

45

**STANDING COMMITTEE ON DEFENCE
(2023-24)**

(SEVENTEENTH LOK SABHA)

MINISTRY OF DEFENCE

[Action Taken by the Government on the Observations/Recommendations contained in the Thirty-seventh Report of Standing Committee on Defence (17th 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)']

FORTY-FIFTH REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

December, 2023 / Agrahayana 1945 (Saka)

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Presented to Lok Sabha on 20.12.2023

Laid in Rajya Sabha on 20.12.2023



LOK SABHA SECRETARIAT

NEW DELHI

December, 2023 / Agrahayana 1945 (Saka)

CONTENTS

	Page No.
Composition of the Committee (2023-24).....	iv
INTRODUCTION	vi
Chapter I Report	1
Chapter II Observations/ Recommendations which have been accepted by the Government	9
Chapter III Observations/ Recommendations which the Committee do not desire to pursue in view of the Government's replies	28
Chapter IV Observations/ Recommendations in respect of which replies of Government have not been accepted by the Committee and which require reiteration and to be commented upon	29
Chapter V Observations/Recommendations in respect of which Government have furnished interim replies/replies awaited	30

APPENDICES

I	MINUTES OF THE SITTING OF THE STANDING COMMITTEE ON DEFENCE (2023-24) HELD ON 18.12.2023.	31
II	ANALYSIS OF ACTION TAKEN BY THE GOVERNMENT ON THE OBSERVATIONS/RECOMMENDATIONS CONTAINED IN THE THIRTY-SEVENTH REPORT OF STANDING COMMITTEE ON DEFENCE (17TH 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)'.	34

COMPOSITION OF THE STANDING COMMITTEE ON DEFENCE (2023-24)

SHRI JUAL ORAM

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CHAIRPERSON

Lok Sabha

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

Rajya Sabha

20	Dr. Ashok Bajpai
21	Shri Prem Chand Gupta
22	Shri Sushil Kumar Gupta
23	Shri Venkataramana Rao Mopidevi
24	Shri Kamakhya Prasad Tasa
25	Dr. Sudhanshu Trivedi
26	Smt. P.T. Usha
27	Shri G.K. Vasani
28	Lt. Gen. (Dr.) D. P. Vats (Retd.)
29	Shri K.C. Venugopal

*Shri Anumula Revanth Reddy ceased to be member of the Standing Committee on Defence w.e.f. 8th December, 2023 vide Lok Sabha Secretariat notification no 21/1(3)/2023/T(B) dated 8th December, 2023.

@ Shri Uttam Kumar Nalamada Reddy ceased to be member of the Standing Committee on Defence w.e.f. 13th December, 2023 vide Lok Sabha Secretariat notification no 21/1(5)/2023/T(B) dated 13th December, 2023.

SECRETARIAT

1. Dr. Sanjeev Sharma - Joint Secretary
2. Shri Tirthankar Das - Director
3. Shri Rahul Singh - Deputy Secretary

INTRODUCTION

I, the Chairperson of the Standing Committee on Defence (2023-24), having been authorized by the Committee, present this Forty-fifth Report (17th Lok Sabha) of the Committee on Action Taken by the Government on the Observations/Recommendations contained in the Thirty-seventh Report of Standing Committee on Defence (17th 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 Thirty-seventh Report (17th Lok Sabha) was presented to the Lok Sabha and laid in Rajya Sabha on 21 March, 2023. The Report contained 23 Observations/ Recommendations. The Ministry of Defence furnished Action Taken Replies on all the Observations/Recommendations in August, 2023.

3. The Report was adopted at the Sitting held on 18th December, 2023.

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

5. An analysis of Action Taken by the Government on the Observations/ Recommendations contained in the Thirty-seventh Report (17th Lok Sabha) of the Standing Committee on Defence is given in Appendix II.

**New Delhi;
18 December, 2023
27 Agrahayana, 1945 (Saka)**

**JUAL ORAM
Chairperson
Standing Committee on Defence**

REPORT

CHAPTER-I

This Report of the Standing Committee on Defence deals with Action Taken by the Government on the observations/recommendations contained in the Thirty-Seventh Report (17th Lok Sabha) of the Standing Committee on Defence 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)', which was presented to Lok Sabha and laid in Rajya Sabha on 21.03.2023.

2. The Thirty-Seventh Report (17th Lok Sabha) of the Committee contained 23 observations/ recommendations on the following aspects:-

Rec. No./ Para No.	Subject
1-3	Ministry of Defence Budget and Demands for Grants 2023-24: An Overview
4	Additional Allocation
5	Ratio for Capital and Revenue Outlay
6-7	Modernization of Defence Forces
8	Inflation
9-10	Committed Liabilities and New Schemes
11-12	Defence Procurement Policy
13-14	Accountability and Transparency in Defence Procurement
15-17	Increasing Dependence on Foreign Suppliers for Military Hardware
18	Self Reliance and Make in India
19	Offset Clause
20	Foreign Direct Investment
21	DEFENCE PLANNING
22-23	Approval from Ministry of Finance Long Term Integrated Perspective Plan (LTIPP)

3. Action Taken Replies have been received from the Government in respect of all the 23 observations/recommendations contained in the Thirty-Seventh Report (17th Lok Sabha) of the Standing Committee on Defence 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)'. The replies have been examined and categorized as follows:-

(i) Observations/Recommendations which have been accepted by the Government (Chapter II):

Para Nos. 1,2,3,4,5,6,7,8,9,10,11,12,13,14,15,16,17,18, 19,20,21,22,23

(Total - 23)

(ii) Observations/Recommendations which the Committee do not desire to pursue in view of the replies received from the Government (Chapter III):

Para Nos. –Nil-

(Total -Nil)

(iii) Observations/Recommendations in respect of which reply of Government has not been accepted by the Committee (Chapter IV):

Para Nos. –Nil-

(Total - Nil)

(iv) Observations/recommendations in respect of which final replies of the Government are still awaited (Chapter V)

Para Nos. -Nil-

(Total - Nil)

4. The Committee desire that final Action Taken Notes in respect of comments contained in Chapter I should be furnished to them at the earliest and in any case, not later than six months of the presentation of this Report.

5. The Committee will now deal with the action taken by the Government on some of the observations/recommendations made in the Thirty-Seventh Report of the Committee in the succeeding Paragraphs.

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

Recommendation (Para No. 2)

6. The Committee had recommended as under:

'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 crore and Rs. 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 Crore (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’.

7. The Ministry in its action taken reply has stated as under:

“The Committee may be apprised that about 65 percent of the grants could be utilized till the completion of the third quarter of the Financial Year broadly due to the following reasons:-

- i. Delays in conclusion of New Schemes in preceding quarters.
- ii. Non-release of payment to Russian vendor due to ongoing Russia-Ukraine conflict.
- iii. Milestone payments linked to various stages of procurement.

2. Further, it may be added that an expenditure of Rs. 3,99,091.60 Crore (i.e. 97.46% of RE 2022-23 allocations) has been incurred in FY 2022-23 under Defence Services Estimates as per March(Final), 2023.”

8. The Committee note that about 65 percent of the grants could be utilized till the completion of the third quarter of the Financial Year due to either delays in conclusion of New Schemes in preceding quarters or non-release of payment to Russian vendor(s) due to ongoing Russia-Ukraine conflict and Milestone payments linked to various stages of procurement as pointed out by the Ministry. The Committee at this stage would like to reiterate their considered view that the complete utilization of the allocated funds would help the armed forces in the creation of 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. They, therefore, would like to urge upon the Ministry to undertake consistent due diligence in a timely manner in order to complete the spending within the given timeframe as per the extant guidelines for the next financial year. Here, it goes without saying that such exercise should invariably be followed for the subsequent financial years also.

B. Modernization of Defence Forces

Recommendation (Para No. 6)

9. The Committee had recommended as under:

‘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.’

10. The Ministry in its action taken reply has stated as under:

“An expenditure of Rs. 1,17,184.27 Crore (i.e. 95.51% of the RE 2022-23 allocation of Rs. 1,22,690.98 Crore) has been incurred as per March(Final), 2023, under Capital Acquisition (Modernization) Head.”

11. Considering the fact that only Rs. 67,020.99 crore out of Rs. 1,24,408.64 crore were spent by December, 2022, the Committee in their original report recommended 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. However, from the Action Taken Reply, the Committee note that an expenditure of Rs. 1,17,184.27 Crore (i.e. 95.51% of the RE 2022-23 allocation of Rs. 1,22,690.98 Crore) has been incurred as per March(Final), 2023, under Capital Acquisition (Modernization) Head, leaving thereby an unspent amount of Rs. 5,506.71 crore. As the financial year 2022-23 has already ended, therefore, at this stage, the Committee could only urge upon the Ministry to be more careful about under-spending of defence budget in future as they are of the firm view that spending of the defence budget is critical from the viewpoint of country's defence preparedness and mitigating threat perceptions.

C. Inflation

Recommendation (Para No. 8)

12. The Committee had recommended as under:

‘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 Rs. 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 Rs. 4,09,500.48 Crore 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 acknowledge 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 are 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 equipment and infrastructure is available to all the wings of armed forces and threat perception at the borders of our nation is completely neutralized’.

13. The Ministry in its action taken reply has stated as under:

“In BE 2023-24, an amount of Rs. 1,62,600.00 Crore (i.e. an increase of Rs. 12,600 Crore over RE 2022-23) has been allocated under Capital Head. The Committee may be assured that the allocated funds will be optimally utilized towards meeting modernization and infrastructure development work needs of the Defence Services. It may also be relevant to mention that Services, while projecting fund requirements, take into account various factors such as inflation, exchange rate variations, pending committed liabilities, new schemes likely to be fructified etc. The funds projected by Services are examined and forwarded for favorable consideration of Ministry of Finance. All efforts are made to obtain additional funds projected by the Services at Supplementary/RE stage.”

14. The Committee note that in BE 2023-24, an amount of Rs. 1,62,600.00 Crore (i.e. an increase of Rs. 12,600 Crore over RE 2022-23) has been allocated under Capital Head. The ministry have assured the Committee that the allocated funds will be optimally utilized towards meeting modernization and infrastructure development needs of the Defence Services. Hoping that the allocated funds will be utilised as per the mandated expenses, the Committee desire that the funds projected by Services are properly examined by the Ministry and forwarded for favorable consideration of Ministry of Finance at supplementary/RE stage.

D. Defence Procurement Policy

Recommendation (Para No.12)

15. The Committee had recommended as under:

‘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 equipment 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 are 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'.

16. The Ministry in its action taken reply has stated as under:

“Measures taken to accelerate defence equipment acquisition without compromising on the transparency and accountability of the process are as following:

- i. **Sharing of Draft SQR/RFP.** It was noted that due to existing SQR/RFP formulation process, a number of cases had shelved/retracted on account of discrepancies/shortcomings in the Industry’s capabilities that were observed at later stages of procurement. Hence, draft SQR/RFPs are now being shared before their finalization/issue.
- ii. **Preparation of Trial Methodology/Directives in consultation with Industry.** To expedite the process of trials, Vendor Interaction before finalizing the trials methodology as well as directive is being followed by the SHQ.
- iii. **Documentation in D&D Cases.** DRDO is pursuing concurrent preparation of technical documentation of the equipment being developed by them, to obviate undue delay in technical evaluations.
- iv. **Acceptance of Spares with Matching Form, Fit and Functionality.** It was observed that Industry is able to provide replacements for OEM manufactured parts in terms of Form, Fit and Functionality. However, they were unable to provide part numbers and design drawings. To address the issue, DGQA has recently evolved guidelines/SOP to be followed for evaluation and acceptance of ‘Form, Fit and Functionality’ of equipment/spares and their certification.”

17. The Committee note that the Ministry have taken measures to accelerate defence equipment acquisition without compromising on the transparency and accountability of the process i.e. sharing of draft SQR/RFP, preparation of trial methodology/directives in consultation with industry, documentation in D&D cases and acceptance of spares with matching form, fit and functionality etc. The Committee, while appreciating the measures taken by the Ministry to accelerate defence equipment acquisition, desire that the best practices being followed in developed nations may also be studied and applied, wherever applicable to further expedite the procurement process so that our country can keep pace with changing technologies to be at par with adversaries on all fronts.

E. DEFENCE PLANNING - Approval from Ministry of Finance

Recommendation (Para No. 21)

18. The Committee had recommended as under:

‘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’.

19. The Ministry in its action taken reply has stated as under:

“In accordance with DAP-20, the Defence Five Year Plans are being renamed as Defence Capital Acquisition Plans (DCAP) and will flow out of the ten year Integrated Capability Development Plan (ICDP). DCAP is a planning document and will give the likely expenditure envisaged in the five year period. The DCAP is still under formulation and will be taken up for approval of Competent authority once ready. Approval of the Ministry of Finance will assist in better planning and management of the Capital Acquisition Budget and will be considered.”

20. The Committee note that in accordance with DAP-20, the Defence Five Year Plans are being renamed as Defence Capital Acquisition Plans (DCAP) and will flow out of the ten year Integrated Capability Development Plan (ICDP). They understand that DCAP is a planning document and will give the likely expenditure envisaged in the five year period. The Committee have been informed that DCAP is still under formulation stage and will be taken up for approval of Competent authority once it is ready. The Committee understand that five or ten year plans are needed for long term refinement of existing procurement and capability development plans. They, therefore, would like to re-iterate their earlier recommendation that the approval of DCAP and ICAP should be taken up for finalization in a time-bound manner so that the procurement process moves on the right trajectory.

CHAPTER-II

Observations/Recommendations which have been accepted by the Government

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

Recommendation 1-3:

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.

Reply of the Government

This is factual information and Ministry has no comments to offer.

Recommendation No. 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 crore and Rs. 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 Crore (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/trajjectory 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.

Reply of the Government

The Committee may be apprised that about 65 percent of the grants could be utilized till the completion of the third quarter of the Financial Year broadly due to the following reasons:-

- (i) Delays in conclusion of New Schemes in preceding quarters.
- (ii) Non-release of payment to Russian vendor due to ongoing Russia-Ukraine conflict.
- (iii) Milestone payments linked to various stages of procurement.

2. Further, it may be added that an expenditure of Rs. 3,99,091.60 Crore (i.e. 97.46% of RE 2022-23 allocations) has been incurred in FY 2022-23 under Defence Services Estimates as per March(Final), 2023.

Recommendation No. 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 its 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.

Reply of the Government

The recommendation of the Committee has been noted. The Committee may be assured that all efforts will be made to obtain additional funds at Supplementary/ RE stage. Further, the allocated funds will be optimally utilized towards operational activities. If required, the schemes will be reprioritized to ensure that urgent and critical capabilities are acquired without any compromise to operational preparedness of the Defence Services.

Additional Allocation

Recommendation No. 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 Crore, Rs. 52,804.75 Crore and Rs. 58,808.48 Crore 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.

Reply of the Government

The Committee may be apprised that the progress of expenditure is reviewed from time to time 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. Further, it may be stated that based on expenditure during the year, pending committed liabilities and critical/operational requirements, threat perception etc., additional funds will be sought at Supplementary/RE stage.

Ratio for Capital and Revenue Outlay

Recommendation No. 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 favour 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.

Reply of the Government

The recommendation of the Committee has been noted.

Modernization of Defence Forces

Recommendation No. 6-7:

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.

Reply of the Government

An expenditure of Rs. 1,17,184.27 Crore (i.e. 95.51% of the RE 2022-23 allocation of Rs. 1,22,690.98 Crore) has been incurred as per March(Final), 2023, under Capital Acquisition (Modernisation) Head.

Modernization of Defence Forces

Recommendation No. 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.

Reply of the Government

In BE 2023-24, an amount of Rs. 1,32,301.27 Crore (i.e. an increase of Rs. 9,610.29 Crore over RE 2022-23) has been allocated under Capital Acquisition (Modernisation) Head. Further, the Committee may be assured that all efforts will be made to obtain additional funds projected at Supplementary/RE stage. Further, the allocated funds will be optimally utilized towards operational activities. If required, the schemes will be reprioritized to ensure that urgent and critical capabilities are acquired without any compromise to operational preparedness of the Defence Services.

Inflation

Recommendation No. 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 Rs. 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 Rs. 4,09,500.48 Crore 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 acknowledge 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 are 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 equipment and infrastructure is available to all the wings of armed forces and threat perception at the borders of our nation is completely neutralized.

Reply of the Government

In BE 2023-24, an amount of Rs. 1,62,600.00 Crore (i.e. an increase of Rs. 12,600 Crore over RE 2022-23) has been allocated under Capital Head. The Committee may be assured that the allocated funds will be optimally utilized towards meeting modernization and infrastructure development work needs of the Defence Services. It may also be relevant to mention that Services, while projecting fund requirements, take into account various factors such as inflation, exchange rate variations, pending committed liabilities, new schemes likely to be fructified etc. The funds projected by Services are examined and forwarded for favorable consideration of Ministry of Finance. All efforts are made to obtain additional funds projected by the Services at Supplementary/RE stage.

Committed Liabilities and New Schemes

Recommendation No. 9-10:

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.

Reply of the Government

The recommendation of the Committee has been noted.

Recommendation No. 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 Rs. 73,882.95 crore whereas actual expenditure incurred was Rs. 75,892.85 crore. Similarly in 2020-21, the allocation amounted to Rs. 1,14,320.30 crore and expenditure incurred for that financial year was Rs. 1,18,966.44 crore. 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.

Reply of the Government

In BE 2023-24, an amount of Rs. 1,32,301.27 Crore (i.e. an increase of Rs. 9,610.29 Crore over RE 2022-23) has been allocated under Capital Acquisition (Modernisation) Head. Further, the Committee may be assured that all efforts will made to obtain additional funds projected at Supplementary/RE/MA stage so that the modernisation process of the Defence Forces is not interrupted for shortage of funds. If required, the schemes will be reprioritized to ensure that urgent and critical capabilities are acquired without any compromise to the operational preparedness of the Defence Services.

Defence Procurement Policy

Recommendation No.11-12:

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.

Reply of the Government

The Defence Procurement Manual (DPM) is used for revenue procurement of defence items, which was last revised in 2009 (with a supplement issued in 2010). Further, the procedure for Capital Acquisitions other than Works and Land undertaken by the Ministry of Defence (MoD) and Service Headquarters (SHQs) is contained in Defence Acquisition Procedure 2020, which is effective since 01st October, 2020. This Ministry reviews the existing Defence procurement manual/procedure on a regular basis to make it simplified and more domestic industry friendly with focus on boost to indigenous defence capability and reduction of reliance on imports under “Make in India” initiative. Ministry of Defence as a whole is committed to AtmaNirbharta in Defence.

Recommendation No.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 equipment 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 are 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.

Reply of the Government

Measures taken to accelerate defence equipment acquisition without compromising on the transparency and accountability of the process are as following:

- (i) **Sharing of Draft SQR/RFP.** It was noted that due to existing SQR/RFP formulation process, a number of cases had shelved/retracted on account of discrepancies/shortcomings in the Industry’s capabilities that were observed at later stages of procurement. Hence, draft SQR/RFPs are now being shared before their finalization/issue.
- (ii) **Preparation of Trial Methodology/Directives in consultation with Industry.** To expedite the process of trials, Vendor Interaction before finalizing the trials methodology as well as directive is being followed by the SHQ.

- (iii) **Documentation in D&D Cases.** DRDO is pursuing concurrent preparation of technical documentation of the equipment being developed by them, to obviate undue delay in technical evaluations.
- (iv) **Acceptance of Spares with Matching Form, Fit and Functionality.** It was observed that Industry is able to provide replacements for OEM manufactured parts in terms of Form, Fit and Functionality. However, they were unable to provide part numbers and design drawings. To address the issue, DGQA has recently evolved guidelines/SOP to be followed for evaluation and acceptance of 'Form, Fit and Functionality' of equipment/spares and their certification.

Accountability and Transparency in Defence Procurement

Recommendation No.13-14:

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.

Reply of the Government

All measures instituted by the Gol/Ministry of Defence (MoD) to promote probity, public accountability and transparency in Defence Capital procurements towards ensuring accountability and transparency are being adhered to diligently in letter and spirit. Any discrepancies/violations, if noticed, are handled as per existing provisions for the same.

Recommendation No.14:

The Committee note that to ensure level-playing field for private defence industry vis-a-vis the DPSUs, various measures like enhanced opportunities through DND categories which have been given to the private industry since the Ordnance 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.

Reply of the Government

1. The Ministry has launched various schemes to encourage indigenous private enterprises instead of foreign conglomerates like the launch of Innovations for Defence Excellence (iDEX), Make Schemes (Make I, Make II & Make III) & Technology Development Fund (TDF).

2. The Ministry encourages participation in R&D by Indian Industries. Further, to prioritise the Indian Companies for capital acquisition of Defence Equipment, as per DAP-2020, Buy (Indian-IDDM) has been given the highest priority.

3. Patents obtained by DRDO are available on DRDO website for use by industries, which are available free of cost to the industry. Ownership of IPR generated in iDEX and Make cases is also provided to the Industry. Ministry monitors the IPRs filed and granted in case of Indian designs developed by DPSUs and Industry under “Mission Raksha Gyan Shakti”. A dedicated IP Cell has been created in the MoD.

Increasing Dependence on Foreign Suppliers for Military Hardware

Recommendation No.15-17:

The Capital procurement of Defence equipment from Indian and foreign vendors is carried out as per provisions of the Defence Procurement Procedure. Defence equipment are 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 (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 Committee also note that value of imports from 2017-18 to 2021-22 in r/o DPSUs and erstwhile OFs is Rs 68,871.4 Crores approximately. The Committee note that import content for equipment 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 indigenisation 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 equipment and systems being developed by them. Therefore, the Committee recommend that it is imperative now that DPSUs and OFB took urgent and concerted steps to make India self-reliant in Defence production.

Reply of the Government

1. DPSUs are encouraged to take necessary steps for reducing import dependence & indigenise the items being regularly imported. Towards the same objective, a total of 8 Positive Indigenisation Lists (PIL), 4 PIL of DPSUs (4666 items) and 4 PIL (411 items) of Services have been promulgated comprising of a total of 5077 items which will only be procured from domestic industry. Out of the total 4666 items of DPSUs PIL which includes OF Units, 2849 items have already been indigenised so far and no import with regards to the same will be carried out, hence reducing the import content of DPSUs.

2. Pursuant to 'Atmanirbhar Bharat' announcement, the Department of Defence Production (DDP) under Ministry of Defence has developed a portal named 'SRIJAN' (srijandefence.gov.in), as "Opportunities for Make in India in Defence" in Aug 2020. SRIJAN portal is a Common Indigenization Portal for all Defence Public Sector Undertakings (DPSUs) including OF Units and the Armed Forces (SHQs). It gives access to the Indian Manufacturing Industry of the items which have been imported in the past or are likely to be imported in the future by DPSUs/SHQs. The portal is a non-transactional online market place platform. As on **19.07.2023** more than **30,000** items are available for Public View on SRIJAN portal and out of which more than **9,100** items have already been indigenised.

Recommendation No.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 case of Air Force, the expenditure incurred on purchase of defence equipment from foreign sources has risen from 24,570.18 Cr in 2020-21 to Rs. 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 equipment/devices will 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.

Reply of the Government

1. The Government has taken several policy initiatives in the past few years and brought in reforms to encourage indigenous design, development and manufacture of defence equipment, thereby promoting self-reliance in defence manufacturing & technology in the country. These initiatives, inter-alia include, Buy (Indian- IDDM) has been accorded top priority for procurement of capital equipment (AON accorded for 50

IDDM proposals worth Rs 1,06,710 Crs. since 2020); Notification of four 'Positive Indigenization Lists' of total 411 items of Services and four 'Positive Indigenization Lists' of total 4666 items (out of which 2849 items have been indigenised so far) of Defence Public Sector Undertakings (DPSUs), for which there would be an embargo on the import beyond the timelines indicated against them; Simplification of Industrial licensing process with longer validity period; Liberalization of Foreign Direct Investment (FDI) policy allowing 74% FDI under automatic route; Simplification of Make Procedure; Launch of Mission DefSpace; Launch of Innovations for Defence Excellence (iDEX) scheme involving startups & Micro, Small and Medium Enterprises (MSMEs); Implementation of Public Procurement (Preference to Make in India) Order 2017; Launch of an indigenization portal namely SRIJAN to facilitate indigenisation by Indian Industry including MSMEs; Reforms in Offset policy with thrust on attracting investment and Transfer of Technology for Defence manufacturing by assigning higher multipliers; Establishment of two Defence Industrial Corridors, one each in Uttar Pradesh and Tamil Nadu; Opening up of Defence Research & Development (R&D) for industry, startups and academia; and Progressive increase in allocation of Defence Budget of military modernization for procurement from domestic sources, etc.

2. All the DPSUs are making consistent efforts for indigenisation & further enhance export potential. Certain efforts to highlight the same are as under:-

(a) AVNL has identified 31 Line Replaceable Units (LRUs) for indigenisation, out of which 12 have been indigenised since 01/10/2021.

(b) BDL is designing and developing products through in-house R&D & is co-development partner in projects/products designed by DRDO.

(c) To reduce import content BEML has initiated Product Indigenisation through License Agreement, Joint Venture & Transfer of Technology with foreign OEMs.

(d) HAL is aggressively & proactively participating in the Global Tenders offering HAL platforms to Friendly Foreign Countries (FFCs). The leads generated are being actively pursued.

(e) HSL has uploaded 83 items on SRIJAN Portal and has indigenised 27 items so far. HSL has tied up with 'M/s AG Flex technologies', Mysuru, a Start-up Company through iDEX (Innovations for Defence Excellence) for development of "EMI/EMC Shielding for Bridge windows".

(f) AWEIL, IOL & GRSE have obtained 94%, 91.5% & 85% indigenous content respectively in their value of production.

(g) GIL, TCL & YIL are a 100 % indigenised DPSUs exploring potential of export to foreign friendly countries.

Recommendation No.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 indigenisation 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.

Reply of the Government

The Government has taken several policy initiatives in the past few years and brought in reforms to encourage indigenous design, development and manufacture of defence equipment, thereby promoting self-reliance in defence manufacturing & technology in the country. These initiatives, inter-alia include, according priority to procurement of capital items from domestic sources under Defence Acquisition Procedure (DAP)-2020; Notification of four 'Positive Indigenization Lists' of total 411 items of Services and four 'Positive Indigenization Lists' of total 4666 items of Defence Public Sector Undertakings(DPSUs), for which there would be an embargo on the import beyond the timelines indicated against them; Launch of an indigenization portal namely SRIJAN to facilitate indigenisation by Indian Industry including MSMEs; Simplification of Industrial licensing process with longer validity period; Liberalization of Foreign Direct Investment(FDI) policy allowing 74% FDI under automatic route; Launch of Innovations for Defence Excellence (iDEX) scheme; Implementation of Public Procurement (Preference to Make in India) Order 2017; Establishment of two Defence Industrial Corridors, one each in Uttar Pradesh and Tamil Nadu; Opening up of Defence Research & Development (R&D) for industry, startups and academia; and Progressive increase in allocation of Defence Budget of military modernization for procurement from domestic sources, etc. Due to concerted efforts of MoD, all **36 contracts** signed towards Capital Procurement /Platform of defence equipment during FY 2022-23 have been signed with Indian entities. Further, out of **4666** Defence items listed in 4 Positive Indigenization Lists of DPSUs, **2849** items have already been indigenized.

Self Reliance and Make in India

Recommendation No.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-IDDMM)', 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 alongwith, 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. 6,8871.4 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.

Reply of the Government

1. In FY 2023-24, an amount of Rs.1,32,301.27 Crore has been allocated under Capital Acquisition (Modernisation) Segment, out of which Rs.99,223.03 Crore (75%) has been earmarked for procurement through Domestic Sources and balanced Rs 33,078.24 Crore through foreign sources. Against the funds earmarked for Domestic Capital Procurement in FY 2022-23 i.e Rs 84,597.89 Crore, an expenditure of Rs.79,057.30 Crore was done till March (Supplementary).
2. In the FY 2022-23, **36 Contracts worth Rs 64,775.14 Crore** have been signed with Indian vendors for capital procurement of defence equipment for Armed Forces.

Offset Clause

Recommendation No. 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 are 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.

Reply of the Government

1. As per the Defence Offset Guidelines under extant DPP/DAP, the Vendor/Tier – 1 sub vendor will be free to select the Indian Offset Partner (IOP) for implementing the offset obligation. The function of Defence Offsets Management Wing (DOMW) in the Ministry includes assisting vendors in interfacing with Indian industry. Ministry is organizing Conclaves/Webinars/Seminars/Interactive Sessions primarily through Industry Associations to facilitate interface of vendors with Indian defence companies.
2. Ministry has streamlined the process of management of offset contracts through digitisation of the offset claims submission, audit, verification and calculation of shortfalls. This has enhanced transparency, accountability and efficiency in offset management.
3. For unfulfilled offset obligations, the vendors are penalised as per the terms and conditions of the offset contracts governed by the applicable Defence Procurement Procedure.

Foreign Direct Investment

Recommendation No. 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 sectoris encouraged to develop and manufacture technologies/systems/accessories independently which are presently being acquired through the FDI route.

Reply of the Government

In order to boost Research & Development infrastructure in the country, Ministry of Defence has taken various measures so that the indigenous defence sector is encouraged to develop & manufacture technologies/systems/accessories. The initiatives inter-alia include Buy(Indian-IDDM) has been accorded top priority for procurement of capital equipment; Simplification of Make Procedure; Launch of Innovations for Defence Excellence (iDEX) scheme involving startups & Micro, Small and Medium Enterprises (MSMEs); Reforms in Offset policy with thrust on attracting investment and Transfer of Technology for Defence manufacturing by assigning higher multipliers; Opening up of Defence Research & Development (R&D) for industry, startups and academia with 25 percent of defence R&D budget; implementation of New Transfer of Technology Policy; Launch of Dare to Dream Innovation: Contest to Support Start Ups & Innovators; Exclusive Technologies/Systems for industry to develop: 108 System identified, DRDO to provide scientific/technologic & testing support; Provisional access to own industry to world class test facilities of DRDO; Free access to Indian Industry to DRDO Patents, MoU with Defence Industrial Corridor to impact skill training, hand holding & guidance; To augment the knowledge potential, Introduction of Defence Courses, Collaborative Ph. D Programmes/Certified Courses on AI & Cyber

Technologies. Further DRDO is providing Apprenticeship scheme & Internship training to students.

DEFENCE PLANNING: Approval from Ministry of Finance

Recommendation No. 21-23:

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.

Reply of the Government

In accordance with DAP-20, the Defence Five Year Plans are being renamed as Defence Capital Acquisition Plans (DCAP) and will flow out of the ten year Integrated Capability Development Plan (ICDP). DCAP is a planning document and will give the likely expenditure envisaged in the five year period. The DCAP is still under formulation and will be taken up for approval of Competent authority once ready. Approval of the Ministry of Finance will assist in better planning and management of the Capital Acquisition Budget and will be considered.

Long Term Integrated Perspective Plan (LTIPP)

Recommendation No.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.

Reply of the Government

The recommendations of the Committee have been noted. It is highlighted that 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 two-year roll on Annual Acquisition Plans. As mandated in DAP 2020, HQIDS in conjunction with SHQs is currently progressing formulation of ICDP in accordance with ICADS process and will be taken up for the approval of DAC once finalized. The ICDP will replace current LTIPP.

Recommendation No. 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.

Reply of the Government

The Committee may be apprised that the progress of expenditure is reviewed from time to time 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. In BE 2023-24, an amount of Rs. 5,93,537.64 Crore (i.e. an increase of Rs. 68,371.49 Crore over BE 2022-23) has been allocated to M/o Defence (all 4 Grants) against projection of Rs. 6,37,113.51 Crore.

CHAPTER-III

Observations/Recommendations which the Committee do not desire to pursue in view of the replies received from the Government

-Nil-

CHAPTER-IV

Observations/Recommendations in respect of which reply of Government has not been accepted by the Committee

-Nil-

CHAPTER- V

Observations/recommendations in respect of which final replies of the Government are still awaited

-Nil-

**New Delhi;
18 December, 2023
27 Agrahayana, 1945 (Saka)**

**JUAL ORAM
Chairperson
Standing Committee on Defence**

STANDING COMMITTEE ON DEFENCE (2023-24)

**MINUTES OF THE SECOND SITTING OF THE STANDING COMMITTEE ON
DEFENCE (2023-24)**

The Committee sat on Monday, the 18th December, 2023 from 1500 hrs. to 1615 hrs. in Committee Room 'D', Parliament House Annexe , New Delhi.

PRESENT

Shri Jual Oram - **Chairperson**

MEMBERS

Lok Sabha

2	Shri Durai Murugan Kathir Anand
3	Kunwar Danish Ali
4	Shri Rahul Gandhi
5	Shri Annasaheb Shankar Jolle
6	Shri Suresh Kumar Kashyap
7	Prof. (Dr.) Ram Shankar Katheria
8	Dr. Rajashree Mallick
9	Shri Jugal Kishore Sharma
10	Dr. Shrikant Eknath Shinde
11	Shri Prathap Simha
12	Shri Brijendra Singh

Rajya Sabha

13	Dr. Ashok Bajpai
14	Shri Kamakhya Prasad Tasa
15	Dr. Sudhanshu Trivedi
16	Smt. P.T. Usha
17	Shri G.K. Vasani
18	Lt. Gen. (Dr.) D. P. Vats (Retd.)

SECRETARIAT

1. Dr. Sanjeev Sharma - Joint Secretary
2. Shri Tirthankar Das - Director

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) **Draft Report on the subject 'A review of working of Defence Research and Development Organisation(DRDO)';**
- ii) **Draft Report on Action Taken by the Government on the Observations/ Recommendations contained in the Thirty-fifth Report (17th Lok Sabha) on '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) **Draft Report on Action Taken by the Government on the Observations/ Recommendations contained in the Thirty-sixth Report (17th Lok Sabha) on '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) **Draft Report on Action Taken by the Government on the Observations/Recommendations contained in the Thirty-seventh Report 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)'; and**
- v) **Draft Report on Action Taken by the Government on the Observations/Recommendations contained in the Thirty-eighth Report on '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. After some deliberations, the Committee adopted the above reports without any modifications. The Committee, then, authorized the Chairperson to finalise the above draft Reports and present the same to the House on a date convenient to him.

4. *****Does not pertain to the Report*****

The Committee then adjourned.

APPENDIX II

ANALYSIS OF ACTION TAKEN BY THE GOVERNMENT ON THE OBSERVATIONS/RECOMMENDATIONS CONTAINED IN THE THIRTY-SEVENTH REPORT (17TH LOK SABHA) OF THE STANDING COMMITTEE ON DEFENCE ON DEMAND FOR GRANTS(2023-24)' ON 'CAPITAL OUTLAY ON DEFENCE SERVICES, PROCUREMENT POLICY AND DEFENCE PLANNING'

1. Total No. of Recommendations 23
2. Observations/Recommendations which have been accepted by the Government (Chapter II):

Recommendation Para Nos. 1,2,3,4,5,6,7,8,9,10,11,12,13,14,15,16,17,18,19,20, 21, 22,23

Total : 23
Percentage:100%
3. Observations/Recommendations which the Committee do not desire to pursue in view of the replies received from the Government (Chapter III):

Recommendation Para Nos. -Nil-

Total : 00
Percentage:0%
4. Observations/Recommendations in respect of which reply of Government has not been accepted by the Committee (Chapter IV):

Recommendation Para Nos. -Nil-

Total : 00
Percentage:0%
5. Observations/recommendations in respect of which final replies of the Government are still awaited (Chapter V):

Recommendation Para Nos. -Nil- Total : 00
Percentage:0%