Nirbhar Bharat program. The Committee would also like to point that existence of flourishing private defence sector would necessitate the need for articulated design and patent laws synchronised with the unique needs of defence manufacturing sector. The Committee therefore, would recommend that the Ministry must proactively formulate stringent design and patent laws to curtail any breach of security of the country.

Increasing Dependence on Foreign Suppliers for Military Hardware

15. The Capital procurement of Defence equipment from Indian and foreign vendors is carried out as per provisions of the Defence Procurement Procedure. Defence equipment is being imported from various countries as per the operational requirements of Armed Forces. The Committee have been informed that during the current Financial year 2022-23 (up to December, 2022), total 264 capital acquisition contracts have been signed for capital procurement of defence equipment for Armed forces, out of which 88 contracts worth about 36.26% of total contracts value, have been signed with vendors from foreign countries including Russia, USA, Israel, France etc for capital procurement of defence equipment. The Committee also note that value of imports from 2017-18 to 2021-22 in r/o DPSUs and erstwhile OFs is Rs 68871.4 Crores approximately. The Committee note that import

content for equipments manufactured by DPSUs is substantially high. Since our Defence Public Sector Undertakings (DPSUs) and Ordnance Factories Board (OFB) are the backbone of indigenous Defence production and are also flag bearers of indigenization programme in defence production. However, they are still very far from becoming self-sufficient in defence production, which is evident by considerable value of imports in manufacturing various equipments and systems being developed by them. Therefore, the Committee recommend that is imperative now that DPSUs and OFB took urgent and concerted steps to make India self-reliant in Defence production.

16. Committee further note that although the procurement from foreign vendors is far less than their Indian counterparts, still the value of imports has been constantly increasing consistently since 2017-18 for all the three wings of the armed forces for example like in the case of Air Force, the expenditure incurred on purchase of defence equipment from foreign sources has risen from 24,570.18 crore in 2020-21 to 25,424.98 crore in 2021-22. The Committee, therefore, recommend that Ministry to devise ways and means for Directorate of Ordnance (Coordination and Services) – New DPSUs, DPSUs, DRDO and Private Industries to work in congruence to manufacture equipments/devices with not only enhance import substitution potential of indigenous products but also to bolster their export potential so that the country can transform from being largest importer to a distinguishable exporter of defence equipment.

17. The Committee note that as reported by several reports that 84.3 per cent of the major conventional arms procured by India in 2016-20 were of foreign origin, of which licensed production accounted for 57.8 per cent which evidently reflects high dependency of armed forces on foreign sources. The Committee believe that this dependency needs to be curtailed by incentivizing indigenization more vigorously and imploring them to become global exporters. Thus, the Committee recommend that the Ministry of Defence encourage domestic industry-friendly environment by means of relaxation/concessions at various levels with an aim to facilitate growth of local companies thereby leading to holistic development of not only our country but also simultaneously catering to the security needs of the friendly countries which is in alignment with our vision of 'Make in India, Make for the World'.

Self Reliance and Make in India

18. The Committee note that the 'Make in India' initiative of the Government is devised to transform India into a global design and manufacturing hub. 'Make in India' in defence sector is primarily driven by providing preference to procurement from Indian vendors under the Defence Procurement Procedure (DPP), promoting indigenous design, development and manufacture of defence equipment, and other policy measures such as simplification of Make procedure, introduction of simplified procedure for Make II sub-category, liberalization of the licensing regime and FDI policy by raising the cap on FDI in the defence sector, simplification of export procedure, streamlining of defence offset guidelines, creation of level playing field between public and private sector, formulation of outsourcing and

vendor development guidelines, setting up of 'Technology Development Fund' to public and private sector industry especially Medium, Small and Micro Enterprises (MSME) etc. The budget allocation is made for the total acquisition of defence equipment requirements of the Services. The proposals for capital acquisition in Defence Procurement Procedure (DPP) are categorized as 'Buy (Indian-IDDM)', 'Buy (Indian)', 'Buy and Make (Indian)' & 'Buy and Make' with preference over 'Buy (Global)' category, to make the country self-reliant in defence production after deliberations in various Committees such as SPB/ DPB/ DAC. For this, Ministry of Defence has earmarked about 68% per cent of its modernization funds amounting to Rs. 84,597.89 crore under capital acquisition budget for 2022-23 for procurement from domestic industries. In financial year 2023-24, at the BE stage, 75 per cent allocation of the Defence Budget has been kept for domestic procurement along with, Rs 1231.62 crore has been allocated for prototype development under MAKE projects wherein the industry will be taking part. The Committee acknowledge that although a sizable allocation of budget has been earmarked for procurement from domestic industries yet the Ministry of Defence does not have clear strategy in place about utilizing the funds reserved for indigenization as DPSUs and erstwhile OFs are still importing defence equipment worth Rs. 68871.4 crores approximately. The Committee, therefore recommend that Ministry should explore more effective ways to utilize the full allocated funds in the current financial year 2023-24. The Committee further recommend that the Ministry should make exhaustive efforts to set up proper co-ordination between, Armed Forces, DPSUs and all other stakeholders so as to escalate production under Make in India categories. Subsequently, at the Action Taken stage the Committee may be apprised of the

details of utilization of funds out of Rs. 84,597.89 crore earmarked for domestic industries in 2022-23.

Offset Clause

The Committee note that the Offsets under Defence Capital Acquisition were introduced in the Defence Procurement Procedure (DPP) in 2005 based on the recommendation of Kelkar Committee. The Offset guidelines in DPP have been amended 6 times thereafter. As per Defence Acquisition Procedure (DAP 2020) offset provisions are applicable only on “Buy Global” categories of capital acquisitions. They apply in capital acquisition contracts which are more than Rs. 2,000 crore. However, the offsets are not applicable to procurements under “Fast Track Procedure” and in “Option Clause” cases if the same was not envisaged in the original contract. Further no offsets will be applicable in all ab-initio Single Vendor Cases including procurements based on Inter Governmental Agreements/Foreign Military Sales (IGA/FMS) and the offset applicability on Indian companies under ‘Buy Global’ cases do not arise in case the indigenization component is 30% or more. The Committee also note that offset contracts are co-terminus with the main procurement contract and signed along with the main procurement contract after approval of Competent Financial Authority (CFA) and the period of offset discharge can be extended on exceptional ground by a maximum period of two years. Further the DAP stipulates eligible products/services for discharge of offset obligations which covers defence products and Maintenance, Repair and Operations (MRO) related to helicopters and aircrafts.

Though the responsibility for fulfillment of offsets obligations lies with the main vendor, however, the vendor is permitted to discharge his obligations through Tier 1 sub-vendors based on their work share. In case of investment and/or transfer of technology the offset discharge can be permitted by entities other than vendor/Tier-I Sub-vendor on case to case basis and the vendors are free to select their Indian Offset Partners (IOP) from DPSU/OFB/DRDO/Private Industry. The Offset Policy further allows vendors to submit offset details at later stage after signing of the contract i.e. either at the time of seeking offset credits or one year prior to discharge of offset obligations.

19. The Committee are given to understand that the vendors have been expressing difficulties in providing the details of Indian offset partners, products and work share along with supporting documents in the technical offset proposal as per offset guidelines at Technical Offset Evaluation Committee (TOEC) stage, sighting that these activities would be undertaken number of years later which would then cause seeking changes to the contract. Another major challenge towards post contract management had been timely and meaningful disposal of contract amendment requests received from the vendors for change of IOP/Product etc. The resolution of these issues have been catered for by introducing an amendment to the offset guidelines with the approval of Defence Acquisition Council, whereby vendors have been given an option to provide details of IOPs and products even after signing of contracts, thereby making it more realistic. The Committee is worried that several incidents on non-fulfillment offset agreement by Original Equipment Manufacturers (OEMs) could be hamper the growth of defence

research and development sector of our country. The reply given by the Ministry in this regard is inconclusive. Although the Committee appreciate the fact that the process for contract amendment has been made flexible by allowing change of Indian Offset Partners (IOPs) and offset components, for the signed contracts yet there is scope for the Ministry to strive further towards effective implementation of offset guidelines based on the feedback received from the vendors at the grass-root level. Therefore, the Committee recommend that Ministry of Defence play more proactive role in selection of offset partners since the inception of such agreement in order to avert any kind of breach of offset agreement at any level. Furthermore, the Committee is in total concurrence that the success of indigenization of defence sector is adhered to fulfillment of offset agreement in toto. Additionally, therefore the Committee recommend that Ministry should work out a mechanism to ensure that all the offset agreements are implemented thoroughly at all level to give momentum to indigenization programmes. The violators of offset agreement may be penalized appropriately keeping the security perception in mind. The Committee may be apprised of the action taken in this regard.

Foreign Direct Investment

20. The Committee note the Government has reviewed the Foreign Direct Investment (FDI) policy in Defence Sector in September 2020 thereby allowing FDI under Automatic Route up to 74% and beyond 74% through Government Route wherever it is likely to result in access to Modern technology or for other reasons to be recorded. The Committee note that this FDI limit was increased from 49% to

74% to ensure that it will come along with the technology also and the FDI limit has also been made attractive enough as it facilitate up to 100% through Government Route. So far, till October, 2022 FDI inflows of over Rs 4814 crores have been reported in the defence and aerospace sector. Further, FDI inflows of over Rs 3432 crores have been reported in defence and aerospace sector since 2014 till October, 2022. Further, till date, 45 JVs/companies have been given foreign investment approvals in Defence sector. The Committee are of the considered view that the Ministry should ensure that despite raising the limits of FDI to as high as 74%, the purpose of self reliance should not be hampered. Furthermore, the Committee note that current FDI policy facilitate up to 100 per cent by Government route wherever, it is likely to result in access to modern technology or for other reasons to be recorded. The Ministry also submitted that consequently increasing FDI through automatic route to 100 per cent will nullify the ownership of domestic partner. The Committee, therefore, recommend that in addition to the measures taken for making FDI more attractive, focused efforts may be undertaken by the Ministry to strengthen indigenous R&D base of the country and increase coordination between the public and private sector within the country, so that the indigenous defence sector is encouraged to develop and manufacture technologies/systems/accessories independently which are presently being acquired through the FDI route.

DEFENCE PLANNING

The Committee note that the Defence Five Year Plans are formulated to elaborate the necessary steps to maintain and augment defence capabilities, Long Term Perspective Planning and the current threat perception. These plans help to estimate the outlay required to achieve the objectives of each of the armed forces in a planned manner. The Committee further note that under these Five Year Plans operational activities are carried out within the available budget allocations. For optimal and full utilization of allocated funds the schemes are reprioritized to ensure that urgent and critical capabilities are acquired without any compromise to operational preparedness of the Defence Forces.

Approval from Ministry of Finance

21. The Committee note that Defence Five Year Plans serve as a medium to bridge the gap between the exigencies of the armed forces within the limits of annual budgetary allocation as sanctioned by the Ministry of Finance (MoF). The Committee also discern that Government has set up a Defence Planning Committee under the Thirteenth Defence Plan (2017-22), to synergies not just the long term plan for amelioration of defence forces but to also evaluate security priorities, foreign policy imperatives, changing dynamics of balance of power at the global level. The Committee note the fact that in spite of being a document of significance the Ministry is yet to get approval by the Ministry of Finance. The Committee note

that the Defence Plan for a considerable duration has been awaiting approval of Ministry of Finance. Although non-approval of the Defence Plan did not impede the implementation of Defence projects at this juncture the Committee would like to reiterate that obtaining the consent of the Ministry of Finance must be the Ministry of Defence's utmost prerogative. Hence, the Committee recommend that the Ministry of Defence should, as a matter of priority seek the necessary approval in a time bound manner. The Committee may be apprised of the action taken in this regard.

Long Term Integrated Perspective Plan (LTIPP)

22. The Headquarters Integrated Defence Staff (HQIDS), is a single point of contact to ensure joint planning for all the wings of armed forces catering to diverse needs of all the three forces. As apprised by the Ministry, Long Term Integrated Perspective Plan (LTIPP) presently, is in LTIPP 2012-2027 and has been approved by the Defence Acquisition Council. All the proposals for acquisition of Capital Assets flow out from the defence procurement planning process which covers the 15 year LTIPP, 5 year Services Capital Acquisition Plan (SCAP) and Annual Acquisition Plan (AAP). As per the Ministry, the procurement cases included in the AAP are progressed as per DPP till finalization by signing of contracts/placement of indent. The Committee have been apprised that so far Rs. 1,00,915 (95.30%) and Rs. 16154 (4.70%) capital procurement in terms of contracts have been signed in last three years at the local and global level respectively. The

vast majority of the capital acquisitions of the Armed Forces have been as per LTIPP, which as informed by the Ministry, forms a broad framework for the acquisition of capabilities/ platforms, over a defined period of time. The Committee note that certain procurements that have been carried out to cater for certain operational emergencies [which are not part of the Annual Acquisition Plan (AAP)], again, after taking due approval of the Defence Acquisition Council and subsequently, included in the modified AAP. However, the Committee understand the strategic risk and urgency in acquiring modern weaponry but is also of the considered view that practice of seeking ex post facto approval should be limited to exceptional cases and should not become a norm when it comes to arms or equipment acquisition. In the wake of above observations, the Committee would urge the Ministry of Defence to encourage all the wings of armed forces to make the future procurements as per revised ICADS model, by seeking prior approval. Hence, the Committee recommend that defence planning needs to be more prescient in chalking out its acquisition strategy and must avoid any procedural delay at all the levels.

23. The Committee after scrutinizing through the data furnished by the Ministry regarding the BE, RE and Actual Expenditure under the year-wise allocation in the Thirteenth Defence Plan from 2018-19 to 2022-23 note that funds allocated in 2020-21 and 2021-22 at the RE stage was not fully utilized by the Ministry. In 2020-21, the expenditure incurred was Rs. 3,40,093.51 crore which was evidently less than the budgetary allocations of Rs. 3,43,822.00 crore. The Committee understand that the less utilization might have been due to less expenditure incurred by various

Services/Organizations due to Covid-19 situation prevailing in the country. The Committee further find that in 2021-22 the Ministry received Rs. 3,68,418.13 crore and utilized Rs. 3,66,545.90 crore. For the current financial year of 2022-23, out of the budgetary allocation of Rs. 4,09,500.48 crore the Ministry had been able to utilize only Rs 2,67,523.08 crore in first two quarters of the financial year 2022-23. The Committee believe the idea underlying the concept of planning is to disseminate the expenses of the armed forces in the most efficient manner in order to avoid any inadvertent delay or haste in decision making process. In this regard, the Committee recommend that the Ministry of Defence make concerted and coordinated efforts with each of the armed forces to ensure that funds are fully utilized in a balanced manner by all service wings and within the time frame of financial year 2022-23. The Committee would like to be apprised of the figures of the amount allocated to the Ministry against their projections in 2023-24.

New Delhi;
17 March, 2023
26 Phalguna, 1944 (Saka)

JUAL ORAM
Chairperson
Standing Committee on Defence

STANDING COMMITTEE ON DEFENCE (2022-23)

**MINUTES OF THE FOURTH SITTING OF THE STANDING COMMITTEE ON
DEFENCE (2022-23)**

The Committee sat on Monday, the 20th February, 2023 from 1100 hrs to 1800 hrs in Main Committee Room, Parliament House Annexe, New Delhi.

PRESENT

SHRI JUAL ORAM

–

CHAIRPERSON

MEMBERS

Lok Sabha

2. Shri Devaragunda Venkappa Sadananda Gowda
3. Choudhary Mehboob Ali Kaiser
4. Shri Rattan Lal Kataria
5. Kunwar Danish Ali
6. Shri Reddeppa Nallakonda Gari
7. Shri Uttam Kumar Reddy Nalamada
8. Shri Brijendra Singh

Rajya Sabha

9. Dr. Ashok Bajpai
10. Shri Prem Chand Gupta
11. Shri Sushil Kumar Gupta
12. Smt. P.T. Usha
13. Shri G.K. Vasani
14. Lt. Gen. (Dr.) D. P. Vats (Retd.)

SECRETARIAT

- | | | | |
|----|--------------------|---|------------------|
| 1. | Smt. Suman Arora | - | Joint Secretary |
| 2. | Dr. Sanjeev Sharma | - | Director |
| 3. | Shri Rahul Singh | - | Deputy Secretary |

LIST OF WITNESSES

MINISTRY OF DEFENCE

S. No.	Name	Designation
General Defence Budget		
1.	Shri Giridhar Aramane	Defence Secretary
2.	Lt Gen BS Raju	VCOAS
3.	Ms. Nivedita Shukla Verma	Special Secretary
4.	Ms. Rasika Chaube	FA(DS)
5.	Ms. Dipti Mohil Chawla	Additional Secretary/DoD
6.	Lt Gen Rajinder Dewan	QMG
7.	Lt Gen Samir Gupta	DG FP
8.	Lt Gen MV Suchindra Kumar	DCOAS (Strat)
9.	Lt Gen Manjinder Singh	DCIDS (PP &FD)
10.	Lt Gen JB Chaudhari	DCOAS (CD&S)
11.	Lt Gen C Bansi Ponnappa	Adjutant General
12.	Lt Gen Arvind Walia	E-in-C
13.	Lt Gen CP Cariappa	MGS
14.	Lt Gen V Sreehari	DG (MP & PS)
15.	Lt Gen. Vineet Gaur	DG CD
16.	Air Mshl BR Krishna	CISC
17.	AVM M Mehra	ACAS Fin(P)
18.	AVM H Bains	JS (Air) & JS(Navy)
19.	Sh. D.K Rai	JS(Plg./Parl) & Estt.
20.	Maj Gen k Narayanan	JS (Army & TA)
21.	Sh. Rajesh Sharma	Addl. FA (RS) & JS

- | | | |
|-----|------------------------------|------------------|
| 22. | R Adm Dalbir S Gujral | ACIDS (FP & ADM) |
| 23. | Rear Admiral CR Praveen Nair | ACNS (P&P) |
| 24. | Maj Gen Bikramdeep Singh | ADG FP |
| 25. | Brig Ajay Katoch | Brig SP(Plans) |

Defence Public Sector Undertaking

- | | | |
|-----|-------------------------------|---------------------------|
| 1. | Shri Giridhar Aramane | Defence Secretary |
| 2. | Ms. Rasika Chaube | FA(DS) |
| 3. | Shri T Natarajan | Additional Secretary (DP) |
| 4. | Ms. Dipti Mohil Chawla | Additional Secretary/DoD |
| 5. | Shri Shalabh Tyagi | JS(P&C) |
| 6. | Shri Rajeev Prakash | JS (NS) |
| 7. | Shri Jayant Kumar | JS(Aero) |
| 8. | Shri Anurag Bajpai | JS (DIP) |
| 9. | Shri Surendra Prasad Yadav | JS(LS) |
| 10. | Cmde Siddharth Mishra (Retd) | CMD, BDL |
| 11. | Shri C B Anantha Krishnan | CMD, HAL |
| 12. | Shri Bhanu Prakash Srivastava | CMD, BEL |
| 13. | Cmde Hemant Khatri | CMD, HSL |
| 14. | Shri Amit Banerjee | CMD, BEML |
| 15. | Shri Brajesh Kumar Upadhyay | CMD, GSL |
| 16. | CMDE PR Hari | CMD, GRSE |
| 17. | Dr. S K Jha | CMD, MIDHANI |
| 18. | Shri Sanjeev Singhal | CMD, MDL |
| 19. | Sh. P.Radhakrishna | Director (Production) |
| 20. | Cmdt Rajeev Panhotra | AGM (GSL) |

Directorate General of Defence Estate

- | | | |
|----|---------------------------|--------------------------|
| 1. | Ms. Rasika Chaube | FA(DS) |
| 2. | Lt Gen Adosh Kumar | DG LW&E |
| 3. | Ms. Nivedita Shukla Verma | Special Secretary |
| 4. | Ms. Dipti Mohil Chawla | Additional Secretary/DoD |
| 5. | Sh. Rajesh Sharma | Addl. FA (RS) & JS |
| 6. | Shri Rakesh Mittal | JS (L & W / SS) |

7.	Sh. Ajay Kumar Sharma	DGDE
8.	Ms. Sonam Yangdol	Addl DG
9.	Maj Gen Rajdeep Singh Rawal	ADG LW&E
10.	Ms. Sharmistha Maitra	Director (Lands)
11.	Sh. Valeti Premchand	Addl DG
12.	Ms Nigar Fatima	Addl DG
13.	Ms. Vibha Sharma	Addl DG
14.	Sh. Amit Kumar	DDG
15.	Sh. Abhishek Azad	Asst DG
16.	Sh. Vijay Malhotra	Director(Q&C/Works)

Border Roads Organisation

1.	Ms. Rasika Chaube	FA(DS)
2.	Lt Gen Rajeev Chaudhary	DGBR
3.	Lt Gen Arvind Walia	E-in-C
4.	Dr Ajay Kumar	JS(BR)
5.	Sh. Rajesh Sharma	Addl. FA (RS) & JS
6.	Ms. Nivedita Shukla Verma	Special Secretary
7.	Sh. Pankaj Agarwal	DG(Acq)
8.	Ms. Dipti Mohil Chawla	Additional Secretary/DoD

Coast Guard Organisation

- | | | |
|----|------------------------|-----------------------------|
| 1. | Ms. Rasika Chaube | FA(DS) |
| 2. | Ms. Dipti Mohil Chawla | Additional Secretary/DoD |
| 3. | Sh. Rajesh Sharma | Addl. FA (RS) & JS |
| 4. | Sh. Manish Tripathi | JS(AF/Policy) |
| 5. | ADG Rakesh Pal | ADG CG & Addl Charge DG ICG |

Navy & Joint Staff

- | | | |
|-----|--------------------------------|--------------------------|
| 1. | Ms. Rasika Chaube | FA(DS) |
| 2. | Lt Gen BS Raju | VCOAS |
| 3. | Vice Admiral SN Ghormade | VCNS |
| 4. | Vice Admiral Dinesh K Tripathi | COP |
| 5. | Lt Gen Manjinder Singh | DCIDS |
| 6. | Air Mshl BR Krishna | CISC |
| 7. | Ms. Dipti Mohil Chawla | Additional Secretary/DoD |
| 8. | AVM H Bains | JS (Navy) |
| 9. | R Adm Dalbir S Gujral | ACIDS |
| 10. | R Adm Kapil Mohan Dhir | Senior Advisor/DMA |
| 11. | R Adm CR Praveen Nair | ACNS (P&P) |
| 12. | Sh. Rajesh Sharma | Addl. FA (RS) & JS |

2. At the outset, the Chairperson welcomed the Members of the Committee and informed them of the agenda for the Sitting i.e. oral evidence of the representatives of Ministry of Defence in connection with examination of Demands for Grants for the year 2023-24.

3. Thereafter, the Chairperson welcomed the Defence Secretary, representatives of the Armed Forces and the Ministry of Defence to the Sitting of the Committee convened to deliberate on various aspects relating to Demands for Grants of the Ministry of Defence for the year 2023-24.

4. The Chairperson informed all the agenda for the Sitting i.e. oral evidence of the representatives of Ministry of Defence in connection with examination of Demands for

Grants for the year 2023-24 on the subjects 'General Defence Budget, Capital Outlay on Defence Services, Department of Military Affairs (DMA), Ministry of Defence (Civil), Defence Public Sector Undertakings (DPSUs), Directorate General Defence Estate (DGDE), Border Roads Organization (BRO), Coast Guard Organisation (CGO), Navy and Joint Staff' and requested the representatives of the Ministry of Defence to brief the Committee on various issues included in the agenda for the day. He also drew their attention to Direction 55(1) of the Directions by the Speaker, Lok Sabha stipulating that the discussions in the Sitting are to be treated as confidential and are not to be made public till the Report of the Committee on the subject is presented to Parliament.

5. The Defence Secretary initiated the discussion by giving an overview of Defence Services Estimates and other Demands for Grants of the Ministry of Defence for 2023-24. The highlights of the brief given by the Defence Secretary are as under:

- i. Enhancement of Rs. 68,371 crore i.e. 13 percent in total Defence Budget compared to allocation in Budget 2022-23; and
- ii. Unprecedented 44 percent jump in non-salary revenue allocation in 2023-24.

6. Then, a Power Point Presentation on General Defence Budget was made before the Committee. This was followed by detailed deliberations on the following issues:

- i. Increase in Defence allocation to meet actual requirement keeping in view current security scenario;
- ii. Planning for upgradation and modernisation of conventional arms and ammunition taking into account emerging and evolving technologies of warfare;
- iii. Allocation for Research & Development and Defence Research and Development Organisation (DRDO) in 2023-24;
- iv. Timely procurement of equipment, arms and ammunition for the Armed Forces;
- v. Increase in Defence budget for 2023-24 taking into account Revised Estimates 2022-23, inflation and depreciation of the rupee compared to dollar;
- vi. Savings and effect on pensionary liabilities on account of implementation of Agneepath scheme;

- vii. Strategy for achieving complete indigenization and self-reliance in Defence sector;
- viii. Need for increase in recruitment of manpower for Armed Forces;
- ix. Defence Budget as percentage of Gross domestic Product (GDP);
- x. Creation of non-lapsable Defence Modernisation Fund;
- xi. Share of Defence budget in total Budget of the country;
- xii. Mismatch between projection and allocation in Defence Budget for the Financial Year 2023-24;
- xiii. Extant systems of checks and balances to prevent incidents of spying;
- xiv. Achievement of target of 68 percent of capital acquisition through domestic sources;
- xv. Association with private players in Defence sector;
- xvi. Motivation for scientists in Defence sector;
- xvii. Selection for strategic partner countries in Defence sector; and
- xviii. Comparison with neighboring countries regarding expenditure on development of infrastructure.

7. The Chairperson, on behalf of the Committee, congratulated the Ministry of Defence, HAL, DRDO and other participant organizations for successful Aero India 2023 held in Bengaluru.

8. After tea break, the representatives of the Ministry of Defence and the Defence Public Sector Undertakings (DPSUs) commenced their briefing on the subject 'Defence Public Sector Undertakings' through their Power Point Presentations.

This was followed by detailed deliberations on the following issues:

- i. Recruitment of independent Directors in Boards of DPSUs;
- ii. Filling of vacancies in Boards of DPSUs;
- iii. Availability of raw materials in the country;
- iv. Need for improvement in functioning of Mishra Dhatu Nigam Limited (MIDHANI);
- v. Assistance from private players and academia in Research and Development in Defence sector;
- vi. Coordination of DPSUs with Micro, Small and Medium Enterprises (MSMEs) in the country;

- vii. New contracts acquired by Hindustan Aeronautics Limited (HAL), Bharat Electronics Limited (BEL) and Goa Shipyard Limited (GSL);
- viii. Request received from the State Governments regarding Defence Industrial Corridors;
- ix. Preference for the public sector over private players in Defence manufacturing;
- x. Foreign collaboration by Bharat Dynamics Limited (BDL) for manufacturing of missiles and rockets;
- xi. Production capacity of HAL, time taken for development of a product and use of indigenous engines;
- xii. Availability of health equipment and stents manufactured by MIDHANI in the market;
- xiii. Timeline for manufacturing of Light Combat Helicopter and Aircraft and 5th Generation Aircraft by HAL;
- xiv. Contribution of BEL towards Defence Industrial Corridor in UP;
- xv. Time taken by DPSUs for development and delivery of equipment for the Armed Forces;
- xvi. Difference in the 4 positive lists of indigenization;
- xvii. Need for intensification of efforts for indigenization and increase in exports by DPSUs;
- xviii. Establishment of Defence corridors and other facilities in Ambala; and
- xix. Progress of manufacturing of bulletproof jackets by MIDHANI.

9. Thereafter, a Power Point Presentation by the representatives of the Defence Estates Organisation (DEO) was made. This was followed by extensive discussion on the following points:

- i. Increase in Revised Estimates allocation to DEO for 2022-23;
- ii. Proposal from the State Government for provision of Defence Land;
- iii. Issues such as access to roads etc. faced by general public in Cantonment areas and efforts for resolution of these issues;
- iv. Elections for Cantonment Boards;
- v. Increase in limit for carrying out 'repairs' in Cantonment areas and revision in bye-laws;
- vi. New Cantonment Bill;
- vii. Policy regarding handing over of schools and Defence institutions to civil

- municipal bodies adjoining the cantonment areas; and
- viii. Pendency of cases pertaining to DEO.

10. Followed by DEO, a Power Point presentation on Border Roads Organization (BRO) was made. The deliberations were held on the subject on following points:

- i. Forest and National Green Tribunal (NGT) Clearances for construction by BRO;
- ii. Cost difference between construction of normal road and road constructed by BRO using new technologies;
- iii. Classification of a road as a 'border' road;
- iv. Difference between allocation under Budget and Revised Estimates for BRO for the past few years;
- v. Budgetary figures for BRO for 2023-24;
- vi. Consideration of security, geological and safety parameters by BRO while executing construction tasks keeping in view recent incident in Joshimath, Uttarakhand;
- vii. Memorandum of Understanding (MoU) with Jharkhand Government for supply of manpower;
- viii. Aid in tourism opportunities due to infrastructure created by BRO; and
- ix. Welfare activities in areas from where maximum manpower is employed by BRO.

11. Thereafter, the Chairperson invited representatives of the Coast Guard Organisation. The representatives of the Coast Guard Organisation commenced their briefing through a Power Point Presentation. This was followed by discussion on following points:

- i. Adequate capability of the Coast Guard Organisation in terms of manpower and resources;
- ii. Recovery of drugs and curb on drug smuggling achieved by Coast guard in 2021-22 and 2022-23; and
- iii. Shortage of manpower in Marine Police in some States.

12. Thereafter, the representatives of the Ministry of Defence commenced their

briefing through a Power Point presentation on Navy and Joint Staff. This was followed by detailed deliberations *inter alia* on the following issues:

- i. Revised Estimates 2022-23, Budget Estimates 2023-24 and projected requirement for Navy and Joint Staff;
- ii. Cost, Commissioning of indigenous aircraft carrier and proposal for third aircraft carrier;
- iii. Sanctioned strength of National Defence Academy (NDA);
- iv. Progress on theaterisation of Armed Forces;
- v. Strength of Indian Navy in comparison with neighboring countries;
- vi. Intake of girl candidates in Sainik Schools and NDA and plan to absorb them in the Forces;
- vii. Proposal to add new battalions in the Forces;
- viii. Proposal to fill up vacant posts at Officers' level in the Services;
- ix. Formalized National Security Policy;
- x. Analysis of current threat perception; and
- xi. Possibility of the Quadrilateral Security Dialogue (QUAD) evolving into security and military alliance.

13. The Chairperson, at the end, thanked the representatives of the Ministry of Defence and the Services for extensive discussion on the Demands for Grants and for responding to the queries of the Members. The Chairperson also requested the representatives to furnish information which was not readily available to the Secretariat expeditiously.

The witness then withdrew.

The Committee then adjourned.

A copy of verbatim record of the proceedings has been kept on record.

STANDING COMMITTEE ON DEFENCE (2022-23)

**MINUTES OF THE FIFTH SITTING OF THE STANDING COMMITTEE ON
DEFENCE (2022-23)**

The Committee sat on Wednesday, the 22 February, 2023 from 1100 hrs. to 1815 hrs. in 'Main Committee Room', Parliament House Annexe, New Delhi.

PRESENT

JUAL ORAM - CHAIRPERSON

MEMBERS

LOK SABHA

1. Kunwar Danish Ali
2. Shri D.V. Sadananda Gowda
3. Shri Rattan Lal Kataria
4. Prof. (Dr.) Ram Shankar Katheria
5. Dr. Rajashree Mallick
6. Shri Reddeppa Nallakonda Gari
7. Shri Uttam Kumar Reddy Nalamada
8. Shri Brijendra Singh

RAJYA SABHA

9. Dr. Ashok Bajpai
10. Shri Prem Chand Gupta
11. Shri Sushil Kumar Gupta
12. Shri Kamakhya Prasad Tasa
13. Dr. Sudhanshu Trivedi
14. Smt. P.T. Usha
15. Lt. Gen. (Dr.) D. P. Vats (Retd.)
16. Shri K.C. Venugopal

SECRETARIAT

1. Smt. Suman Arora - Joint Secretary
2. Dr. Sanjeev Sharma - Director
3. Shri Rahul Singh - Deputy Secretary

LIST OF WITNESSES

MINISTRY OF DEFENCE

ARMY

- | | | |
|----|----------------------------|---------------------|
| 1 | Gen Anil Chauhan | CDS & Secretary/DMA |
| 2 | Ms. Rasika Chaube | FA(DS) |
| 3 | Sh. Rajesh Sharma | Addl. FA (RS) & JS |
| 4 | Lt Gen BS Raju | VCOAS |
| 5 | Lt Gen MV Suchindra Kumar | DCOAS (Strat) |
| 6 | Lt Gen JB Chaudhari | DCOAS (CD&S) |
| 7 | Lt Gen Samir Gupta | DG FP |
| 8 | Lt Gen Manoj Kumar Katiyar | DGMO |
| 9 | Lt Gen CP Cariappa | MGS |
| 10 | Lt Gen Vineet Gaur | DG CD |
| 11 | Lt Gen C Bansi Ponnappa | Adjutant General |
| 12 | Lt Gen AJ Fernandez | DG SD |
| 13 | Lt Gen Rajinder Dewan | QMG |
| 14 | Maj Gen k Narayanan | JS (Army & TA) |
| 15 | Maj Gen R Putarjunam | ADG AE 7 HoS (AEC) |
| 16 | Maj Gen CS Mann | ADG ADB |
| 17 | Maj Gen Abhinaya Rai | ADG SP |
| 18 | Maj Gen Bikramdeep Singh | ADG FP |

NATIONAL CADET CORPS (NCC)

- | | | |
|---|---------------------------|--------------------------|
| 1 | Ms. Rasika Chaube | FA(DS) |
| 2 | Ms. Nivedita Shukla Verma | Spl. Secretary |
| 3 | Ms. Dipti Mohil Chawla | Additional Secretary/DoD |
| 4 | Lt Gen. Gurbirpal Singh | DGNCC |
| 5 | Sh. Rajesh Sharma | Addl. FA (RS) & JS |
| 6 | Ms. Nishtha Upadhyay | Joint Secretary |

SAINIK SCHOOL

- | | | |
|---|---------------------------|--------------------------|
| 1 | Ms. Rasika Chaube | FA(DS) |
| 2 | Ms. Nivedita Shukla Verma | Special Secretary |
| 3 | Ms. Dipti Mohil Chawla | Additional Secretary/DoD |
| 4 | Sh. Rajesh Sharma | Addl. FA (RS) & JS |
| 5 | Shri Rakesh Mittal | JS (Lands / SS) |

AIR FORCE

1	Gen Anil Chauhan	CDS & Secretary/DMA
2	Ms. Rasika Chaube	FA(DS)
3	Air Mshl AP Singh	VCAS
4	Air Mshl N Tiwari	DCAS
5	AVM H Bains	JS(Air)
6	Sh. Rajesh Sharma	Addl. FA (RS) & JS
7	AVM M Mehra	ACAS Fin(P)
8	AVM G Thomas	ACAS (Plans)
9	AVM T Chaudhry	ACAS (Proj)

DEFENCE RESEARCH & DEVELOPMENT ORGANISATION (DRDO)

1	Dr. Samir Venkatpati Kamat	Secretary
2	Ms. Rasika Chaube	FA(DS)
3	Shri KS Varaprasad	DS & DG (HR)
4	Shri Hari Babu Srivastava	OS&DG
5	Ms Suma Varughese	OS&DG(MED&CoS)
6	Dr. UK Singh	OS&DG(LS)
7	Shri Purusottam Bej.	OS&DG(R&M)
8	Shri AD Rane	OS&DG(BrahMos)
9	Dr (Ms) Chandrika Kaushik	OS&DG(PC&SI)
10	Sh. Rajesh Sharma	Addl. FA (RS) & JS
11	Shri Vedveer Arya	Addl FA&JS
12	Dr. Ravindra Singh	Director(DPA)
13	Dr. Sumit Goswami	Director (Planning and Cooperation)

DIRECTORATE OF ORDNANCE – NEW DPSUs

1	Ms. Nivedita Shukla Verma	Special Secretary
2	Ms. Rasika Chaube	FA(DS)
3	Sh. Rajesh Sharma	Addl. FA (RS) & JS
4	Shri Surendra Prasad Yadav	JS (LS)
5	Shri Rajeev Prakash	JS (NS)
6	Shri Jayant Kumar	JS (Aero)
7	Shri Shalabh Tyagi	JS (P&C)
8	Shri Anurag Bajpai	JS (DIP)
9	Shri Sanjeev Kishore	DGO (C&S)
10	Shri N I Laskar	DDG (Budget)
11	Shri Umesh Singh	DDG (NDCD)
12	Shri Birendra Pratap	Director (NDCD)
13	Shri Ravi Kant	CMD (MIL)
14	Shri Rajesh Choudhary	CMD (AWEIL)
15	Shri S.K. Sinha	CMD (TCL)
16	Shri Rajeev Puri	CMD(YIL)

17	Shri Sanjiv Kumar	CMD (IOL)
18	Shri V.K Tiwari	CMD (GIL)
19	Shri Sanjay Dwivedi	Director/AVANI
20	Maj Gen Pankaj Malhotra	ADG MO (B)
21	Maj Gen Mohit Wadhwa	ADG EM

2. As the Chairperson of the Committee was not able to attend the Sitting, Lt. Gen Dr. D P Vats (Retd.) was chosen as the Acting Chairperson for the Sitting by the Members of the Committee present during the Sitting under the Rule 258(3) of the Rules of Procedure and Conduct of Business in Lok Sabha.

3. The Acting Chairperson welcomed the Members of the Committee and informed them of the agenda for the Sitting. The Committee then invited the representatives of the Ministry of Defence. The Chairperson welcomed them to the Sitting of the Standing Committee on Defence and requested them to brief the Committee on various issues included in the agenda for the day and drew their attention to Direction 55(1) of the Directions by the Speaker, Lok Sabha.

4. The Vice Chief of Army Staff commenced the briefing by giving an overview on Army to the Committee and thereafter, a Power Point presentation was made. This was followed by detailed deliberations on following issues:

- 1) Budgetary allocation to Army;
- 2) Restructuring of training as per current requirements.
- 3) Upgradation of infrastructure, technological prowess and military capabilities
- 4) Providing humanitarian assistance and speedy relief during calamities
- 5) Gender neutrality in Indian Army
- 6) Contribution in sports by Army
- 7) Emergency procurement powers to the Indian Army with effect from October 2022
- 8) Need for robust digital infrastructure
- 9) Preparation for Nuclear, Chemical and Biological War in future

- 10) Status of Vintage and other category equipment in Indian Army
- 11) Efforts being made towards indigenisation by Indian Army

5. Thereafter, the Chairperson invited representatives of the National Cadet Corps (NCC). They made a Power Point presentation before the Committee which was followed by discussion on following issues:

- 1) Shortage of Trainers in NCC and Recruitment of Ex-servicemen / Ex-NCC cadets as instructors in NCC
- 2) Need for latest equipment for training to NCC Cadets
- 3) Reservation of NCC cadets in State Government and CAPFs jobs
- 4) Cyber, Computer, Laser and space expertise training to NCC cadets.
- 5) Employment opportunities for NCC cadets in private Industries
- 6) Implementation of Self Financing Scheme(SFS) in schools and colleges.
- 7) Issues related to low selection rate of NCC cadets as officers in Armed Forces

6. The representatives of the Sainik Schools were invited next by the Chairperson. The representatives of the Sainik Schools commenced their briefing through a Power Point presentation which was followed by discussion on following issues:

- 1) Opening of 100 new schools in partnership with private sector
- 2) To appoint retired officers/ JCOs NCOs as Principals, Vice-Principals and Instructors in Sainik schools.
- 3) Shortage of Funds, inadequate infrastructure and deficiency of quality staff in Sainik Schools.
- 4) Compulsory training to teachers of new Sainik schools.
- 5) Low number of Sainik schools students joining Armed Forces.

7. Subsequent to the briefing by the Vice Chief of the Air Staff regarding overview on modernization plan of Indian Air Force (IAF), a Power Point presentation was made. This was followed by detailed deliberations on following issues:

- 1) Sharp decline in the projected budget for the year 2023-24 as compared to the financial year 2022-23.
- 2) Shortage of authorized squadrons strength
- 3) Study to analyze the major reasons for the delay of LCA
- 4) Modernisation of Fighter Aircraft
- 5) Shortage of officers in Indian Air Force

8. Then, a Power Point presentation was made by representatives of DRDO on Defence Research and Development which was followed by discussion on the following points:

- 1) Free of cost patents of DRDO to Private Industry
- 2) Transfer of technology to private industries.
- 3) Use of Test facilities of DRDO by Private Industry.
- 4) Issue related to delay of Mission mode projects of DRDO
- 5) Use of Kaveri engine for unmanned combat aircraft.
- 6) Indigenisation of products by DRDO
- 7) Shortage of Scientists in DRDO

9. Thereafter, a Power Point presentation was made by the representatives of the Directorate of Ordnance on new DPSUs, representatives of each of the new DPSU, namely Munitions India Limited(MIL), Armoured Vehicles Nigam Limited(AVNL), Advanced Weapons and Equipment India Limited(AWEIL), Troop Comforts Limited(TCL), Yantra India Limited(YIL), India Optel Limited(IOL) and Gliders India Limited(GIL) made power point presentation. Thereafter, the Committee had discussion on the following points:

- 1) Status of Order Book position of DPSUs
- 2) Thrust to earn more profits by the DPSUs

- 3) Installation of new machines for R&D activities in the DPSUs
- 4) Modernisation activities taken by all the DPSUs
- 5) Indigenisation programmes of the DPSUs

10. The Chairperson directed the representatives of the Ministry to furnish written replies/information on the points raised by the Members at the earliest.

The witnesses then withdrew

The Committee then adjourned.

11. A copy of verbatim proceedings has been kept on record.

STANDING COMMITTEE ON DEFENCE (2022-23)

**MINUTES OF THE SIXTH SITTING OF THE STANDING COMMITTEE ON
DEFENCE (2022-23)**

The Committee sat on Friday, the 24 February, 2023 from 1100 hrs. to 1600 hrs. in Committee Room No. 'C', Parliament House Annexe, New Delhi.

PRESENT

LT. GEN. DR. D. P. VATS (RETD.) - ACTING CHAIRPERSON

MEMBERS

LOK SABHA

2. Shri Rattan Lal Kataria
3. Kunwar Danish Ali
4. Shri Nallakonda Gari Reddeppa
5. Shri Brijendra Singh
6. Shri Mahabali Singh

RAJYA SABHA

7. Dr. Ashok Bajpai
8. Shri Prem Chand Gupta
9. Shri Sushil Kumar Gupta
10. Dr. Sudhanshu Trivedi
11. Smt. P. T. Usha
12. Shri G.K Vasan

SECRETARIAT

1. Smt. Suman Arora - Joint Secretary
2. Dr. Sanjeev Sharma - Director

3. Shri Rahul Singh - Deputy Secretary

LIST OF WITNESSES

S. No.	Name of Officers	Designation
Procurement Policy & Defence Planning		
1.	Shri Giridhar Aramane	Defence Secretary
2.	Gen Anil Chauhan	CDS & Secretary/DMA
3.	Vice Admiral SN Ghormade	VCNS
4.	Air Mshl BR Krishna	CISC
5.	Ms. Rasika Chaube	FA(DS)
6.	Ms. Nivedita Shukla Verma	Special Secretary
7.	Lt. Gen Anil Puri	AS/DMA
8.	Sh. Pankaj Agarwal	DG(Acq)
9.	Ms. Dipti Mohil Chawla	Additional Secretary/DoD
10.	Shri T Natarajan	Additional Secretary (DP)
11.	Air Mshl N Tiwari	DCAS
12.	Lt Gen MV Suchindra Kumar	DCOAS (Strat)
13.	Lt Gen Rashim Bali	DG SP
14.	Lt Gen Vineet Gaur	DG CD
15.	Lt Gen Manjinder Singh	DCIDS (PP &FD)
16.	ADG Rakesh Pal	ADG CG & Addl Charge DG ICG
17.	Shri Dinesh Kumar	JS & AM(MS)
18.	Shri Dharmendra Kumar Singh	JS&AM (Air)
19.	Dr. Ajay Kumar	JS & AM(LS)
20.	Shri Jayant Kumar	JS(Aero)
21.	Sh. Rajesh Sharma	Addl. FA (RS) & JS
22.	AVM Rajiva Ranjan	ACIDS (PP & FS)
23.	Maj Gen Ashok Singh	ADG PS

24.	AVM G Thomas	ACAS (Plans)
25.	RAdm P.A.A.R Sadiq	Acquisition Tech (M&S)
26.	Maj Gen Abhay Dayal	ADG Acq
27.	AVM M Mehra	ACAS Fin(P)
28.	Maj Gen k Narayanan	JS (Army & TA)
29.	RAdm CR Praveen Nair	ACNS
30.	Maj Gen Abhinaya Rai	ADG SP
31.	Maj Gen Bikramdeep Singh	ADG FP
32.	Maj Gen NKV Patil	ADG Proc (B)
33.	Sh. Ambarish Barman	Director (Budget)
34.	Sh. Subhash Kumar	OSD (Budget)

Welfare of Ex-Servicemen

1.	Shri Vijoy Kumar Singh	Secretary ESW
2.	Ms. Rasika Chaube	FA(DS)
3.	Lt. Gen PS Shekhawat	DG (DC&W)
4.	Lt Gen C Bansi Ponnappa	Adjutant General
5.	VAdm Suraj Berry	Controller Personnel Services
6.	Air Mshl RK Anand	DG (Admn)
7.	Dr Pudi Hari Prasad	Joint Secretary (ESW)
8.	Maj Gen Sharad Kapoor	DG (Resettlement)
9.	Sh. Rajesh Sharma	Addl. FA (RS) & JS
10.	Maj Gen Ashok Singh	ADG PS
11.	AVM Ashok Saini	ACAS
12.	RAdm Manish Chadha	ACOP
13.	Commodore HP Singh	Secretary KSB
14.	Sh. Ambarish Barman	Director (Budget)
15.	Sh. Subhash Kumar	OSD (Budget)
16.	Dr. PP Sharma	OSD

Ministry of Defence (Pension)

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|----|----------------------------|-----------------------|
| 1. | Shri Vijoy Kumar Singh | Secretary ESW |
| 2. | Shri Praveen Kumar, IDAS | Addl. CGDA |
| 3. | Dr Pudi Hari Prasad | Joint Secretary (ESW) |
| 4. | Sh. Rajesh Sharma | Addl. FA (RS) & JS |
| 5. | Ms. Sarika Aggarwal Synrem | IDAS, Jt. CGDA |
| 6. | Dr. Jayaraj Naik | IDAS, Jt. CGDA |
| 7. | Sh. Ambarish Barman | Director (Budget) |
| 8. | Sh. Subhash Kumar | OSD (Budget) |

Ex-Servicemen Contributory Health Scheme

- | | | |
|----|------------------------|-----------------------|
| 1. | Shri Vijoy Kumar Singh | Secretary ESW |
| 2. | Dr Pudi Hari Prasad | Joint Secretary (ESW) |
| 3. | Sh. Rajesh Sharma | Addl. FA (RS) & JS |
| 4. | Maj Gen N R Indurkar | MD ECHS |
| 5. | Col PK Mishra | Director, ECHS |
| 6. | Sh. Ambarish Barman | Director (Budget) |
| 7. | Sh. Subhash Kumar | OSD (Budget) |

2. As the Chairperson of the Committee was not able to attend the Sitting, Lt. Gen Dr. D P Vats (Retd.) was appointed as the Acting Chairperson for the Sitting, by the Members of the Committee present during the Sitting, citing Rule No. 258(3) of the Rules of Procedure and Conduct of Business in Lok Sabha on Parliamentary Committees.

3. The Acting Chairperson then welcomed the Members of the Committee and informed them of the agenda for the Sitting. The Committee then invited the representatives of the Ministry of Defence. The Chairperson welcomed them to the Sitting of the Standing Committee on Defence and requested them to brief the Committee on various issues included in the agenda for the day and drew their attention to Direction 55(1) of the Directions by the Speaker, Lok Sabha.

4. The representatives of the Ministry of Defence then gave a Power Point Presentation on Defence Procurement Policy. This was followed by extensive discussion on following points:

- i Emphasis on Atmanirbhar Bharat- Indigenisation of the Defence equipment and self reliance in Defence;
- ii Ease of doing business;
- iii Push for Domestic Ecosystem and offsets;
- iii Decrease in the procurement of defence equipment from foreign industries and promotion of domestic industries;
- iv Revision of the Defence Acquisition Procedure;and
- v. Emphasis on Integrated Defence Capability Plan and Obsolescence Management

5. Thereafter, the representatives of the Ministry of Defence commenced their briefing through a Power Point Presentation was made by the representatives of the Department of Ex-Servicemen Welfare. This was followed by detailed deliberations on following issues:

- i. Budgetary grants for the Department of Welfare of Ex-Servicemen;
- ii. Details of Agniveer Scheme and their placement;
- iii. Placement opportunities and the process of resettlement for Ex-Servicemen;
- iv. Filling up of vacancies in Group B and Group C Non-Gazetted posts which are reserved for Ex-Servicemen;
- v. Lack of uniformity in the States/UTs regarding ex-gratia monetary benefits/compensation to the martyrs in the country; and
- vi. Role and responsibilities of Kendriya, Rajya and Zilla Sainik Boards.

6. Thereafter, a Power Point Presentation on Ministry of Defence-Pension was made by representatives of Ministry of Defence. This was followed by extensive discussion on the following issues:

- i. Various components of the Defence Pension;
- ii Implementation of SPARSH for defence pensioners;
- iii Issues related with One Rank One Pension (OROP);and
- v. Details regarding Equalisation of Pension

7. Subsequently, a Power Point Presentation was made by the representatives of the Ex-Servicemen Contributory Health Scheme (ECHS) under Ministry of Defence, which was followed by discussion on following issues:

- i. Budgetary grants and the utilization of funds under Ex-Servicemen Contributory Health Scheme (ECHS);
- ii. Vacancies of specialists in Polyclinics;
- iii. Denial of services by the private empanelled hospitals to the ECHS beneficiaries;
- iv. Creation of Integrated Complexes;and
- v. ECHS/facilities boarded out and/or medically unfit cadets.

8. The Chairperson thanked the Defence Secretary, General Officers and other Officers for extensive discussion and directed the representatives of the Ministry of Defence and other organizations to furnish written replies to all the queries at the earliest.

The witnesses then withdrew.

A copy of verbatim record of the proceedings has been kept.

The Committee then adjourned

STANDING COMMITTEE ON DEFENCE (2022-23)
MINUTES OF THE SEVENTH SITTING OF THE STANDING COMMITTEE ON
DEFENCE (2022-23)

The Committee sat on Thursday, the 16 March, 2023 from 1500 hrs. to 1530 hrs. in Committee Room No. 'C', Parliament House Annexe, New Delhi.

PRESENT

SHRI JUAL ORAM - CHAIRPERSON

MEMBERS

LOK SABHA

2. Shri Nitesh Ganga Deb
3. Shri Rahul Gandhi
4. Shri Annasaheb Shankar Jolle
5. Choudhary Mehboob Ali Kaiser
6. Shri Rattan Lal Kataria
7. Prof.(Dr.) Ram Shankar Katheria
8. Kunwar Danish Ali
9. Shri Reddeppa Nallakonda Gari
10. Shri Uttam Kumar Reddy Nalamada
11. Shri Jugal Kishore Sharma
12. Shri Prathap Simha
13. Shri Brijendra Singh

RAJYA SABHA

14. Dr. Ashok Bajpai
15. Shri Sushil Kumar Gupta

16. Shri Venkataramana Rao Mopidevi
17. Shri Kamakhya Prasad Tasa
18. Dr. Sudhanshu Trivedi
19. Smt. P.T. Usha
20. Shri G.K.Vasan
21. Lt. Gen. Dr.D.P.Vats (Retd.)
22. Shri K.C. Venugopal

SECRETARIAT

1. Smt. Suman Arora - Joint Secretary
2. Dr. Sanjeev Sharma - Director
3. Shri Rahul Singh - Deputy Secretary

2. At the outset, the Chairperson welcomed the Members of the Committee and informed them about the agenda for the Sitting. The Committee then took up for consideration the following draft Reports:-

- (i) **‘Action Taken by the Government on the Observations/Recommendations contained in the Twenty-ninth Report on Demands for Grants of the Ministry of Defence for the year 2022-23 on ‘Directorate of Ordnance (Coordination and Services)-New DPSUs, Defence Research and Development Organisation (DRDO), Directorate General of Quality Assurance (DGQA) and National Cadet Corps (NCC) (Demand No. 20)’;**
- (ii) **Demands for Grants of the Ministry of Defence for the year 2023-24 on ‘General Defence Budget, Border Roads Organisation, Indian Coast Guard, Defence Estates Organisation, Defence Public Sector Undertakings, Welfare of Ex-Servicemen and Defence Pension (Demand Nos. 19 and 22)’;**
- (iii) **Demands for Grants of the Ministry of Defence for the year 2023-24 on ‘Army, Navy, Air Force, Joint Staff, Ex-Servicemen Contributory Health Scheme and Sainik Schools (Demand Nos. 20 and 21)’;**

(iv) **Demands for Grants of the Ministry of Defence for the year 2023-24 on ‘Capital Outlay on Defence Services, Procurement Policy and Defence Planning (Demand No. 21)’;and**

(v) **Demands for Grants of the Ministry of Defence for the year 2023-24 on ‘Directorate of Ordnance (Coordination and Services)–New DPSUs, Defence Research and Development Organisation and National Cadet Corps (Demand Nos. 20 and 21)’.**

3.	X		X		X		X	
	X							
		X		X		X		X
	X		X		X		X	X ¹

4. The Committee authorized the Chairperson to finalise the above draft Reports and present the same to both the Houses of Parliament on a date convenient to him.

The Committee then adjourned.

¹ This part does not pertain to the Report.