42

STANDING COMMITTEE ON DEFENCE

(2017-2018)

(SIXTEENTH LOK SABHA)

MINISTRY OF DEFENCE

DEMANDS FOR GRANTS (2018-19)

CAPITAL OUTLAY ON DEFENCE SERVICES, PROCUREMENT POLICY AND DEFENCE PLANNING

(DEMAND NO. 21)

FORTY SECOND REPORT

LOK SABHA SECRETARIAT

NEW DELHI

March, 2018 / Phalguna, 1939 (Saka)

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Presented to Lok Sabha on 13 .03.2018

Laid in Rajya Sabha on 13.03.2018

LOK SABHA SECRETARIAT

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CONTENTS

COMPOSITION OF THE STANDING COMMITTEE ON DEFENCE (2017-18)

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3. Shri Suresh C Angadi
4. Shri Shrirang Appa Barne
5. Col Sonaram Choudhary(Retd)
6. Shri Thupstan Chhewang
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Rajya Sabha

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3 Shri Harivansh
4. Shri Madhusudan Mistry
5. Shri Basawaraj Patil
6. Shri Sanjay Raut
7. Smt Ambika Soni
8.# Dr Subramanian Swamy
9.* Shri Vivek K. Tankha

*** Resigned w.e.f. 16.11.2017**
 # Resigned w.e.f. 07.03.2018

SECRETARIAT

1.	Smt Kalpana Sharma	-	Joint Secretary
2.	Shri T G Chandrasekhar	-	Director
3.	Smt Jyochnamayi Sinha	-	Additional Director
4.	Shri Rahul Singh	-	Under Secretary
5.	Smt Preeti Negi	-	Executive Assistant

REPORT

PART I

CHAPTER I

CAPITAL OUTLAY ON DEFENCE SERVICES

DEMAND NO. 21

Demand No. 21 pertains to Capital Outlay on Defence Services, i.e., Army, Navy, Air Force, Joint Staff, Defence Ordnance Factories, Defence Research & Development Organisation (DRDO), Director General Quality Assurance(DGQA) and National Cadet Corps (NCC). The 'running' or 'operating' expenditure of the three Services and other Departments viz., DRDO, DGOF, DGQA and NCC, are provided under the Demand No. 20, Defence Services – Revenue, which cater for the Revenue expenditure, while the Demand No 21 caters for the expenditure incurred on building or acquiring durable assets.

The Revenue expenditure includes expenditure on pay & allowances, transportation, revenue stores (like ordnance stores, supplies by Ordnance Factories, rations, petrol, oil and lubricants, spares, etc.), revenue works (which include maintenance of buildings, water and electricity charges, rents, rates and taxes, etc.) and other miscellaneous expenditure. The Capital expenditure includes expenditure on land, construction works, plant and machinery, equipment, Tanks, Naval Vessels, Aircraft and Aeroengines, Dockyards, etc.

Projections made by the three Services and Allocations made by the Ministry of Finance

1.2 In Budget Estimates(BE) 2017-18, Revised Estimates (RE) 2017-18 and BE Defence 2018-19, the Ministry of Finance allocated funds for Defence Services under Revenue and Capital Outlay as under:

(Rs. in Crore)

	BE2017-18	RE 2017-18	BE 2018-19
Revenue (Net)	1,72,773.89	1,76,515.84	1,85,323.19
Capital (Acquisition)	69,473.41	68,965.24	74,115.99
Capital (other than Acquisition)	17,014.60	17,522.77	19,866.14
Total Capital	86,488.01	86,488.01	93,982.13
Total (Rev+Capital)	2,59,261.90	2,63,003.85	2,79,305.32

Further Details of Capital Budget

	BE 2017-18	RE 2017-18	BE 2018-19
Capital (Acquisition including DGOF Supplies)	69,473.41	68,965.24	74,115.99
Capital (other than Acquisition)			
Land & Works of 3 Services (including Married Accommodation Projects)	8,650.63	9,158.80	9,318.05
DRDO, DGOF and Other Defence Departments	8,363.97	8,363.97	10,548.09
Total Capital)	**86,488.01**	**86,488.01**	**93,982.13**

1.3 The Ministry of Defence furnished the following data regarding allocation to the various Services in respect of Revenue and Capital Budget for the year 2018-19:

(Rs. in Crore)

Service	Revenue		Capital		Total Allocation (Revenue + Capital)
	Projection	Allocation	Projection	Allocation	
Army	1,51,814.73	1,27,059.51	44,572.63	26,815.71	1,53,875.22
Navy	20,188.25	16,618.88	35,695.41	20,003.71	36,622.59
Joint Staff	3,559.50	2,952.49	2,237.03	844.45	3,796.94
Air Force	35,260.79	28,821.27	77,694.74	35,770.17	64,591.44

1.4 The projections made by the three Services, allocations made at BE and RE stage and the expenditure incurred from 2010-11 onwards, separately for Capital and Revenue Heads, are as follows:-

REVENUE

(Rs. in Crore)

Year	Service	BE		RE		Expenditure
		Projected	Allocated	Projected	Allocated	
2010-11	Army	62,234.60	56769.11	63,917.31	59941.83	62383.61
	Navy	10,723.76	9329.67	11,147.73	9833.52	9979.02
	Air Force	17,483.60	15210.73	15,249.01	15003.55	14551.07
2011-12	Army	77,350.49	63,609.80	74,252.98	70,810.98	69,133.47
	Navy	13,658.47	10,589.06	14,450.48	12,146.93	11,903.80
	Air Force	20,015.46	15,927.95	16,123.16	16,137.38	16,772.83
2012-13	Army	83,861.62	77,327.03	83,120.33	75,520.20	76,689.82
	Navy	15,835.71	12,548.02	15,765.78	11,401.91	11,833.65
	Air Force	19,887.73	17,705.81	20,942.36	17,103.72	17,529.02
2013-14	Army	93,355.38	81,119.20	91,294.13	85,516.45	85,030.92
	Navy	19,164.69	12,194.43	15,059.73	13,163.94	13,034.36
	Air Force	25,922.64	18,295.10	22,505.98	19,283.27	19,093.70
2014-15	Army	1,04,837.88	91,844.02	99,420.15	97,501.40	95,973.22
	Navy	19,570.57	13,975.79	15,753.51	13,935.79	13,678.87
	Air Force	27,073.41	20,506.84	22,368.56	20,185.86	19,741.06

2015-16	Army	1,09,758.22	1,03,315.91	1,04,408.45	1,00,106.78	1,02,847.18
	Navy	18,546.58	15,525.64	15,838.30	14,635.18	14,992.04
	Air Force	29,632.28	23,000.09	23,000.09	20,377.09	21,020.95
2016-17	Army	1,15,561.78#	1,12,764.62#	1,21,686.11	1,17,925.22	1,16,901.93
	Navy	18,502.56	17,424.79	19,348.23	17,813.99	17,136.77
	Air Force	25,728.60	23,655.83	23,817.22	23817.52	22856.44
2017-18 (*)	Army	1,52,491.22	1,19,961.51	1,29,287.59	1,21,451.80	1,11,435.07
	Navy	22,473.64	18,493.82	20,545.47	18,878.93	15,306.12
	Air Force	29,147.29	24,802.33	29,746.42	27,209.61	22083.30

(# Includes allotment to NCC, Military Farms, Rashtriya Rifles and ECHS which are shifted to modified Grant No. 20-MoD(Miscellaneous) from FY 2016-17, but have been transferred back to Defence Services Estimates in FY 2017-18, with exception of Military Farms and ECHS, for the purpose of comparison with previous as well as future years)

**Expenditure is upto 31st January, 2018.*

CAPITAL

(Rs. in Crore)

Year	Service	BE		RE		Expenditure
		Projected	Allocated	Projected	Allocated	
2010-11	Army	21,633.04	17250.84	19,177.55	15641.16	15,856.08
	Navy	15,221.78	12137.84	17,890.87	15323.77	17,140.18
	Air Force	31,667.56	25251.72	25,271.72	24266.79	23,625.42
2011-12	Army	25,611.68	19,210.69	20,641.69	16,005.69	14,947.82
	Navy	26,882.60	14,657.83	21,482.18	17,459.08	19,211.52
	Air Force	36,186.10	30,282.03	30,282.03	27,734.78	28,841.18
2012-13	Army	28,234.60	19,237.80	18,971.09	15,749.30	14,760.69
	Navy	28,643.19	24,766.42	25,002.85	18,266.42	17,759.88
	Air Force	36,950.52	30,514.45	36,999.62	30,517.95	32,980.11
2013-14	Army	25,528.08	17,883.83	19,271.59	14,967.25	14,433.29
	Navy	33,775.53	24,149.03	27,290.06	20,418.98	20,358.85
	Air Force	64,607.84	39,208.84	65,825.22	37,750.44	38,614.93
2014-15	Army	41,936.15	26,533.60	23,832.67	21,933.54	18,586.73
	Navy	28,253.21	23,832.67	22,903.31	18,507.07	22,269.66
	Air Force	62,408.33	33,710.68	38,948.19	33,710.68	32,796.42

2015-16	Army	31,938.67	27,342.42	27,845.33	24,230.47	20,703.70
	Navy	26,268.13	25,003.24	25,152.20	19,740.06	19,874.69
	Air Force	46,191.96	33,686.75	35,780.78	30,442.15	31,198.32
2016-17	Army	37,960.18#	26,935.81#	34,489.90	24,017.86	28,462.11
	Navy	30,223.31	22,000.09	22,530.04	19,596.28	19,996.88
	Air Force	41,266.41	29,795.42	36,512.95	28,239.86	30,414.79
2017-18(*)	Army	42,485.93	25,205.71	40,791.43	25,205.71	22,066.48
	Navy	28,591.56	19,348.16	27,717.41	19,348.16	16,436.03
	Air Force	62,048.85	33,570.17	52,548.50	33,570.17	33,992.20

(# Includes allotment to NCC, Military Farms, Rashtriya Rifles and ECHS which are shifted to modified Grant No. 20-MoD(Miscellaneous) from FY 2016-17, but have been transferred back to Defence Services Estimates in FY 2017-18, with exception of Military Farms and ECHS, for the purpose of comparison with previous as well as future years)

**Expenditure is upto 31st January, 2018.*

REVENUE + CAPITAL

(Rs. in Crore)

Year	Service	BE		RE		Expenditure
		Projected	Allocated	Projected	Allocated	
2010-11	Army	83,867.64	74019.95	83,094.86	75582.99	78,239.69
	Navy	25,945.54	21467.51	29,038.60	25157.29	27,119.20
	Air Force	49,151.16	40462.45	40,520.73	39270.34	38,176.49
2011-12	Army	102,962.17	82,820.49	94,894.67	86,816.67	84,081.29
	Navy	40,541.07	25,246.89	35,932.66	29,606.01	31,115.32
	Air Force	56,201.56	46,209.98	46,405.19	43,872.16	45,614.01
2012-13	Army	112,096.22	96,564.83	102,091.42	91,269.50	91,450.51
	Navy	44,478.90	37,314.44	40,768.63	29,668.33	29,593.53
	Air Force	56,838.25	48,220.26	57,941.98	47,621.67	50,509.13
2013-14	Army	118,883.46	99,003.03	110,565.72	100,483.70	99,464.21
	Navy	52,940.22	36,343.46	42,349.79	33,582.92	33,393.21
	Air Force	90,530.48	57,503.94	88,331.20	57,033.71	57,708.63
2014-15	Army	1,46,774.03	118,377.62	123,252.82	119,434.94	114,559.95
	Navy	47,823.78	37,808.46	38,656.82	32,442.86	35,948.53
	Air Force	89,481.74	54,217.52	61,316.75	53,896.54	52,537.48
2015-16	Army	1,41,696.89	1,30,658.33	1,32,253.78	1,24,337.25	1,23,550.88
	Navy	44,814.71	40,528.88	40,990.50	34,375.24	34,866.73
	Air Force	75,824.24	56,686.84	58,780.87	50,819.24	52,219.27

2016-17	Army	1,53,521.96 #	1,40,675.80#	1,69,576.52	1,41,943.08	1,45,364.04
	Navy	48,725.87	39,424.88	41,878.27	37,410.27	37,133.65
	Air Force	66,995.01	53,451.25	60,330.17	52,057.38	53,271.23
2017-18(*)	Army	1,94,977.15	1,45,167.22	1,70,079.02	1,46,657.51	1,33,501.55
	Navy	51,065.20	37,841.98	48,262.88	38,227.09	31,742.15
	Air Force	91,196.14	58,372.50	82,294.92	60,779.78	56,075.50

(# Includes allotment to NCC, Military Farms, Rashtriya Rifles and ECHS which are shifted to modified Grant No. 20-MoD(Miscellaneous) from FY 2016-17, but have been transferred back to Defence Services Estimates in FY 2017-18, with exception of Military Farms and ECHS, for the purpose of comparison with previous as well as future years)

**Expenditure is utpo 31st January, 2018.*

1.5 The above tables depict the budgetary provision for Capital acquisition for the three Forces from 2010-11 onwards and BE and RE projected and allocated for 2017-18. Against a projection of Rs. 1,33,126.34Crore for capital budget in 2017-18, Rs. 78,124.04 Crore had been allocated for BE 2017-18 for the three Services. Similarly, against a projection of Rs. 1,21,057.34 Crore for capital budget in 2017-18, Rs. 78,124.04 Crore had been allocated for RE 2017-18 for the three Services.

1.6 When asked to state the areas where compromises have been made or likely to be made due to reduced budgetary allocation against the projections made by the three Services and other organisations/heads, the Ministry in its written reply has submitted as under:

> 'The allocated funds are optimally and fully utilized towards operational activities. However, depending on the Budget allocation the schemes are reprioritized to ensure that urgent and critical capabilities are acquired without any compromise to operational preparedness of the Defence Services.'

1.7 The Ministry was asked to provide data regarding the items planned during the last five years of Capital budget, the achievement made and shortfalls, if any. In its reply, the Ministry stated as under:

'In accordance with the provisions of Defence Procurement Procedure (DPP), the acquisition of Weapon Systems and equipment for the Armed Forces flows from the Long Term Integrated Perspective Plan (LTIPP). The current LTIPP spells out the capability desired to be achieved by the Armed Forces over a 15 year period (2012-27). The LTIPP is translated into specific assets to be acquired, in the form of Services Capital Acquisition Plan (SCAP), covering a five year period.

From the Services Capability Acquisition Plans (SCAP), a list of equipment and weapon systems required to be procured immediately is listed in the form of the Annual Acquisition Plans (AAP). The AAP covers a period of 2 years and rolls over to the next financial year. The AAP is prepared and prioritised in consonance with the Budget allocation for capital acquisitions. During the last five years, the allocations for capital acquisitions have been utilised as indicated below:-

(Rs. in Crores)

Year	BE	RE	Actuals
2012-13	66003.14	57395.46	58768.86
2013-14	73444.59	66406.41	66850.30
2014-15	75148.03	66151.73	65862.38
2015-16	77406.69	65400.00	62235.54
2016-17	69898.51	62619.36	69280.17

<u>Analysis of Capital Budget allocated to the Services for 2018-19</u>

1.8 Modernisation involves the acquisition of new state-of-the-art platforms, technologies and weapon systems to upgrade and augment Defence capabilities. The budget for the same is taken from the capital segment of the Defence budget.

1.9 The Ministry submitted following comparative data on outlay on Modernisation (Capital Acquisition) for the Services:

(Rs. In Crore)

Service	BE 17-18	RE 17-18	BE18-19	BE to BE(growth %)	RE to BE(growth %)
Army	20178.21	20177.21	21338.21	5.75	5.75
Navy	18004.76	17593.55	19083.00	5.99	8.47
Joint Staff	390.54	294.58	594.88	52.32	101.94
Air Force	30899.90	30899.90	33099.90	7.12	7.12
Total	69473.41	68965.24	74115.99	6.68	7.47

1.10 The following table depicts the breakup of capital budget allocated to Army for 2018-19:

(Rs. In Crore)

Head	**FY 2017-18**		**FY 2018-19**		**Variation**
	BE	**RE**	**BE**	**RE**	**RE 17-18 to BE 18-19**
Capital Acquistion (Modernisation- includes Committed Liabilities, New schemes, others, DGOF, emergency procurements and 10(I)	20,178	20,177	32,033	21,338	1,161 (5.75%)
Infrastructure (other than capital acquisition)	5,015	5,015	7,056	5,455	440 (8.8%)
Total Capital	25,193	25,192	39,089	26,793	1,601 (6.4%)

1.11 The Vice Chief of Army staff, in his oral deposition to the Committee, expressed deep concern on non-allocation of projected Capital budget for Army for 2018-19:

> 'A new defence procurement policy to streamline the procedures, delegation of emergency procurement powers to Vice Chief of Army Staff as also delegation of powers to purchase up to 10 (I) of ammunition, armaments, and spares are some of the steps that have been taken. Besides this, a series of systems and structural reforms in consultation with the Ministry of Defence has also empowered us to fully utilise our allocation. However, the Budget of 2018-19 has dashed our hopes and most of what has been achieved has actually received a little set back. To highlight a few cases, the marginal increase in BE barely accounts for the inflation and does not even cater for the taxes. Allocation of Rs. 21,338 Crore for modernisation is insufficient even to cater for committed payment ofRs. 29,033 Crore for 125 on-going schemes, emergency procurements, 10 (I) and other DGOF requirements. Committed liabilities of 2017 which will also get passed on to 2018 will further accentuate the situation. Therefore, liquidation of this committed liability will hardly leave any funds for new schemes in 2018-19. Typically, any modern Armed Forces should have one-third of forces, one-third of its equipment in the vintage category, one-third in the current category and one-third in the state of the art category. As far as we are concerned, the state today is 68 per cent of our equipment is in the vintage category, with just about 24 per cent in the current, and eight per cent in the state of the art category. Make in India as mentioned in the morning is a great step taken by the Ministry of Defence towards development and self-reliance in keeping with the vision of our hon. Prime Minister. Large number of systemic changes outlined in defence procurement procedure of 2016 was aimed at this to achieve greater indigenisation. We in the Army have identified as many as 25 projects for Make in India. However, there is not adequate Budget to support this. As a result of which, many of these may end up foreclosed. There is yet another great step which was taken again by the Ministry of Defence by way of strategic partnership of allowing a foreign company to partner with an Indian company to make larger platforms like aircraft, submarines, ships, and tanks. In the Army we are looking forward to manufacturing the future ready combat vehicle, FRCVs, and FICVs, Future Infantry Combat Vehicles through these schemes. However, with the kind of Budget that has been allocated, this may get delayed by a few years. I am not sure what is going to be their future. As regards infrastructure development is concerned, we have the married accommodation projects which is on. It was said that the Rohtang tunnel has to be completed. We have a large number of Chinese strategic roads and also infrastructural development along the northern borders. For these infrastructure development, the allocation is falling short by around Rs. 902 Crore from what we have demanded. So, there is an overall shortfall of around Rs. 12,296 Crore as far as capital is concerned.'

1.12 He further submitted:

'…we have had a few instances of fidayeen attacks, people entering the cantonment areas and very recently in the married accommodation. The Ministry of Defence has again delegated powers to the VCOAS to spend as much as Rs. 14,097 Crore towards security related issues. However, there is no separate allocation for this. So, this money also to be found from the same Budget leaving us with no choice but to re-prioritise either to reduce our requirement as far as the security of military stations are concerned or to go slow on some other acquisition. So, the total requirement in the capital Rs. 12,296 Crore and revenue Rs. 9,282 Crore works out to Rs. 21,578 Crore.'

1.13 The details regarding Capital budget allocated to Navy for 2018-19 are as follows:

Scheme	**BE 18-19 Projections**	**BE 18-19 Allocations**
Modernisation	30358.38	19083.00
Committed Liabilities	25106.74	15083.00
New Schemes	5251.64	4000.00
Land & Works	3100.00	920.71
Total	33458.38	20003.71

1.14 During a powerpoint presentation, the Ministry informed the Committee of the following impact of low allocation in capital budget of Navy:

- Constrain progress of New Schemes and ability to conclude contracts
- Delay in induction of critical capabilities and attendant cost overruns
- Impact progress of infrastructure projects and mitigation of shortage of accommodation
- Set back pace of modernization

1.15 As per information furnished by the Ministry, there is shortfall of Rs. 41, 924.57 Crore in the projected (Rs. 77,694.74 Crore) and allocated amount (Rs. 41,924.57 Crore) in the Capital budget for Air Force.

Ratio for Capital and Revenue outlay

1.16 Ratio for Revenue and Capital expenditure in respect of Army, Navy and Air Forces as well as total outlay from 2012-13 onwards is given below:

(Adv Info, Part III, Pg 5)

Year	Service	Revenue	Capital
2012-13	Army	84	16
	Navy	40	60
	Air Force	35	65
	Total Outlay	**61**	**39**
2013-14	Army	85	15
	Navy	39	61
	Air Force	33	67
	Total Outlay	**61**	**39**
2014-15	Army	84	16
	Navy	38	62
	Air Force	38	62
	Total Outlay	63	37
2015-16	Army	83	17
	Navy	43	57
	Air Force	40	60
	Total Outlay	**65**	**35**
2016-17	Army	80	20
	Navy	46	54
	Air Force	43	57
	Total Outlay	**66**	**34**
2017-18(RE)	Army	83	17
	Navy	49	51
	Air Force	45	55
	Total Outlay	**67**	**33**

1.17 From the information furnished by the Ministry it is seen that from 2012-13 onwards, the 'Capital' component of the budgetary allocation has decreased in comparison to 'Revenue' component of the Budget.

1.18 The VCAS also threw light on this aspect during the oral evidence:

'..in the Army from the total Budget, 63 per cent of our Budget goes into paying salaries. The normal maintenance and operational requirements works out to 20 per cent and infrastructure takes around three per cent. Modernisation gets a mere 14 per cent which is grossly inadequate. We need to get additional funds for modernisation.'

Under spending

1.19 Details of the heads/services under which there was under/ over-spending in the Capital Budget 2011-12 onwards, with reference to final grant are as follows:

(Rs. in Crores)

Year	Service/ Organisation	BE	RE	Final Grant (Net)	Expenditure	Under-spending(-) / Over-spending(+)
2011-12	Army	19,210.69	16,005.69	14,957.16	14,947.82	-9.34
	Navy	13,729.05	16,570.37	17,141.80	18,433.21	1,291.41
	Joint Staff	928.78	888.71	780.34	778.31	-2.03
	Air Force	30,282.03	27,734.78	28,334.28	28,841.18	506.90
	DGOF	399.96	299.96	292.63	278.48	-14.15
	R&D	4,628.30	4,628.30	4,628.30	4,616.28	-12.02
	DGQA	20.00	16.00	9.30	7.10	-2.20
2012-13	Army	19,237.80	15,749.30	14,731.91	14,760.69	28.78
	Navy	23,867.62	17,367.62	16,167.62	16,835.64	668.02
	Joint Staff	898.80	898.80	898.80	924.24	25.44
	Air Force	30,514.45	30,517.95	32,735.34	32,980.11	244.77
	DGOF	399.96	399.96	356.95	349.07	-7.88
	R&D	4,640.00	4,640.00	4,683.01	4,644.43	-38.58
	DGQA	20.00	5.00	5.00	4.94	-0.06
2013-14						
	Army	17,883.83	14,967.25	15,038.63	14,433.29	-605.34
	Navy	23,408.95	19,799.71	18,750.99	19,707.52	956.53
	Joint Staff	740.08	619.27	634.63	651.33	16.70
	Air Force	39,208.84	37,750.44	38,708.42	38,614.93	-93.49
	DGOF	435.96	465.96	465.96	465.34	-0.62

	R&D	5,057.60	5,257.60	5,261.60	5,241.52	-20.08
	DGQA	5.45	12.00	12.00	11.12	-0.88
2014-15	Army	26,533.60	21,933.54	25,361.42	18,586.73	-6,774.69
	Navy	22,803.80	17,792.26	21,151.82	21,625.39	473.57
	Joint Staff	1,028.87	714.81	655.01	644.27	-10.74
	Air Force	33,710.68	33,710.68	26,536.22	32,796.42	6,260.20
	DGOF	1,206.56	660.24	774.00	746.19	-27.81
	R&D	9,298.25	7,147.52	7,481.37	7,482.52	1.15
	DGQA	6.19	6.19	5.40	5.46	0.06
2015-16	Army	27,342.42	24,230.47	20,706.75	20,703.70	-3.05
	Navy	24,080.90	19,032.25	19,032.25	19,153.54	121.29
	Joint Staff	922.34	707.81	724.96	721.15	-3.81
	Air Force	33,686.75	30,442.15	30,792.15	31,198.32	564.50
	DGOF	760.07	500.05	687.00	679.76	-7.24
	R&D	7,788.40	6,480.15	7,529.05	7,490.86	-38.19
	DGQA	7.12	7.12	11.12	10.98	-0.14
2016-17	Army	26,935.81	24,017.86	25,594.83	28,462.11	2,867.28
	Navy	21,041.22	18,742.18	18,815.12	19,197.28	382.16
	Joint Staff	958.87	854.10	781.16	799.60	18.44
	Air Force	29,795.42	28,239.86	29,039.86	30,414.79	1,374.93
	DGOF	735.68	715.29	715.29	716.70	1.41
	R&D	6,865.73	6,792.00	6,792.00	6,771.51	-20.49
	DGQA	7.27	9.00	9.00	8.93	-0.07

1.20 When asked whether the Ministry has analysed the reasons for under/overspending, the Ministry responded as under:

> ‘Over-spending occurs when certain payments which were not anticipated but are required to be made to avoid possible litigation or the payments which are to be made as per project schedule and contractual terms and conditions for delivery of store and non-fulfilment of which may bring embarrassment to the Government. As projects of Ministry of Defence run into thousands of Crores of Rupees, meeting even single project obligation may lead to hundreds of Crores of over-spending.
>
> Under-spending occurs mainly due to: slippages in achieving project milestones by the vendor or delay in delivery of product/equipment; lesser expenditure than

anticipated, non-fructification of new projects; lesser allocation than projection leading to deferment of payment to next year etc. the expenditure is reviewed form time to time by FADS / Defence Secretary to ensure that the budgetary allocations are utilized.

Necessary instructions are issued from time to time for sticking to financial propriety and avoidance of overspending/ underutilization of funds. The Committee may be assured that all efforts will be made to ensure optimum Utilization of resources.'

1.21 The Committee while examining Demands for Grants had observed that Capital expenditure had never remained under control. It was felt that Capital head invariably ends off with unutilised funds. During the year 2011-12, Army was allocated final grant of Rs. 14,957.16Crore but was able to utilise only Rs. 14,947.82 Crore. During the year 2013-14, Army was allocated Rs. 15,038.63Crore as final grant, but again it was able to utilise only Rs. 14,433.29Crore. Again, in the year 2014-15, Army was allocated Rs. 25,361.42Crore at final grant stage but spent only Rs. 18,586.73 Crore.

1.22 The Defence Secretary, with regard to utilization of funds for year 2017-18 by the Ministry of Defence, deposed as under:

'I would like to apprise the Hon. Committee that unlike earlier years, no cut has been imposed by the MoF at the revised estimates stage due to a very healthy trend of expenditure archived by the Ministry.

As a part of reforms in the Defence Financial Management, we have taken steps to delegate further powers to the Service Headquarters to improve their operational capability. New delegations of financial powers have been made for the Coast Guard, the BRO and the NCC. Powers for Post Contract Management have also been delegated to the Service Headquarters for efficient budget management. The Service Headquarters have also been delegated full powers to operationalise perimeter security aspects.'

Capital Budget as ‘Non Lapsable’ and ‘Roll on’

1.23 The Committee had recommended in their various reports to have Capital Budget as ‘Non Lapsable’ and ‘Roll on’. The Ministry of Defence in the information furnished to the Committee on the subject matter in the past had, in general, not favoured the proposal for constituting a Non-lapsable Defence Capital Fund Account.

1.24 However, contrary to the stance taken in the past, the Ministry of Defence has, in its Brief submitted to the Committee on 22.12.2016, favoured creation of 'Non-Lapsable Defence Capital Modernization Fund'. The Ministry of Defence, in the said Brief, submitted as under:

> '....the issue regarding creation of a non-lapsable Defence Modernization Fund has gone through three different phases in the past. While initially it was not favoured by the Ministry of Defence, MoD later on drew up a detailed accounting procedure for operationalising the Fund with the approval of Ministry of Finance and processed the proposal for opening of the accounting heads. A provision was also made for the said Fund in the interim Budget of 2004-05 but not in the General Budget presented in July 2004 by which time it was again felt that the usefulness of such a Fund would be limited. In January 2005, Ministry of Finance had issued guidelines on creation of Reserve/Corpus Funds, which imposed a virtual ban on creation of new funds. As per these instructions, transfer to and from such funds is to be decided as part of the budgetary process. This implies that approval of the Ministry of Finance and the Parliament is mandatory for any transfers of money to such Funds and utilization of money out of these Funds. Consequently, it was felt that creation of a Fund that does not require approval of Ministry of Finance/ Parliament for transfer of money or its utilization will not be possible. This was also conveyed to the Standing Committee.
>
> Thus, since July 2004, MoD has been taking the stand that the utility of such a Fund is limited and therefore, the proposal is not being pursued. This has been stated in response to various Parliament questions and in the status report on implementation of the recommendations of the Standing Committee on Defence. However the Honourable Standing Committee has time and again raised the issue of setting up of a non-lapsable Defence Capital (Modernization) Fund. On further consideration in consultation with the Services and after taking into account the views of various think tanks, it has been felt that the utility of creation of a non-lapsable, roll over fund for Capital cannot be completely negated as the same would help in eliminating the prevailing uncertainty in providing adequate funds for various defence capability development and infrastructure projects. The Ministry therefore has reviewed its stated position taken so far and proposes to take up the case for setting up of a capital non-lapsable, roll–on fund afresh with Ministry of Finance immediately.'

1.25 Intimating the latest position in regard to creation of 'Non-Lapsable Capital fund Account' for the Services, the MoD has submitted as under:

‘The proposal for creation of `Non–lapsable Capital Fund Account‟ in Public Account for Defence Modernisation, was sent to Ministry of Finance, but the same was not agreed to by the Ministry of Finance stating following reasons:

i. Adequate budget provision is made available to Ministry of Defence to finance the capital requirements of Defence Services;

ii. Balances available in the non-lapsable funds will not be available to Ministry of Defence automatically. It requires Parliament sanction through Demands for Grants of Ministry of Defence for being spent on Defence Capital Expenditure. Hence, mere creation of non-lapsable funds yields no additional advantage to Ministry of Defence and could rather induce complacency in incurring expenditure;

iii. Funds in the Public Account are generally created with dedicated receipts for being financed. In this case, there is no such dedicated receipts for financing the corpus of the reserve fund proposed to be created in the Public Account;

iv. Creating a corpus out of general revenues could lead to unnecessary parting of funds and make them unavailable for other essential expenditure. Thus, non- lapsable funds result in sub-optimal utilization. Standing Committee on Finance (16thLok Sabha), in its 2nd Report on Demands for Grants of Ministry of Finance for the year 2014-15, recommended that the unutilized funds/funds kept idle for more than two years may be transferred to Consolidated Fund of India so that these funds could be utilized for other prioritized schemes; and

v. Moving general revenue out of Consolidated Fund and parking in corpus fund is against the spirit being Article 266(1) of the Constitution. Giving go ahead in one case could raise competing demand from other Ministers.

This Ministry had forwarded the proposal for creation of `Non–lapsable Capital Fund Account’ in Public Account for Defence Modernisation with the approval of Hon’ble Raksha Mantri and Ministry of Finance’s reply has the approval of Hon’ble Finance Minister.'

Committed Liabilities and New Schemes

1.26 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 several financial years. As such, it is important to track the element of Committed Liabilities, which hold first charge on the budget allocation. Inadequate allocation for committed liabilities could lead to default on contractual obligations. New Schemes include new projects/proposals, which are at various stages of approval and are likely to be implemented in near future.

1.27 When asked about projected and allocated budget for committed liabilities and new schemes in Defence Budget in 2018-19, 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). The projected and allocated funds for the three Services under Capital Acquisition are as follows:-

(Rs. In Crore)

SERVICE	Projection BE 2018-19	Allocation BE 2018-19
Army	37,121.54	21,338.21
Navy	30,358.38	19,083.00
Air Force	72481.65	33,099.90

1.28 When asked to provide figures regarding projected and allocated amount for the Services for Committed Liabilities and New Schemes 2012-13 onwards, the Ministry submitted following information:

> 'Projection for Capital Acquisition made to MoF includes both committed liabilities and new schemes. Based on ceilings received from Ministry of Finance, allocation is made in Capital Acquisition. Details of BE and RE projections for Capital Acquisition, allocations made and the actual expenditure in Committed Liabilities for last five years and 2017-18 is as under:

BE2012-13 (Rs. In Crore)

Service	BE Projection	BE Allocation	RE Projection	RE Allocation	Actual Expenditure
Army	15407.84	13724.14	13515.87	11568.76	10871.79
Navy	26660.38	23252.71	23252.71	16752.71	16301.99
Jt Staff	602.75	522.39	602.53	498.00	542.08
Air Force	34164.76	28533.00	34433.00	28575.99	31053.00
Total	76835.73	66032.24	71804.11	57395.46	58768.86

BE2013-14

(Rs in Crore)

Service	BE Projection	BE Allocation	RE Projection	RE Allocation	Actual Expenditure
Army	16807.98	13327.04	13921.98	10801.46	10426.49
Navy	31439.01	22738.70	25803.28	19245.04	19165.44
Jt Staff	461.61	329.79	397.93	314.27	340.38
Air Force	61484.26	37049.06	63380.68	36045.64	36917.99
Total	110192.86	73444.59	103503.87	66406.41	66850.3

BE 2014-15

(Rs. In Crore)

Service	BE Projection	BE Allocation	RE Projection	RE Allocation	Actual Expenditure
Army	33167.15	20935.41	18585.48	16927.35	13867.40
Navy	25739.39	22191.99	21335.71	17075.24	20905.54
Jt Staff	498.69	482.24	466.52	330.75	280.05
Air Force	59606.89	31818.39	36855.91	31818.39	30809.39
Total	119012.12	75428.03	77243.62	66151.73	65862.38

BE 2015-16

(Rs. in Crore)

Service	BE Projection	BE Allocation	RE Projection	RE Allocation	Actual Expenditure
Army	25127.81	22054.50	20466.79	17997.59	14488.84
Navy	24202.32	23360.90	23488.00	18393.38	18414.78
Jt Staff	889.18	480.67	407.30	365.93	286.26
Air Force	43681.23	31510.62	33254.35	28643.10	29045.66
Total	93900.54	77406.69	77616.44	65400.00	62235.54

BE 2016-17

(Rs. in Crore)

Service	BE Projection	BE Allocation	RE Projection	RE Allocation	Actual Expenditure
Army	29670.28	21535.26	27476.22	17966.46	22404.33
Navy	28057.00	20363.77	20500.36	18138.75	18419.88
Jt Staff	750.83	544.95	568.67	369.00	317.13
Air Force	37966.41	27556.02	32653.03	26245.15	28255.35
Total	96444.52	70000.00	81198.28	62719.36	69396.69

BE 2017-18

(Rs. In Crore)

Service	BE Projection	BE Allocation	RE Projection	RE Allocation	Actual Expenditure *
Army	34082.20	20178.21	34290.01	20177.21	17957.97
Navy	26621.49	18004.76	25006.76	17593.55	15076.15
Jt Staff	421.97	390.54	442.17	294.58	200.27
Air Force	57820.75	30899.90	49424.65	30899.90	31682.51
Total	118946.4	69473.41	109163.59	68965.24	64916.9

**Actual Expenditure is upto 31.1.2018*

1.29 When asked regarding shortfalls, if any, and how the Ministry of Defence has managed with the available resources, the MoD submitted as under:

> 'On the basis of allocations received from Ministry of Finance, funds are allocated for Committed Liabilities on the basis of approval stage of various projects. Requirement of additional funds for new schemes is projected to Ministry of Finance, as and when required, based on status of utilisation of available funds and progress in approval of new schemes. The projects/schemes are prioritised in order to ensure that critical and urgent capabilities are acquired.
>
> The allocated funds were optimally and fully utilized towards operational activities. However, as required, the schemes were reprioritized to ensure that urgent and critical capabilities are acquired without any compromise to operational preparedness of the Defence Services.'

1.30 When asked about the prioritization of liabilities during oral evidence, the Defence Secretary responded as under:

> 'We have a consultation with the Financial Advisor, the Defence Secretary and others. For powers delegated to the Service Headquarters, the Service Headquarters decide. If they are buying ammunition and if they are buying urgent equipment for which the entire power has been given to them, they reprioritise them. Suppose there is a big contract involving the Ordnance Factory Board or a DPSU, that decision is taken by the Ministry in consultation with the Secretary, DP. That is done always through a process of consultation and not arbitrarily.'

1.31 The Financial Advisor, Defence Services also added during the discussion:

> 'We get the ceiling from the Finance Ministry. We communicate to each Service and then each Service, within the money available, prioritizes it'.

1.32 The VCAS also threw light on this process of prioritisation of liabilities by the Services within the available budget:

> ‘There are two questions. One is from the Chair, when we have got five different people to pay who decides as to who will get the money. Basically, it depends on what kind of impact it is going to have in our modernisation. More importantly, it is what kind of penalty that we have got to pay, like if it is a foreign vendor, if we do not pay him, we may have to pay much more interest, etc. So, that is one. Secondly, if it is our own ordnance factory we can always keep it for a later time. That is how we decide. There is no specific method laid down nor is it a whims and fancies of any individual which may invite criticism.
>
> The second point is as to how we are going to meet the gap between our demand and the amount which has been allotted. Actually, later in the day during my presentation again I will touch upon this point. The allocation is not as per our requirement. We are left with no choice but to prioritise and even leave out some of the priority acquisition cases.’

1.33 The VCAS also elaborated on the consequences of lack of adequate budget for Committed Liabilities:

> ‘..this year when we spend more we would carry forward these liabilities to the next year. This year, in many cases’ if we do not pay up our liabilities, it would warrant additional interest and also legal action sometimes.’

1.34 When asked whether during 2017-18, the Ministry of Defence has sent its requirement for additional funds to Ministry of Finance, 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). Ministry of Defence had sought an additional fund of Rs. 39,690.18 at RE stage 2017-18 under Modernization (Capital Acquisition).’

CHAPTER II

PROCUREMENT POLICY FOR THE DEFENCE SERVICES

Defence Procurement Policy

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 policy also seeks to ensure that the highest degree of probity, public accountability, transparency, fair competition and level-playing field are achieved in the process of procurement. In addition, self-reliance in Defence equipment production and acquisition is steadfastly pursued as a key aim of the policy. The policy is implemented through the mechanism of Defence Procurement Procedure (DPP).

2.2 As part of the implementation of the report of the Group of Ministers on reforming the National Security System, new Defence Procurement Management Structures and Systems were set up in the Ministry of Defence (MoD) vide MoD order No SA/01/104/2001 dated 10 September 2001 and No 17179/2001-DefSecy/IC/2001 dated 11 October 2001. In order to implement the provisions laid out in the new Defence Procurement Management Structures and Systems, the procedure for Defence Procurement laid down vide MoD ID No 1(1)/91/PO (Def) dated 28 February 1992 was revised. The Defence Procurement Procedure -2002 (DPP-2002) came into effect from 30 December 2002 and was applicable for procurements flowing out of 'Buy' decision of Defence Acquisition Council (DAC). The scope of the same was enlarged in June 2003 to include procurements flowing out of 'Buy and Make' through Imported Transfer of Technology (ToT) decision. The Defence Procurement Procedure has since been revised in 2005, 2006, 2008, 2009, 2011, 2013 and 2016 enhancing the scope to include 'Make', 'Buy and Make (Indian)', 'Buy (Indian – IDDM)' categories, concept of 'Offsets' and Ship Building procedure. A new Chapter on Strategic Partnership in Defence sector has been incorporated in DPP-2016 in 2017 intending to institutionalise a transparent, objective and functional mechanism to encourage broader participation of the private sector, in addition to DPSUs/OFB, in the manufacture of Defence platforms and equipment such as aircraft, submarines, helicopters and armoured vehicles. It will serve to enhance competition, increase efficiencies, facilitate faster and more significant absorption of technology, create a tiered industrial ecosystem, ensure development of a wider skill base and trigger innovation, leading to reduction in dependence on imports and greater self-reliance in meeting national security objectives.

2.3 The Ministry in its written reply, informed that in line with the objectives of the Defence Production Policy, following policy measures have been taken to build a strong Defence industrial base in the country:

(i) Buy (Indian-IDDM) in Defence Procurement Procedure (DPP-2016): One of the notable feature of DPP-2016 is the introduction of a new procurement category Buy (Indian-IDDM). This category refers to procurement of Defence equipment from Indian vendors of products that are indigenously designed, developed and manufactured, and have atleast 40% indigenous content.

(ii) Preference to Indigenous procurement: In DPP-2016, preference has been provided to procurement under "Buy (Indian-IDDM)‟, "Buy (Indian)‟ and "Buy and Make (Indian)‟ categories of capital acquisition over "Buy & Make‟ or "Buy (Global)‟ categories.

(iii) Industrial Licensing: The Defence Products List for the purpose of issuing Industrial Licenses (ILs) under IDR Act has been revised and most of the components, parts, sub-systems, testing equipment and production equipment have been removed from the list, so as to reduce the entry barriers for the industry, particularly small & medium segment. The initial validity of the Industrial Licence 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. Since the launch of „Make in India‟ initiative, in September 2014, DIPP has issued 117 industrial licenses till November, 2017.

(iv) Defence Exports: A Munitions List has been finalized and put in the public domain so as to make the process transparent and unambiguous. The process of receiving applications for Authorisation/NOC for export of military stores and for issuing Authorisation/NOC has been made online to reduce the delay and to remove human interface in the process. The Standard Operating Procedure (SOP) for the issue of Authorisation/NOC for export of military stores has been revised and hosted on the website. Under the revised SOP, the requirement of End User Certificate (EUC) to be countersigned / stamped by the Government authorities has been done away with for the export of parts, components, sub-systems etc. Recognizing the need for promotion of Defence exports to make the Indian Defence industry economically sustainable, Defence Exports Strategy outlining the various steps to be taken, has been formulated and put up in public domain.

(v) Foreign Direct Investment (FDI): Department of Industrial Policy & Promotion, Ministry of Commerce & Industry vide Press Note No. 5 (2016 Series) in June

2016 has notified revised FDI policy under which FDI is allowed under automatic route upto 49% and beyond 49% through Government route wherever it is likely to result in access to modern technology or for other reasons to be recorded. So far, 36 FDI proposals/Joint Ventures have been approved in Defence sector for manufacture of various Defence equipment, both in public and private sector.

(vi) Defence Offsets: Offset implementation process has been made flexible by allowing change of Indian Offset Partners (IOPs) and offset components, even in signed contracts. Foreign Original Equipment Manufacturers (OEMs) are now not required to indicate the details of IOPs and products at the time of signing of contracts. Services as an avenue of offset have been re-instated with certain conditionalities.

(vii) Level-Playing Field: : In order to create level playing field between public sector vs. private sector, Exchange Rate Variation protection has been made applicable for Indian private sector at par with Public Sector Undertakings for all categories of capital acquisitions.

(viii) 'Make' Procedure: The Make Procedure has been revised, in DPP-2016, to promote indigenous design, development and manufacture of Defence equipment / platform required by the armed forces with a view to achieve self-reliance. The new procedure is likely to give substantial boost to manufacturing of indigenously designed products through collaborative process with Indian industry. It also provides for enhanced government funding from 80% to 90% of development cost and reserving projects not exceeding development cost of Rs.10 Crore (Government funded) and Rs.3 Crore (Industry funded) for MSMEs. A simplified separate procedure for Make II sub-category has been introduced in Jan 2018 which provide for relaxed eligibility criteria, minimal documentation, shortened timelines, consideration of suo-moto proposals from individuals/ firms particularly for innovative solution, no restriction on the number of development agencies etc.

(ix) Under Chapter VII of the DPP - 2016, the Government has notified the 'Strategic Partnership (SP)' Model, which envisages establishment of long-term strategic partnerships with Indian entity through a transparent, and competitive process, wherein they would tie up with global OEMs to seek technology transfers to set up domestic manufacturing infrastructure and supply chains. The policy will also serve to enhance competition, increase efficiencies, facilitate faster absorption of technology, create a tiered industrial ecosystem, ensure development of a wider skill base and trigger innovation. From a strategic perspective, this will help reduce current dependence on imports and gradually ensure greater self-reliance, which is an important step towards meeting broader national objectives towards aligning the Defence sector with the „Make in India‟ initiative of the Government.

(x) Outsourcing and Vendor Development Guidelines: To promote the participation of private sector, Outsourcing and Vendor Development Guidelines for DPSUs and OFB have been formulated and circulated to them. The guidelines mandate each DPSU and OFB to have a short-term and long-term outsourcing and vendor development plan to gradually increase the outsourcing from private sector. The value of outsourcing from DPSUs/ OFB has gradually increased to 41%.

(xi) Government of India has also set up the „Technology Development Fund (TDF)" which aims at funding the development of Defence and dual use technologies that are currently not available with the Indian Defence industry, or have not been developed so far. The funding is to public and private sector industry especially MSMEs that may work in collaboration with the academia or research institutions to carry out innovation, research and development.

(xii) Defence Research and Development Organization (DRDO) has issued Guidelines for ToT which provide for an institutional mechanism for transfer of technology developed by them to Industries, both public and private sector.'

2.4 When asked about the allocated budget during the last five years for the implementation of major objectives of the policy, the Ministry stated as under:

'During the last five years, the allocations for capital acquisition have been utilised as indicated below:

(Rs. in Crore)

Year	**BE**	**RE**	**Actuals**
2012-13	66003.14	57395.46	58768.86
2013-14	73444.59	66406.41	66850.30
2014-15	75148.03	66151.73	65862.38
2015-16	77406.69	65400.00	62235.54
2016-17	69898.51	62619.36	69280.17

<u>Procedural Delays in Procurements</u>

2.5 As per the Ministry of Defence, procurement is an ongoing process and the time taken varies from case to case due to inherent complexities and uniqueness.

2.6 Capital and Revenue procurement cases are taken up by Ministry of Defence based on Annual Acquisition Plans for Capital and Annual Procurement Plan for Revenue and are processed as per delegation of financial powers. JS(Navy), JS(Air) and JS(Army) are the nodal points in Ministry of Defence for revenue procurements and three Joint Secretary cum Acquisition Managers are the nodal points for capital procurements for each service respectively. Capital procurement cases upto Rs. 150 Crore are delegated to Service HQs and cases above Rs. 150 Crore are processed by

Ministry of Defence. The delegation for revenue procurement is as per the "Delegation of Financial Powers to Defence Services, 2016" and as per recent delegation of powers to Services.

2.7 When asked to delineate the steps taken by the Ministry to achieve timely, efficient and effective procurement, the Ministry submitted as under:

> 'Capital procurement of Defence equipment is undertaken in accordance with the extant Defence Procurement Procedure (DPP). The main changes/improvements introduced in DPP 2016 for achieving timely, efficient and effective Procurement are as follows:-
>
> (i) Broad timeframe for completing procurement activities (AoN to award of contract) has been reduced from 80-117 weeks to 70-94 weeks in multi vendor cases and from 92-137 weeks to 82-114 weeks in resultant Single Vendor cases.
>
> (ii) Acceptance of Necessity (AoN) validity has been reduced to six months (from one year) for „Buy" cases and to one year (from two years) for „Buy & Make (Indian)" cases.
>
> (iii) Draft Request for Proposal (RFP) has to accompany Statement of Case(SoC) for AoN.
>
> (iv) Single vendor cases at the bid submission and TEC stages, will not be automatically retracted but processed with due justification with the approval of Defence Acquisition Council (DAC).
>
> (v) Guidelines for Change of Name of Vendor have been incorporated in DPP 2016 and Guidelines for Handling of Complaints have been notified to address avoid delays on this account.
>
> (vi) To rationalise time taken for Field Evaluation Trials (FET) it has been provided that FET be held in conditions where equipment is most likely to be deployed. In addition provisions have been incorporated for increased use of certification and simulations in the technical evaluation of equipment.
>
> (vii) Cases with AoN value of more than Rs. 150 Crore to be directly brought before SCAPCHC thereby eliminating initial placement of such cases before SCAPCC.
>
> (viii) The aim of Fast Track Procedure (FTP) cases enhanced to cover urgent operational requirements relating to both foreseen and emergent situations.
>
> (ix) RFI process has been elaborated in detail as the first step of the acquisition process and its objectives have been clearly defined.'

<u>Accountability and transparency in Defence Procurement</u>

2.8 The Ministry, in its written reply, enumerated following measures instituted for ensuring accountability and transparency in defence procurement cases:

> 'The Capital Procurement of Defence equipment is carried out as per Defence Procurement Procedure (DPP). The main changes/improvements introduced in DPP 2016 for ensuring accountability and transparency in Defence procurement cases are as follows:-
>
> (i) Execution of Pre Contract Integrity Pact (PCIP) for all cases above Rs. 20 Crore is being done to ensure corruption free procurement process (binding agreement between parties that their officials will not offer or accept bribes).
>
> (ii) Guidelines for Handling of Complaints provide for time bound disposal of complaints and are aligned to CVC/DOP&T guidelines and are also in keeping with Government policy.
>
> (iii) Instructions have been issued for ascertaining vigilance status of L1 vendor before seeking Competent Financial Authority (CFA) approval.
>
> (iv) Guidelines for Penalties in Business Dealings with Entities have been notified.'

Increasing dependence on foreign suppliers for military hardware

2.9 The Committee desired to know about the Defenceequipments currently being imported and details of price and country of origin of these equipments. The Ministry replied as under:

> 'Capital procurement of Defence equipment from Indian and foreign vendors iscarried out as per provisions of the Defence Procurement Procedure (DPP). Defence equipment is being imported from various countries as per the operational requirements of Armed Forces. 187 contracts with total value of Rs. 2,40,814.22 Crore signed during last three year and current year (upto 30.11.2017) include 119 contracts signed with Indian vendors involving Rs. 1,16,522.89 Crore and 68 with foreign vendors involving Rs. 1,24,291.33 Crore.
>
> The major Defence equipment imported during last three year and current year include rockets, simulator and component level repair facility for Tanks from Russia; Laser Designation Pods, radars, Pods for aircraft, Radios, Weapons for garuds and missiles from Israel; aircraft, helicopters, missiles, artillery guns and simulators from USA and aircraft, ammunition, Bimodular Charge System (BMCS) high Zone Modules of Artillery Guns from France.'

2.10 The total expenditure for the three Services on direct payments to foreign vendors for Capital Acquisitions over the last seven financial years is as per the table given below. The Ministry has stated that equipments are being optimally exploited on operational platforms.

(Rs. in Crore)

Financial year	Expenditure		
	Air Force	Navy	Army
2007-08	5321.68	1972.36	2846.76
2008-09	4270.24	4054.49	1832.84
2009-10	4226.28	4576.83	1659.36
2010-11	4364.82	4746.88	800.39
2011-12	15258.11	6532.37	424.82
2012-13	19220.95	5968.80	884.84
2013-14	20927.55	12577.81	1365.71
2014-15	14655.75	6884.00	3452.61
2015-16	12477.45	6939.76	3004.91
2016-17	16613.24	6624.02	5263.00

2.11 The Ministry also submitted that during the 12th Plan (2012-13 to 2016-17), 162 contracts involving Rs. 1,25,022.73 Crore have been signed with Indian vendors and 107 contracts involving Rs. 1,50,507.38 Crore have been signed with foreign vendors for capital procurement of Defence equipment.

2.12 When asked about the factors that have led to India being the largest Defence importer in the world, the Ministry replied as under:

> 'Government is taking necessary measures for building of Defence capabilities to safeguard the sovereignty, territorial integrity and security of the Country. To this end, capital procurement of Defence equipment is undertaken from various domestic as well as foreign vendors as per the extant Defence Procurement Procedure (DPP), based on threat perception, operational challenges and technological changes and to keep the Armed Forces in a state of readiness to meet the entire spectrum of security challenges.
>
> Government is also pursuing initiatives to achieve higher level of indigenisation and self-reliance in the Defence sector by harnessing the capabilities of the public and private sector industries in the country. These measures include

according priority and preference to procurement from Indian vendors and liberalization of the licensing regime.

Further, Government has promulgated the policy on Strategic Partnership in the Defence sector which is intended to institutionalize a transparent and objective mechanism to encourage broader participation of the private sector in manufacture of major Defence platforms and equipment.'

Import content of equipment produced, developed by DRDO, Ordnance Factories and DPSUs and Export

2.13 On the import content of equipment produced, developed by DRDO, Ordnance Factories and DPSUs, the Ministry supplied the following information:

'**OFB:** OFB products are classic example of successful implementation of "Make in India" programme initiated by the Govt. as almost 87% items of OFB products are indigenously made.

Average import content in respect of Ordnance Factories products has been around 13%. It is further brought out that OFB makes continuous endeavours to bring down import content in its products. Import dependency of OFB is on those items only which are of perennial import nature and ToT has not been established from OEMs.

Import content during last two years is given as under:

Financial Year	Value of Issue	Import Content	Indigenisation Content	% age of Import Content over Vol
2015-16	13047	1656	11391	13%
2016-17	14825	1837	12988	12%
2017-18 (upto Dec"17)	8450	902	7548	11%

Item-wise import content of OFB products (i.e. ex-DRDO)/ToT design), at present, is as follows:

S. No.	Item	Import content at present(As % of cost)	Roadmap for further indigenization
1	Pinaka Rocket	NIL	Not Applicable
2	Bi-Modular ChargeSystem for155mm Ammn	NIL	Not Applicable
3	105mm Artillery Gun	NIL	Not Applicable
4	Infantry Combat Vehicle BMP-II	03.00%	Not Applicable as import is of low value items not covered in ToT
5	High Resolution Binocular	06.94%	Import content will be brought to NIL by 2018-19 with the development of Indigenous Engineering Plastic Components, wherein OFB has already achieved breakthrough for 6 components.
6	Naval GunAK-630	07.22%	Import content will reduce to 4.41% by 2018-19 with development of AO-18 Assembly. However, balance is not covered in ToT. However OFB is pursuing reverse engineering for balance.
7	155mm x 45 Calibre Artillery Gun System „Dhanush"-underUser Evaluation	16.00%	Import content will reduce to 10% by 2018-19 and 5% by 2020-21. Technology related to Thermal Infra-Red Detector will remain perennial import, its ToT being a guarded/prohibited item.

8	Tank T-90	26.13%	Import content will reduce to 23.76%, 17.05%, 14.16% and 13.54% respectively during 2018-19 to 2021-22. However, technologies of Thermal Infrared Detector (Guarded/Prohibited Technology), Optical Glass, Very High Speed Miniature Electric Motors (27,000 rotation per minute), Stabilizer (Ex-Bharat Electronics Ltd.), Laser Radiator used in Missile Information Block of tank T-90 etc. (about 13.54% of the cost) will remain perennial import although Ordnance Factories are pursuing their development through indigenous sources.
9	Tank T-72	Not in production presently	Not Applicable
10	All kindof Rifles and Small Armsi.e. INSAS,LMG, Assault Rifle 7.62x39mm GHATAK etc.	NIL	Not Applicable

GSL: The information on the point in respect of GSL is as under:

Project	Duration	Import Content %
6 CGOPV	May 2012 - Nov 2017	38
5 CGOPV	Aug 2016 – Jun 2021	30#

 # Gearboxes, Steering Gear system, Fin Stabilizer System, Heli Grid, Doors (Water & Weather tight) and Gemini Boats are being indigenised for on-going 5 CGOPV projects,the production of which has started in 2017. It is envisaged that the indigenous content will now increase from 62% in last project to 70% in this project.

HSL: The core business of HSL, a Defence PSI, is building and repairs of ships and submarines. HSL on its own doesn't manufacture any equipment and machinery except for constructing the ship as a whole indigenously by assembling various equipment & machineries procured from various sources either indigenous or foreign. The company has been contributing to the cause of indigenisation by undertaking constructions of warships of different types for the Indian Navy and the Indian Coast Guard. Most significantly it has undertaken the MR of the Foxtrot class and MR-cum-modernisation of EKM class submarines, which otherwise had to be done in Russia. The yard has also nurtured a strong Design Office which can take up indigenous design of much kind of ships.

The Details of import content as percentage of VoP during the last five years is as under:

Year	VoP (Rs. in Crore)	Direct Import (Rs. in Crore)	Import content as a % of VoP
2012-13	483.84	207.77	42.95
2013-14	453.40	123.10	27.15
2014-15	294.16	99.51	33.82
2015-16	593.29	159.63	26.90
2016-17	629.05	65.18	10.36

GRSE: GRSE has developed in-house capabilities to design & build most modern warships in the country. Presently the shipyard is building 04 ASW Corvettes (03 ships delivered), 08 Landing Craft Utility Vessels (02 ships delivered), 05 Fast Patrol Vessels and 03 Advanced Stealth Frigates. Of these ships, the ASW Corvettes and LCUs have an indigenous content of over 90%, a major step towards achieving self-reliance in state of the art warship design and construction.

The progress made by GRSE complying towards „Make in India" policy initiatives taken by the Government is as follows:-

Financial year	%age of Indigenous Content
2012-13	72.25
2013-14	78.95
2014-15	84.45
2015-16	80.77
2016-17	91.42

GRSE has a License Agreement for 10 years with M/s Mac Teggart, Scott & Co. Ltd. UK for indigenisation and supply of Rail Less Helo Traversing System for Warships and other ships. GRSE achieved over 72% Indigenisation till date on supply of above system including on the recently delivered 3rd ASW Corvette to Indian Navy. GRSE has installed 09 Nos. of such Systems on different warships in India.

GRSE targets to continue its efforts on indigenization proportions of over 90% in all its ships slated for future delivery. GRSE has planned to encourage the participation of Public& Private firms and SMEs vendors.

MDL: Company constructs Warships and Submarines for Indian Navy. The import content in MDL constructed ships is as below:

Project	Import Content
P17 Frigates (Completed)	48%
P15A Destroyers (Completed)	41%
P15B Destroyers (Ongoing)	28%
P17A Frigates (Ongoing)	25%
P75 Submarines # (Ongoing)	50%

Import of equipment is as per contract with M/S DCNS, France, the collaborator for Submarine project.

MIDHANI: Company does not produce/supply any equipment in the finished form. Hence, reply may be treated as „NIL".

BDL: BDL is presently producing following equipment developed by DRDO:

Name	Import Content
Akash Surface to Air Missile	4%
Advance Light Weight Torpedo	3%

Further, BDL is producing the following with ToT from OEM:

Name	Import Content
Konurs-M ATGM	10%
Invar ATGM	21.4%
Milan 2T ATGM	29%

BEL: BEL‟s line of business include Radars, Missile Systems, Communication, Electronic Warfare & Avionics, Network Centric Systems, Sonars & Fire Control Systems, Electro- Optics, Tank Electronics/Gun Upgrades Homeland Security and select non-defence products. The import content out of total material content in products manufacture by BEL in these areas during last five years is as under:

Year	Import Content (%) out of total material content
2012-13	44 %
2013-14	36 %
2014-15	36 %
2015-16	44 %
2016-17	47 %

BEML Ltd: Import content during last five years is given as under:

Year	Import Content (Rs. in Crore)	Net VoP (Rs. in Crore)	Import content as % of Net VoP
2012-13	728.17	2878.83	25.29
2013-14	553.66	2814.45	19.67
2014-15	412.56	2599.93	15.87
2015-16	618.96	2740.01	22.59
2016-17	565.25	2623.90	21.54
2017-18(Upto Dec‟17 Provisional	532.66	2027.68	26.27

HAL: The major platform currently under manufacture at HAL is Su-30 MKI, Light Combat Aircraft (LCA), Advance Light Helicopter (ALH) and Dornier Do-228. The import content worked out based on the percentage indigenisation calculation as per DPP for these platforms is indicated below:

Platform	Import Content (% by value)
Su-30 MKI	40%
LCA	40%
ALH	48%
Do-228	60%'

Make-in-India policy and Self-reliance in Defence Production

2.14 The details of Capital expenditure through foreign sources in the last five year separately for the three Services are appended below:-

(Rs. in Crore)

Services	2012-13	2013-14	2014-15	2015-16	2016-17
Indian Army	988.11	1592.17	3589.42	3006.58	5284.92
Indian Navy	6453.22	12677.49	7755.27	7459.08	6204.59
Indian Air Force	19250.21	20975.65	14636.29	12726.56	15788.58
TOTAL	26691.54	35245.22	25980.98	23192.22	27278.09

2.15 The value of export by DPSUs and Ordnance Factories (OFs) during the last three years including Civil Export is as under:-

(Adv Info, Part III, Pg 26)

(Rs. in Crore)

2013-14	2014-15	2015-6	2016-17
867.35	**1808.47**	**1282.94**	**1327.51**

2.16 The expenditure on procurement from Indian Vendors and the Value of export for the year 2013-14 to 2016-17 is tabulated below:

(Adv Info, Part III, Pg 27)

(Rs. in Crore)

	2013-14	2014-15	2015-16	2016-17
Procurement from Indian sources	55014.27	49531.55	49933.34	53767.23
Export *	**1153.35**	**1940.64**	**2059.18**	**1521.91**

* Including Civil Export by DPSUs / OFB and Export by Private Sector.

2.17 The Committee desired to be apprised of the Action plan by the Government to make the country self-reliant in Defence production and progress made till date:

(Adv Info, Part III, Pg 28-30)

'The Government has taken following policy measures to make the country self reliant in Defence production.:-

Buy (Indian-IDDM) in Defence Procurement Procedure (DPP-2016): One of the notable feature of DPP-2016 is the introduction of a new procurement category Buy (Indian-IDDM). This category refers to procurement of Defence equipment from Indian vendors indigenously designed, developed and manufactured, and have atleast 40% indigenous content.

Preference to Indigenous procurement: In DPP-2016, preference has been provided to procurement under „Buy (Indian-IDDM)‟, „Buy (Indian)‟ and „Buy and Make (Indian)‟ categories of capital acquisition over „Buy & Make‟ or „Buy (Global)‟ categories.

'Make' Procedure: The Make Procedure has been revised to promote indigenous design, development and manufacture of Defence equipment / platform required by the armed forces with a view to achieve self-reliance. The new procedure is likely to give substantial boost to manufacturing of indigenously designed products through collaborative process with Indian industry. It also provides for enhanced government funding from 80% to 90% of development cost and reserving projects not exceeding development cost of Rs.10 Crore (Government funded) and Rs.3 Crore (Industry funded) for MSMEs. A simplified separate procedure for **Make II sub-category** has been introduced in Jan 2018 which provide for relaxed eligibility criteria, minimal documentation, shortened timelines, consideration of suo-motto proposals from individuals / firms particularly for innovative solution, no restriction on the number of development agencies etc.

Industrial Licensing: The Defence Products List for the purpose of issuing Industrial Licenses (ILs) under IDR Act has been revised and most of the components, parts, sub-systems, testing equipment and production equipment have been removed from the list, so as to reduce the entry barriers for the industry, particularly small & medium segment. Since the launch of Make in India policy in September 2014, DIPP has issued 117 industrial licenses till Nov2017.

Defence Exports: A Munitions List has been finalized and put in the public domain so as to make the process transparent and unambiguous. The process of receiving applications for Authorisation/NOC for export of military stores and for issuing Authorisation/NOC has been made online to reduce the delay and to remove human interface in the process. The Standard Operating Procedure (SOP) for the issue of Authorisation/NOC for export of military stores has been revised and hosted on the website. Under the revised SOP, the requirement of End User Certificate (EUC) to be countersigned / stamped by the Government authorities has been done away with for the export of parts, components, sub-systems etc. Recognizing the need for promotion of Defence exports to make the Indian Defence industry economically sustainable, Defence Exports Strategy outlining the various steps to be taken, has been formulated and put up in public domain.

Foreign Direct Investment (FDI): The Government has notified one of the most liberal FDI policies for the Defence sector in the world, which allows for 100 percent FDI in Defence, with 49% under automatic route and beyond 49% with the approval of the Government. So far, 36 FDI proposals/Joint Ventures have been approved in Defence sector for manufacture of various Defence equipment, both in public and private sector.

Defence Offsets: Offset implementation process has been made flexible by allowing change of Indian Offset Partners (IOPs) and offset components, even in signed contracts. Foreign Original Equipment Manufacturers (OEMs) are now not required to indicate the details of IOPs and products at the time of signing of contracts. Services as an avenue of offset have been re-instated with certain conditionalities. As a result, 97% Offset claims were filed during the past three years i.e. 2014 to 2016 as against 64% during the period between2008-2013.

Level-Playing Field: : In order to create level playing field between public sector vs. private sector, Exchange Rate Variation protection has been made applicable for Indian private sector at par with Public Sector Undertakings for all categories of capital acquisitions.

Under Chapter VII of the DPP - 2016, the Government has notified the **'Strategic Partnership (SP)' Model** which envisages establishment of long-term strategic partnerships with Indian Private entity through a transparent and competitive process, wherein they would tie up with global OEMs to seek technology transfers to set up domestic manufacturing infrastructure and supply chains. The policy will also serve to enhance competition, increase efficiencies, facilitate faster absorption of technology, create a tiered industrial ecosystem, ensure development of a wider skill base and trigger innovation. From a strategic perspective, this will help reduce current dependence on imports and gradually ensure greater self-reliance, which is an important step towards meeting broader national objectives towards aligning the Defence sector with the „Make in India‟ initiative of the Government.

Outsourcing and Vendor Development Guidelines: To promote the participation of private sector, Outsourcing and Vendor Development Guidelines for DPSUs and OFB have been formulated and circulated to them. The guidelines mandate each DPSU and Ordnance Factory Board to have a short-term and long-term outsourcing and vendor development plan to gradually increase the outsourcing from private sector. The value of outsourcing from DPSUs/ OFB has gradually increased to 41%.Government of India has also set up the „Technology Development Fund (TDF)‟ which aims at funding the development of Defence and dual use technologies that are currently not available with the Indian Defence industry, or have not been developed so far. The funding is to public and private sector industry especially MSMEs that may work in collaboration with the academia or research institutions to carry out innovation, research and development.

Defence Research and Development Organization (DRDO) has issued Guidelines for ToT which provide for an institutional mechanism for transfer of technology developed by them to Industries, both public and private sect

2.18 Director General (Acquisition), during oral evidence, elaborated on the steps taken to encourage Indian vendors:

(**Verbatim Proceedings dated 15.2.18, forenoon, Pg 27)**

'In the Make Procedure, what we are doing is, we have opened it out to Indian vendors. Earlier, what happened was that the Services would give a requirement and we would say that this is our requirement, come and make according to that. Now, we have opened up the field. We have also said that if an Indian industry or even a start up comes to us and says that they have this product on their own, that opportunity is available even if a single party develops anything. If the Services find it useful, then we will go ahead and procure it.

Then, we have reduced the procedure in this to such an extent that if the party makes the proto type on their own, then we give an assurance that it will be evaluated and whosoever is successful, based on the lowest price, the item will be procured to the extent on which the acceptance of necessity has been given which was not there earlier. So, this assurance itself that we would be procuring if you meet our requirement that is a very big thing.

Then, for the first time we are saying that there would be no negotiations in import substitution. Currently, what is happening is, if something is imported for Rs. 100 Crore, if an Indian party comes and says that they can make it to our requirement at Rs. 80 core, we will not negotiate with them, we will straightway take it.

So, these are great steps which have been taken to give a boost to Indian industry to come up and substitute imports which are taking place in the defence sector.'

2.19 When asked to provide information on whether 'Make-in-India' policy has any impact on the existing production policy of the Ministry of Defence, the Ministry of Defence replied as under:

'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 etc. Recently, the Government has notified the 'Strategic Partnership (SP)' Model 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.'

2.20 On the allocation of budget for 'Make in India' Project, the Ministry stated 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 categorised as 'Buy (Indian-IDDM)', 'Buy (Indian)' & 'Buy and Make (Indian)', with preference over 'Buy (Global)' category, to make the country self-reliant in Defence production after deliberations in various Committees such as SCAPCC/ SCAPCHC/ DPB/ DAC. There is no 'Make in India Project' category for procurement as per DPP, however, the objectives of 'Make in India' initiative of the government are pursued through procurements under 'Buy (Indian-IDDM)', 'Buy (Indian)', 'Buy and Make (Indian)' and 'Make' categories of capital procurement.'

<u>Private Sector Participation</u>

2.21 When asked regarding the present Private Sector contribution in Defence Production and Research and Development and whether any grant was given to them by the Government, the Ministry responded as under:

'Till November, 2017, 343 Industrial Licenses (ILs) covering 206 companies have been issued for manufacture of a wide range of Defence items to Indian companies. 69 license companies covering 112 licenses have so far reported commencement of production.

DRDO has created infrastructure and a management structure to develop, manage and integrate high-cost and high technology programmes and projects by pooling national resources and expertise available in academic institutions, R&D centres, public and private industries. It has a strong partnership with academic institutions, national S&T agencies, Public Sector Undertakings (PSUs), Ordnance Factories (OFs) and more than 800 private sector industries. This has resulted in minimization of effect of the Sanctions and technology denials, which were imposed by the technologically advanced countries from time to time.

Government of India has also set up the 'Technology Development Fund (TDF)' which aims at funding the development of Defence and dual use technologies that are currently not available with the Indian defence industry, or have not been developed so far. The funding is to public and private sector industry especially MSMEs that may work in collaboration with the academia or research institutions to carry out innovation, research and development. The scheme envisages creating an Eco-system for enhancing cutting edge technology capability for

Defence application and to inculcate R&D culture in MSMEs.

In addition, under the 'Make' Category of Defence Procurement Procedure, there is a provision for collaboration between Government and private Indian Industry where 90% of cost of prototype development shall be borne by Government. '

2.22 When asked to specify the manner in which Private Sector is helping Defence Public Sector Undertakings and Ordnance Factories in manufacturing of world class defence equipment, the Ministry of Defence submitted as under:

'The private sector is helping OFB and DPSUs by providing input material, components, assemblies/sub-assemblies for various weapons/defence equipments being produced in these units. Private labs and design houses collaborate with OFB/DPSUs in Research and Development of technologies/new products.'

2.23 When enquired whether any state-of-the-art weapon or peripheral system has been made by private sector for the defence forces, the Ministry replied as under:

'Many state-of-the-art weapons or peripheral systems have been made by private sector for Defence forces. Some of the notable examples are as below:-

a. PINAKA launcher system - by M/s TPCL and L&T
b. MAFI (Modernisation of Airfield Infrastructure) - by TATA Power SED
c. Simulators of various types - by M/s ZEN Technology.'

Strategic Partnership for various platforms from the Private Sector Industry

2.24 The Strategic Partnership Model has been promulgated as chapter VII of the Defence Procurement Procedure (DPP)-2016 with the main aim of enabling participation of Private Indian firms in Make in India in Defence. Presently cases of procurement are being progressed in three segments i.e. Submarine, Helicopter and Armoured fighting vehicles (FRCV case) in accordance with the procedure mentioned in the Chapter. In these three segments, RFIs have already been issued and responses received are under evaluation.

Offset Clause

2.25 The Ministry of Defence (MoD) has mandated discharge of offset obligations by vendors under different categories of Defence acquisitions with the primary objective of leveraging its capital acquisitions to develop the Indian Defence Industry by: (i) fostering development of internationally competitive enterprise; (ii) augmenting capacity for research, design and development related to Defence products and services; and (iii) encouraging development of synergistic sectors like civil aerospace and internal security. The offset provisions apply to all Capital Acquisitions categorized as ‘Buy (Global)’, i.e. outright purchase from foreign/Indian vendor, or ‘Buy and Make’ category of capital acquisition where the estimated cost of the acquisition proposal is Rs. 2000 Crores or more. They apply to Indian firms or their Joint Ventures under ‘Buy (Global)’ procurements. Further, foreign vendors could consider creation of offset programmes in anticipation of future obligations through offset banking. The offset policy was introduced in 2005 and thereafter, has successively evolved to put emphasis on the capacity augmentation for Research, Design and Development related to Defence products and services by making it as a key policy objective. The policy further enlarged the scope of the avenues for discharge of offsets and included the option of provision of investment in kind in Indian enterprises in the form of equipment and /or TOT.

2.26 The Ministry submitted following information on gains of the offset provisions:

> 'The offset policy mandates foreign OEMs to discharge offset obligations through combination of permissible avenues w.r.t. eligible product & services in all procurements cases were cost of the capital acquisition is Rs. 2000 Crore or more.
>
> As on date, a total of 42 Defence offset contracts have been signed in MoD out of which 27 cases pertain to Indian Air Force and 04 cases of Indian Navy and 11 of Indian Army. The total offset obligations are estimated at appox US$ 11.20Billion over a period from 2008-2024.
>
> These offset contracts are under different stages of implementations by the foreign OEMs. Once executed, it is estimated that the respective contract shall cause, on account of offset provisions, 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.
>
> Further, due to liberalised banking provisions, the OEMs are expected to invest more in Indian Industries which shall spur growth in the related areas independent of the existence or otherwise of any immediate main acquisition proposal the effect of which shall be visible in near future and the commensurate gains shall be visible in coming years.'

2.27 When asked whether the new Defence Procurement Procedure (DPP) has made any change in the existing Offset provisions, the Ministry submitted as under:

> '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. 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 users 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. Allowing banking of the offset credits and enhancing the period of utilization.
>
> d. Inclusion of civil aerospace and homeland security sectors.
>
> e. Equity and non-equity investments.
>
> f. Investment in kind in terms of transfer of technology/equipment to Indian enterprises, Govt. institutions and establishment including DRDO.
>
> g. Incentivizing active envelopment of MSME, by inclusion of multipliers.
>
> h. Enabling acquisition of state of art critical technologies by DRDO.
>
> i. Allowing Tier I sub-vendors to discharge the obligations; extension of the discharge timeframe; specifying the mandatory offsets; enhancing the reporting cycle to 6 months.'

2.28 When asked about the number of cases where offsets as promised could not be materialized and action taken by the Ministry in this regard, the Ministry submitted as under:

> 'Offset contracts are long term and are at various stages of implementation. Vendors report the offset discharge undertaken through quarterly status reports, which is monitored. The offset guidelines provide for imposition of penalty in case of shortfalls in annual offset discharge by the vendor. In eleven 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 38.19 MUSD approx. '

2.29 The Defence Offsets Management Wing (DOMW) set up under the Department of Defence Production in August 2012 has been entrusted with the following responsibilities:-

(a) Formulation of Defence Offset Guidelines;

(b) Monitoring the discharge of offset obligations, including audit and review of progress reports received from vendor;

(c) Participation in Technical and Commercial evaluation of offset proposals as members of TOEC and CNC;

(d) Implementation of Offset banking guidelines;

(e) Administration of penalties under offset contracts in consultation with Acquisition Wing;

(f) Assisting vendors in interacting with Indian Industry; and

(g) Other responsibilities assigned under offset guidelines or entrusted by the Government.

2.30 When asked to give details of achievements of DOMW since its inception, the Ministry submitted as under:

'Post formation, DOMW has been engaged in streamlining and strengthening the process of monitoring the discharge of obligations and has taken significant measures to achieve the same. The institutional framework put in place to address issues relating to defence offsets is illustrated below:

(a) A collegiate mechanism has been evolved comprising of senior officers from three services, finance and legal department headed by JS/DOMW to oversee all matters pertaining to effective and efficient implementation of the offset policy.

(b) The office of CGDA has been engaged as the nominated audit agency to audit the offset discharge claims.

(c) A committee under the chairmanship of Additional Secretary/DP for examination of offset banking proposals has been constituted with the approval of Hon'ble Raksha Mantri. The committee has formulated SOPs and checklists for the examination of the proposals received from the vendors.

(d) DOMW has also been constantly engaging with the vendors and other stake holders and responding to their queries in a regular manner through meetings and interactions. A facilitation mechanism has been evolved in the SCOPE complex to assist the vendors on various issues under the offset policy.

DOMW has been involved in the monitoring of the offset discharge claims received from the vendors during the discharge of the contracted offset obligations. As on 31st December, 2017, 42 offset contracts (27-IAF, 11-IN and 4-IA) have been signed. The total offset obligations work out to BUSD 11.20 approx. (contracts with different denominations converted to USD). The obligations to be discharged till December, 2016 amounts to 2.07 BUSD approx. against which the vendors have reported discharge claims worth 2.01 BUSD approx. through their quarterly reports. For the year 2017 the vendors have reported claims worth 0.23 BUSD approx. (4th quarter report in some cases are awaited) against the contracted obligation of 0.27 BUSD approx. These discharge claims have been sent for audit. In addition, DOMW has been regularly participating in the different TOECs and the CNCs of on-going cases.

The OEMs who participate in offset contracts in general are large international Defence manufacturers/ conglomerates/ part of big consortia. These international enterprises are expected to have mature mechanisms to remain internationally competitive and to maintaining global quality standards. While entering into an offset contract, the OEMs are granted full liberty in selecting their Indian Offset Partners. The IOPs are chosen as per their core competencies, quality standards and cost effectiveness. The selected IOPs by virtue of being integrated in the global supply chain of these large Defence manufacturers have to necessarily become and remain internationally competitive. Thus, the offset policy in general, aims to encourage the Indian enterprises, both public and private, to become a key player in the highly competitive and cost conscious international Defence market in their respective areas of expertise. Through this avenue, the long term benefits accrued to the Indian Defence industry is estimated to be substantial. '

2.31 On the challenges being faced by the Ministry of Defence in executing the offset contracts, the Ministry submitted the following information:

'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 through quarterly/ six monthly reports. 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 evaluation stage (TOEC) 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 for introducing an amendment to the offset guidelines after approval of DAC, 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. '

Foreign Direct Investment (FDI)

2.32 The Ministry, in regard with current FDI limit, submitted following information:

'The Government has reviewed the Foreign Direct Investment (FDI) Policy in Defence sector in June 2016 thereby allowing FDI under automatic route upto 49% and beyond 49% wherever it is likely to result in access to modern technology or for other reasons to be recorded. Further Defence industry is subjected to industrial license under Industries (Development & Regulation) Act, 1951 and manufacturing of small arms and ammunition under the Arms Act, 1959. '

2.33 When asked about the impact, if FDI limit is increased to 100%, on production of defence equipment as well as on R&D, the Ministry replied as under:

'Presently, our Defence capital acquisition requirements are met through imports as well as procurement from indigenous sources. By allowing higher FDI in the Defence sector, the global companies having high-end technologies can be encouraged to set up their manufacturing base in India in collaboration with Indian companies, thereby resulting in creation of employment opportunities, saving of foreign exchange and increasing indigenisation. FDI is one of the sources available for the industry to access some of the technologies required to indigenously design, develop and produce the equipments, weapon systems/platforms required for Defence. However, the Defence sector being sensitive, carefully calibrated approach for foreign investment is being adopted. '

2.34 The details of FDI/JV proposals that have been approved in the Defence sector in the past five years is enclosed as per **Annexure-‘B’.**

CHAPTER III

DEFENCE PLANNING

Five Year Defence Plans

3.1 The Defence Five Year Plans are formulated to chalk out the necessary steps to maintain and augment Defence capabilities in line with the RM's Operational Directives, the Long Term Perspective Planning and the current threat perception. These plans help to estimate the outlay required to achieve the planned objective.

3.2 On the achievements of Defence Five Year Plans so far, the Ministry has stated:

'Expenditure incurred during the last 5 Defence Five Year Plans, as against initial projections is as follows:

(Rs. in Crores)

Plan	Projection	Expenditure
8th	1,33,981.00	1,19,045.00
9th	2,58,137.00	2,26,133.97
10th(2002-07)	4,18,101.00	3,57,893.42
11th(2007-12)	6,48,750.16	6,72,714.63
12th(2002-17)	11,39,000.00	10,81,644.89

3.3 When asked to give details of the targets/projects/activities, if any, which could not be achieved in accordance with the Defence Five year Plans and reasons therefor, following information was supplied by the Ministry:

'Activities included in the plans proceeded during the Plan period within the available budget allocations. Projections in respect of annual budgets were made in line with Defence Five Year Plans and available allocations prioritized accordingly.'

3.4 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. In this regard, the Ministry submitted as under:

'The 12th Plan was approved by the RM. MoF, 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. The Ministry of Finance will be kept in loop about the requirements of the Defence Forces in the coming years.

Non approval of the Defence Plan does not act as hindrance in implementation of Defence projects. Activities planned are likely to proceed according to available annual budget allocations. The Defence Plan serves only as a guide for formulating annual budgetary projections even without the formal approval of the Ministry of Finance. '

Long Term Integrated Perspective Plan (LTIPP)

3.5 When asked to elaborate on LTIPPs, their achievements, the procurement of weapon system ammunition etc. as per the plan and steps taken till date so that acquisition can take place as per the plan, the Ministry submitted the following information:

'The Headquarters Integrated Defence Staff (HQIDS), in consultation with the Service Headquarters (SHQs), had evolved the 15 year Long Term Integrated Perspective Plan (LTIPP). Presently, LTIPP 2012-2027 is in vogue and has been approved by the Defence Acquisition Council. 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).

The LTIPP is translated into the SCAP, covering a five year period. The AAP of each service is a two year roll on plan for capital acquisition and consists of the schemes from the approved five year SCAP. Thus, the long term plan (LTIPP) gets finally translated to short term plan (AAP) and the cases included in the AAP are progressed for acquisition as per the Defence Procurement Procedure. Progress of procurement cases is regularly reviewed in SHQ and MoD. Amendments are made to the DPP, as and when required, to streamline the acquisition process. DPP-2016 focuses on institutionalising, streamlining and simplifying defence procurement procedure to give a boost to ‘Make in India’ initiative of the Government of India, by promoting indigenous design, development and manufacturing of defence equipment, platforms, systems and sub-systems.

The budget and expenditure on capital acquisition of defence equipment during the 11th Plan and 12th plan is given below :

11th Plan

(Rs. in Crore)

Year	BE	RE	Actuals
2007-08	34410.70	30546.61	30336.70
2008-09	40051.17	32907.18	32335.30
2009-10	43700.60	38379.37	41918.88
2010-11	47305.69	47848.76	50186.07
2011-12	56510.49	53292.30	56281.88

12th Plan

(Rs. in Crore)

Year	BE	RE	Actuals
2012-13	66003.14	57395.46	58768.86
2013-14	73444.59	66406.41	66850.30
2014-15	75148.03	66151.73	65862.38
2015-16	77406.69	65400.00	62235.54
2016-17	69898.51	62619.36	69280.17

Advance planning for the Forces

3.6 The Ministry was asked to give details of the requirements of the Services and whether the Ministry has made any planning about requirement of weapons system, Aircraft, Aircraft carriers, critical ammunition for the future, say 20 years. The Ministry submitted following information in this regard:

'The long term capital acquisition requirements of services are reflected in the Long Term Integrated Perspective Plan (LTIPP), which is for 15 years. The present LTIPP covers the period 2012-27. Deriving from the LTIPP, a five year Services Capital Acquisition Plan (SCAP) is prepared, which is further translated into a two year Roll-on plan known as the Annual Acquisition Plan (AAP). Cases included in the AAP are progressed as per Defence Procurement Procedure (DPP) till finalisation by signing of contracts/placement of indent.'

3.7 The details of contracts signed in respect of three Services during last three financial years are as follows:

(Rs. In Crore)

	2014-15		**2015-16**		**2016-17**		**2017-18(upto 30.11.17)**	
	No. of contracts	**Value**	**No. of contracts**	**Value**	**No. of contracts**	**Value**	**No. of contracts**	**Value**
Army	21	10109.86	22	8481.04	11	12588.06	17	30030.42
Air Force	7	3438.44	13	33626.08	11	63582.54	3	949.39
Navy	19	51311.22	26	5770.17	24	18388.93	13	2538.07
Total	47	64859.52	61	47877.29	46	94559.53	33	33517.88
Total Contracts:187					**Total Value: Rs. 2,40,814.22 Crore**			

The major Defence equipment contracted during last three year and current year (upto 30.11.2017) include frigates, rockets, ballistic helmets, Component Level Repair facility for Tanks, radars, Unmanned Aerial Vehicles (UAVs), helicopters, aircraft, missiles, artillery guns, simulators and ammunition.

CHAPTER IV

MARRIED ACCOMMODATION PROJECT

Directorate General of Married Accommodation Project (DG MAP) was raised by Government of India under the aegis of Engineer in Chief to construct married accommodation for the three Services, with the aim of eradicating the deficiency of married accommodation for service personnel. The MAP was setup to fullfill the promise made to the Armed Forces by the Government of India. The total deficiency of two lakh dwelling units have been slated for construction in four phases as per details given below:-

Services	Phase I	Phase II	Phase III & IV	Total
Army	47,383	58,931	69,777	1,76,091
Navy	2,687	3,994	—	6,681
Air Force	7,805	7,067	1,237	16,109
Total	57,875	69,992	71,014	1,98,881

With the approval of the Cabinet on Security (CCS) three Committees, i.e. Apex Steering Committee (ASC), Vice Chief Committee (VCC) and Command Committee (CC) have been setup with enhanced financial powers for speedy decision making.

Projections and allocations made to MAP

4.2 The details regarding projection, allocation and expenditure incurred (capital budget) for execution of MAP during last five years are as follows:

(Rs. in Crore)

Year	Projection	Allocation	Expenditure
2012-13	1748.950	1324.910	1307.828
2013-14	1565.00	1372.188	1325.859
2014-15	1799.145	1968.923	1924.047
2015-16	1950.650	2744.92	2736.616
2016-17	2830.00	1965.00	1958.061
2017-18	1350.00	1320.00	855.712 (uptonov 2017)
2018-19	1457.00		

Progress of MAP

4.3 When asked about the current deficiency of dwelling units under MAP, the Ministry apprised the Committee as under:

> 'The MAP was undertaken to provide 1,98,881 deficient Married Accommodation to the Defence Services in three phases. Phase-I with construction of 57,875 DUs has been completed. Phase-II for 69,904 DUs is ongoing and 42,124 dwelling units have been completed till November 2017.
>
> MAP Phase-III is yet to be commenced. In MAP Phase-III, the remaining 71,102 dwelling units and an additional 14,203 dwelling units to meet urgent requirement of Navy, Air Force, HQ Integrated Defence Services (HQ IDS) are proposed to be constructed.'

4.4 As per information received by the Ministry, the overall progress of MAP Phase II is 86.5 %. Planning for MAP Phase III has commenced and process for selection of consultants has been set rolling. The Cabinet Committee on Security Note for MAP Phase III is at the stage of inter-Ministerial consultations and thereafter approval of the Cabinet will be obtained.

4.5 During oral evidence of the representatives of the Ministry of Defence, Director General MAP assured the Committee that 97.5% completion rate of MAP Phase II would be achieved by March 2019.

4.6 When enquired whether the Ministry of Defence has conducted any study regarding satisfaction of the occupants regarding construction, quality of building material etc. of the dwelling units constructed under MAP and whether any accountability been fixed in this regard, the Ministry responded as under:

> 'No formal study on quality of construction has been done. Guidelines and provision for quality material and quality construction are contained in Contract Agreements. However, quality checks are done at various level of officers of Married Accommodation Project/Military Engineering Service. Any defects observed by them are rectified by the Contractors & Consultants. The technical audit of the MAP construction is done by Central Vigilance Commission (CVC) and Additional Directorate General Technical Examination (ADGTE) in various stages of construction. Departmental action against the delinquent officials is also taken in cases where dereliction of duties is observed. '

4.7 In a power point presentation made before the Committee, the Ministry submitted that deficiency in married accommodation has been considerably addressed through MAP, as per table given below:

Sl No.	Service	Satisfaction level in 2002	Current satisfaction level
1	Army	45%	65%
2	Navy	60%	78%
3	Air Force	42%	58%

PART - II

OBSERVATIONS/RECOMMENDATIONS

Allocations under Capital Budget Head

1. The Committee note that an amount of Rs. 93,982.13 crore has been allocated to the Ministry of Defence for Capital Outlay on Defence Services in Budget Estimates (BE) 2018-19. An amount of Rs. 74,115.99 crore and Rs. 9,318.05 crore, respectively, has been allocated for Capital Acquisition (including DGOF supplies) and Land and Works of the three Services (including Married Accommodation Projects) for 2018-19. An amount of Rs. 10,548.09 crore has been granted for Defence Research and Development Organisation (DRDO), Directorate General of Ordnance Factories (DGOF) and other Defence Departments for 2018-19. The allocation at BE for 2017-18 was Rs. 86,488.01 crore, which remained same at Revised Estimates (RE) stage. The difference between BE 2018-19 and BE 2017-18 is Rs. 7,494.12 crore. The Committee opine that keeping in view the likely cost escalation due to inflation, this increase of Rs. 7,494.12 crore from last year is quite minimal to meet requirements of Capital acquisition and other works planned for 2018-19. Therefore, the Committee would like the Ministry of Defence to strongly put its case before the Ministry of Finance for adequate allocation of funds, commensurate with the requirement of Modernisation and acquisition plans for 2018-19.

Analysis of Capital Budget allocated to the Services for 2018-19

2. The details of Service-wise projections and allocations made under Capital and Revenue heads for 2018-19 are as follows:

(Rs. in Crore)

Service	Revenue		Capital		Total Allocation (Revenue + Capital)
	Projection	Allocation	Projection	Allocation	
Army	1,51,814.73	1,27,059.51	44,572.63	26,815.71	1,53,875.22
Navy	20,188.25	16,618.88	35,695.41	20,003.71	36,622.59
Joint Staff	3,559.50	2,952.49	2,237.03	844.45	3,796.94
Air Force	35,260.79	28,821.27	77,694.74	35,770.17	64,591.44

3. The Committee observe there is huge shortfall in projected and allocated amounts in Capital head for the Services in 2018-19. The shortfall stands at Rs.17,756.92 crore, Rs.15,691.70 crore,Rs.1,392.58 crore and Rs.41,924.57 crore for Army, Navy, Joint Staff and Air Force, respectively.

4. The Vice Chief of Army Staff (VCOAS), in his candid submission before the Committee, claimed that the marginal increase in Capital Budget allocation for Army had dashed their hopes as it was barely enough to cater to the rise in expenses on account of inflation, and did not even cater for the taxes. He further stated that allocation for modernization in 2018-19 was insufficient to cater for Committed Liabilities, ongoing schemes, 'Make in India' projects, infrastructural development, policy of strategic partnership of foreign and Indian companies and procurement of arms and ammunition.

5. The Committee were particularly alarmed to note from his oral evidence that although the Ministry of Defence had delegated financial powers upto Rs.14,097 crore to the VCOAS towards security related issues, there was no separate allocation for this in

the Capital Budget allocation in 2018-19. Hence, the Ministry is left with no other option but to reduce resources for security of military stations or compromise on other acquisitions.

6. In their Power-point presentation before the Committee, the representatives of Navy also enunciated the impact of low allocations of Capital budget for Navy viz constrained progress of New Schemes and ability to conclude contracts, delay in induction of critical capabilities and attendant cost overruns, impact on progress of infrastructure projects and mitigation of shortage of accommodation, and setback to pace of modernization of Indian Navy.

7. The Committee are aghast to note this dismal scenario where the representatives of the Services have themselves frankly explained the negative repercussions on our Defence preparedness due to inadequate allocation in Capital head. Therefore, the Committee fervently urge the Ministry of Defence to ensure that the allocations to the Services be suitably enhanced at the Revised estimate stage so as to enable our Services to meet the requirements of highest level of operational readiness. The Committee, in wake of recent attacks on military stations and accommodations, recommend that separate budget may be provided to the Services for ensuring security of the military establishments.

Ratio of Capital and Revenue Outlay

8. The Committee note that 2012-13 onwards, the 'Capital' component of the budgetary allocation has consistently decreased in comparison to 'Revenue' component of the Budget. The overall 'Revenue' to 'Capital Ratio' of the budgetary

allocation stands at 61:39, 61:39, 63:37, 65:35, 66:34 and 67:33 for 2012-13, 2013-14, 2014-15, 2015-16, 2016-17 and 2017-18 (RE), respectively. The Committee are given to understand that the Revenue allocation is provided to meet the obligatory charges, procurement of revenue stores including ration, fuel, ammunition, clothing, etc., essential maintenance requirements, repair and refit of ships, submarines and aircrafts, transportation, maintenance and repair of Defence buildings, etc. The 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. Both Revenue and Capital expenditure play significant roles in operational preparedness of our Forces. However, the Committee are deeply anguished to note that with each year, the ratio of Revenue to Capital outlay is skewed in favour of Revenue component of the Budget. The Committee do understand that recent implementation of One Rank One Pension and Seventh Pay Commission would also have tipped the weighing scale in favor of Revenue head of the Budget. However, this skewed ratio of Revenue and Capital outlay has ominous foreboding for noble intentions and efforts of modernizing our Defence Forces. Therefore, the Committee recommend that allocations under Capital head need to be augmented suitably for improving the present ratio of Revenue and Capital outlay in favour of Capital head.

<u>Underspending</u>

9. The Committee, while examining the Demands for Grants, observed that the Capital expenditure has never remained under control and the allocated funds under Capital Head are never fully utilized. During the year 2011-12, Army was allocated final grant of Rs.14,957.16 crore but was able to utilise only Rs.14,947.82 crore. During the year 2013-14, Army was allocated Rs.15,038.63 crore as final grant, but it was able to

utilise only Rs.14,433.29 crore. Again, in the year 2014-15, Army was allocated Rs.25,361.42crore at final grant stage but spent only Rs.18,586.73 crore.

10. The Committee are satisfied to note that due to certain reforms in the Defence Financial Management, delegation of financial powers, powers for Post Contract Management and operationalization of perimeter security aspects to the Service Headquarters, the Ministry of Defence have been able to fully utilise funds allocated in BE 2017-18. As a result of this healthy trend of expenditure achieved by the Ministry of Defence, no cut has been imposed by the Ministry of Finance at the Revised Estimates stage. The Committee sincerely hope that the Ministry continues to follow principles of financial propriety and discipline to ensure optimum utilization of funds and give no reason to the Ministry of Finance to reduce allocations to the Ministry of Defence at any stage.

Capital Acquisitions - Creation of 'Roll on' and 'Non Lapsable Fund

11. The Committee have, in their reports presented earlier, emphasised on the allocations being of 'Roll on' and 'Non-Lapsable' in nature. However, The Ministry of Defence in the information furnished to the Committee on the subject matter in the past had, in general, not favoured the proposal for constituting a Non-lapsable Defence Capital Fund Account , ostensibly on the plea that there had been no occasion in the last five years where any substantial amounts were available as surplus for rolling over. The Committee are glad to note that the Ministry of Defence reviewed its stated position in 2017 and admitted that the utility of creation of a non-lapsable, roll over fund for Capital could not be completely negated as the same would help in eliminating the prevailing uncertainty in providing adequate funds for various defence capability development and infrastructure projects.

12. As per the information furnished by the Ministry, a proposal for creation of Non-lapsable Capital Fund Account was sent to the Ministry of Defence after obtaining approval of Hon'ble Raksha Mantri, but the same was not agreed to by the Ministry of Finance stating following reasons:

- **Adequate budget provision is made available to Ministry of Defence to finance the capital requirements of Defence Services;**
- **Balances available in the non-lapsable funds will not be available to Ministry of Defence automatically. It requires Parliament's sanction through Demands for Grants of Ministry of Defence for being spent on Defence Capital Expenditure. Hence, mere creation of non-lapsable funds yields no additional advantage to Ministry of Defence and could rather induce complacency in incurring expenditure;**
- **Funds in the Public Account are generally created with dedicated receipts for being financed. In this case, there are no such dedicated receipts for financing the corpus of the reserve fund proposed to be created in the Public Account;**
- **Creating a corpus out of general revenues could lead to unnecessary parting of funds and make them unavailable for other essential expenditure. Thus, non-lapsable funds result in sub-optimal utilization. Standing Committee on Finance (16thLok Sabha), in its 2nd Report on Demands for Grants of Ministry of Finance for the year 2014-15, recommended that the unutilized funds/funds kept idle for more than two years may be transferred to Consolidated Fund of India so that these funds could be utilized for other prioritized schemes; and**
- **Moving general revenue out of Consolidated Fund and parking in corpus fund is against the spirit being Article 266(1) of the Constitution. Giving go ahead in one case could raise competing demands from other Ministries**.

13. The Committee are disappointed to note that the Ministry of Finance has not agreed to the proposal of creating a 'Non-lapsable Defence Capital Fund Account'. The Committee would like to draw the attention of the Ministry of Finance to the fact that in the last few years, the allocations for the Ministry of Defence under the 'Capital' head

have inevitably been lesser than the projection. To illustrate, against a projection of Rs.1,60,199.81 crore for Capital Budget in 2018-19, only Rs.83,434.04 crore have been allocated at the BE 2018-19 for the Defence Services (Army, Navy, Joint Staff and Air Force), a shortfall of Rs.76,765.77 crore. The representatives of the Ministry of Defence and the Services, during oral evidence, also deposed about the depressing scenario of our Defence sector due to non-allocation of adequate funds in Capital Budget for 2018-19.Therefore, the Committee feel that the contention of the Ministry of Finance that the desired objectives of Ministry of Defence towards meeting its contractual liabilities, acquisitions and defence modernization can be achieved through normal budgetary mechanism is not corroborated by the facts.

14. Further, Defence procurement and acquisition is a complicated process involving long gestation periods and funds allocated for capital acquisition in a particular financial year are not necessarily consumed in that year and ultimately have to be surrendered by the Ministry of Defence. The intention of the Committee in recommending having a Non-Lapsable Capital fund account for Defence modernization is primarily for ensuring that the money allocated for a particular item is spent on the specified item only, not necessarily in the same Financial year. The Ministry of Finance needs to note that creation of Non-Lapsable Fund meant for the Ministry of Defence is not to cater for facilities, perks or social schemes but an imperative need for enhancement and heightened operational preparedness of our Defence Forces. Hence, there would be no issue relating to raising competing demands from other Ministries.

15. The Ministry of Finance gave the reasoning that balances available in the non-lapsable fund will not be available to Ministry of Defence automatically as it requires

Parliament's sanction through Demands for Grants of Ministry of Defence for being spent on Defence Capital Expenditure. Further, moving the general revenues out of the Consolidated Fund and parking in a 'corpus fund' is against the spirit of Article 266(1) of the Constitution. The Committee, in this context, would like to emphasize that even if certain financial rules and regulations have to be amended for creation of a 'Non-lapsable Defence Capital Fund Account 'to meet the requirements of our Defence forces, it can, and should be done in the interest of the Nation without getting embroiled in complicated financial discourse. Moreover, creation of such a fund would also ensure that procurement of equipments, arms and ammunition for our Defence Forces which are in the pipeline and in the stage of fructification is not delayed because of lack of money and due to technicalities of rules and regulations. Hence, the Committee would like the Ministry of Finance to shun their rigid stance on the issue of creation of a 'Non-lapsable Defence Capital Fund Account' and come up with a solution in consultation with the Ministry of Defence and apprise the Committee in due course.

Committed Liabilities and New Schemes

16. 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 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 have learnt that in the Defence Services Estimates, there is no separate allocation of funds for Committed Liabilities and New Schemes. Projection for Capital

Acquisition made to the Ministry of Finance includes both Committed Liabilities and New Schemes.

17. The representatives of the Ministry of Defence and Services, deposing before the Committee during examination of demands for Grants for the year 2018-19, explained the process of prioritisation of Committed Liabilities and New Schemes according to availability of funds. After receiving the allocation of funds by the Ministry of Finance, the Ministry of Defence communicates this financial ceiling to the Service Headquarters. The Service Headquarters, in consultation with the Defence Secretary, Financial Advisor and other competent authorities, decide the urgent and critical capabilities to be acquired with the available funds. While deciding the priority, factors which are kept in mind are, impact on modernisation and payment to be made to foreign vendor defaulting of which could attract penal interest as well as legal action.

18. The Ministry, in its written reply, has submitted that the schemes were reprioritized to ensure that urgent and critical capabilities are acquired without any compromise to operational preparedness of the Defence Services. However, the oral evidence tendered by the representatives of the Ministry of Defence and Services belies this claim of the Ministry as they themselves deposed before the Committee that lack of sufficient funds in Capital Head would lead to elimination of some priority acquisition cases and new schemes. Further, the reduced allocation in committed payments may lead to possibility of additional interest and litigation. 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 halted for want of funds.

<u>Defence Procurement Procedure 2016</u>

19. 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 policy also seeks to ensure that the highest degree of probity, public accountability, transparency, fair competition and level-playing field are achieved in the process of procurement. In addition, self-reliance in defence equipment production and acquisition is steadfastly pursued as a key aim of the policy. The policy is implemented through the mechanism of Defence Procurement Procedure (DPP).

20. As part of the implementation of the report of the Group of Ministers on reforming the National Security System, new Defence Procurement Management Structures and Systems were set up in the Ministry of Defence in 2001. In order to implement the provisions laid out in the new Defence Procurement Management Structures and Systems, the procedure for Defence Procurement dated 28 February 1992 was revised. The Defence Procurement Procedure -2002 (DPP-2002) was applicable for procurements flowing out of 'Buy' decision of Defence Acquisition Council (DAC). The scope of the same was enlarged in June 2003 to include procurements flowing out of 'Buy and Make' through Imported Transfer of Technology (ToT) decision. The Defence Procurement Procedure has since been revised in 2005, 2006, 2008, 2009, 2011, 2013 and 2016 enhancing the scope to include 'Make', 'Buy and Make (Indian)', 'Buy (Indian – IDDM)' categories, concept of 'Offsets' and Ship Building procedure. A new Chapter on Strategic Partnership in Defence sector has been incorporated in DPP-2016 in 2017 intending to institutionalise a transparent, objective and functional mechanism to encourage broader participation of the private sector, in addition to DPSUs/OFB, in the

manufacture of Defence platforms and equipment such as aircraft, submarines, helicopters and armoured vehicles. It will serve to enhance competition, increase efficiencies, facilitate faster and more significant absorption of technology, create a tiered industrial ecosystem, ensure development of a wider skill base and trigger innovation, leading to reduction in dependence on imports and greater self-reliance in meeting national security objectives. While deposing before the Committee, the Defence Secretary admitted that the Ministry has not undertaken any impact analysis of DPP 2016, with a view to assessing the reduction of number of days taken in the procurement process, percentage of changes in the level of indigenization and 'Make in India' Projects etc. The Committee desire that the Ministry undertakes such analysis and apprise them accordingly in the Action Taken Note. The Committee trust that the amended Defence Procurement Procedure would bring forth the much needed structural and systemic changes necessary in the defence procurement and the Ministry would go the extra mile to implement the changes made in the Procedure.

<u>Long gestation period in procurements</u>

21. As per the Ministry of Defence's submission, procurement is an ongoing process and the time taken varies from case to case due to inherent complexities and uniqueness. Capital and Revenue procurement cases are taken up by Ministry of Defence based on Annual Acquisition Plans for Capital and Annual Procurement Plan for Revenue and are processed as per delegation of financial powers. JS(Navy), JS(Air) and JS(Army) are the nodal points in Ministry of Defence for revenue procurements and three Joint Secretaries cum Acquisition Managers are the nodal points for capital procurements for each service respectively. Capital procurement cases upto Rs.150 crore are delegated to Service HQs and cases above Rs.150 crore are processed by

Ministry of Defence. The delegation for revenue procurement is as per the 'Delegation of Financial Powers to Defence Services, 2016' and as per recent delegation of powers to Services.

22. The Committee note that main changes/improvements introduced in DPP 2016 for achieving timely, efficient and effective procurement are, reduction of timelines for completing procurement activities (Acceptance of Necessity to award of contract) from 80-117 to 70-94 weeks in multi vendor cases and from 92-137 weeks to 82-114 weeks in single vendor cases;reduction in Acceptance of Necessity (AoN) validity from 1 Year to 6 Months for 'Buy' cases and from 2 years to 1 year in 'Buy and Make Indian' cases; accompaniment of draft Request for Proposal with Statement of Case for AoN; processing of single vendor cases at the bid submission and Technical Evaluation Committee (TEC) stages with due justification with approval of DAC; rationalisation of time taken for Field Evaluation Trials by conducting trials in conditions where equipment is most likely to be deployed, increased use of certification and simulations in technical evaluation of equipment; direct bringing of cases with AoN of value more than Rs.150 crore before Services Capital Acquisition Plan Categorization Higher Committee (SCAPCHC); Fast Tracking of Procedure to cover urgent operational requirements relating to both foreseen and emergency situations and clear definition of objectives in Request for Information (RFI) process. The Committee note the amended provisions in extant DPP for speedy capital procurement of defence equipments and recommend that allocations to the Capital head are commensurate with the planned procurement, so that inspite of effective measures in theory, our forces are not deprived of state-of-the-art technology and hardware in reality.

Probity, Accountability and Transparency in Defence Procurement

23. The Committee have been informed that the main changes/improvement introduced in DPP 2016 for ensuring accountability and transparency in defence procurement cases are,(i) execution of Pre-contract Integrity Pact (PCIP) for all cases above Rs.20 crore, (ii) alignment of guidelines for handling of complaints to Central Vigilance Commission/ Department of Personnel and Training (DoPT) guidelines and Government policy, (iii) issuance of instructions for ascertaining vigilance status of L1 vendor before seeking Competent Financial Authority (CFA) approval, and (iv) notification of guidelines for penalties in business dealings with entities. Keeping in view the aspect of unfair practice in defence procurement deals causing inordinate delay and cost escalation, the Committee recommend that the Ministry remains constantly vigilant with a strong oversight and enforcement system to fight the malaise of corruption in defence deals.

Dependence on foreign suppliers for military hardware

24. 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 187 contracts with total value of Rs.2,40,814.22 crore signed during last three years and current year (upto 30.11.2017) include 119 contracts signed with Indian vendors involving Rs.1,16,522.89 crore and 68 contracts with foreign vendors involving Rs.1,24,291.33 crore. The major Defence equipment imported during last three years and current year include rockets, simulator and component level repair facility for Tanks from Russia;

Laser Designation Pods, radars, Pods for aircraft, Radios, Weapons for 'garuds' and missiles from Israel; aircraft, helicopters, missiles, artillery guns and simulators from USA, and aircraft, ammunition, Bimodular Charge System (BMCS) high Zone Modules of Artillery Guns from France.

25. The Ministry supplied the following data to the Committee detailing expenditure of the Forces on specific accounts year-wise, from 2009-10 to 2016-17.

(Rs. in crores)

Financial year	Expenditure of the Forces with Respective Reasons		
	Army (for direct payments to foreign vendors for capital acquisitions)	Navy (for import of military equipment)	Air Force (for import of weaponry from foreign vendors)
2009-10	1659.36	4576.83	4226.28
2010-11	800.39	4746.88	4364.82
2011-12	424.82	6532.37	15258.11
2012-13	884.84	5968.80	19220.95
2013-14	1365.71	12577.81	20927.55
2014-15	3452.61	6884.00	14655.75
2015-16	3004.91	6939.76	12477.45
2016-17	5263.00	6624.02	16613.24

The Committee note that during the 12th Plan (2012-13 to 2016-17), 107 contracts involving Rs.1,50,507.38 crore were signed with foreign vendors for capital procurement of defence equipment.

26. The Ministry has submitted that Government is taking necessary measures for building of defence capabilities to safeguard the sovereignty, territorial integrity and security of the country. To this end, capital procurement of defence equipment is undertaken from various domestic as well as foreign vendors as per the extant Defence Procurement Procedure (DPP), based on threat perception, operational challenges and technological changes and to keep the Armed Forces in a state of readiness to meet the entire spectrum of security challenges. The Committee understand that owing to lack of requisite level of core competence and technology in domestic defence sector and geo-political threats to the Nation, the import of defence equipments becomes imminent. The Government has taken a lot of measures to encourage indigenous defence base but it will take some time for them to come up to the required level. Hence, the Committee

invoke the Ministry of Defence, the Services, DRDO, OFB, DPSUs, Indian vendors and other concerned agencies to take urgent and concerted steps and leave no stone unturned in seeing that import of arms and equipment is gradually decreased and India sheds its tag of largest defence importer in the world.

Import content in equipment produced, and developed by DRDO, Ordnance Factories and DPSUs

27. The Committee note that average import content in respect of Ordnance Factories products has been around 13%. In case of DPSUs, in case of Hindustan Aeronautics Limited (HAL), the import component in aircrafts and helicopters is said to range from 40 to 60 per cent; 36 to 47 per cent in case of equipment manufactured by Bharat Electronics Limited (BEL)from 2012-12 to 2016-17; and 16 to 26 percent in case of equipment manufactured by Bharat Earth Movers Limited (BEML) during last five years. Further, the import component of Ships manufactured by Hindustan Shipyard Limited (HSL) is informed to be 11 to 43 per cent during 2012-13 to 2016-17, 30 to 38 per cent for Goa Shipyard Limited (GSL) and 25 to 50 per cent in case of Warships and submarines manufactured by Mazagon Dock Shipbuilders Limited (MDL).

28. The Committee note the Ministry's submission that import dependency of OFB is on those items only which are of perennial import nature and Transfer of Technology has not been established from Original Equipment Manufacturers. The Committee desire to be apprised of the reasons for substantial percentage of import content in equipments manufactured by DPSUs. Our Defence Public Sector Undertakings (DPSUs) and Ordnance Factories Board(OFB) are the backbone of indigenous Defence production. However, they have failed to be self-sufficient in defence production, which

is corroborated by considerable import component used in the various equipments and systems developed by them. Therefore, the Committee feel that is high time that DPSUs and OFB took urgent and concerted steps to make India self-reliant in Defence production.

Make-in-India policy and Self-reliance in Defence Production

29. 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. Moreover, the Government has notified the 'Strategic Partnership (SP)' Model 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.

30. As per the information provided by the Ministry, the budget allocation for 'Make in India' projects is made from the total acquisition of defence equipment requirements of

the Services. The proposals for capital acquisition in Defence Procurement Procedure (DPP) are categorised as 'Buy (Indian-IDDM)', 'Buy (Indian)' & 'Buy and Make (Indian)', with preference over 'Buy (Global)' category, to make the country self-reliant in defence production after deliberations in various Committees such as Services Capital Acquisition Categorization Committee (SCAPCC) and the Services Capital Acquisition Categorization Higher Committee (SCAPCHC)/Defence Procurement Board (DPB)/ Defence Acquisition Council (DAC). There is no 'Make in India Project' category for procurement as per DPP. However, the objectives of 'Make in India' initiative of the government are pursued through procurements under 'Buy (Indian-IDDM)', 'Buy (Indian)', 'Buy and Make (Indian)' and 'Make' categories of capital procurement.

31. The Director General, Acquisition also apprised the Committee of some innovative steps taken by the Ministry to promote Indian vendors. For instance, the Services would be willing to procure any useful ready product being offered by any Indian vendor despite not floating any requirement relating thereto, given the part that the product is successfully evaluated. Further, the negotiation procedure with the Indian vendors has been simplified.

32. The Committee appreciate the various policy measures being taken by the Ministry of Defence to achieve substantive self-reliance in the Defence Sector and broaden Defence Research and Development base of the country. However, the Committee would like to adopt 'wait and watch' policy for kind of systems and technologies being developed by the Indian vendors as the Make in India policy is still in a nascent stage. Also, the Committee would like the Ministry to ignore any minor

problems in terms of quality and technology, in the prototypes developed by the indigenous industry and encourage the Indian vendors to the extent possible without compromising on combat readiness. The Committee sincerely hope that eventually our indigenous industry will develop its core competence and offer our forces cutting edge technology and world class products.

Strategic Partnership for various platforms from the Private Sector Industry

33. The Strategic Partnership Model has been promulgated as chapter VII of the Defence Procurement Procedure (DPP)-2016 with the main aim of enabling participation of Private Indian firms in 'Make in India' in Defence. Currently, cases of procurement are being progressed in three segments i.e. Submarine, Helicopter and Armoured fighting vehicles (FRCV case) in accordance with the procedure mentioned in the Chapter. In these three segments, Requests for Information (RFIs) have already been issued and responses received are under evaluation. Though the Strategic Partnership Model envisages encouraging Indian private entities to align with the Defence Sector, the Committee feel that they would require constant guidance of the Ministry of Defence in terms of infrastructure and technology. The Committee, therefore, recommend that the Ministry of Defence, along with DPSUs and OFs, extend all possible support to Private Indian firms to enable them to make meaningful contribution in laying a robust and credible base for nation's Defence industrial complex.

Offset Clause

34. The Ministry of Defence (MoD) has mandated discharge of offset obligations by vendors under different categories of defence acquisitions with the primary objective

of leveraging its capital acquisitions to develop the Indian Defence Industry by: (i) fostering development of internationally competitive enterprise; (ii) augmenting capacity for research, design and development related to defence products and services; and
(iii) encouraging development of synergistic sectors like civil aerospace and internal security. The offset provisions apply to all Capital Acquisitions categorized as 'Buy (Global)', i.e. outright purchase from foreign/Indian vendor, or 'Buy and Make' category of capital acquisition where the estimated cost of the acquisition proposal is Rs. 2000 crores or more. They apply to Indian firms or their Joint Ventures under 'Buy (Global)' procurements. Further, foreign vendors could consider creation of offset programmes in anticipation of future obligations through offset banking. The offset policy was introduced in 2005 and thereafter, has successively evolved to put emphasis on the capacity augmentation for Research, Design and Development related to Defence products and services by making it as a key policy objective. The policy further enlarged the scope of the avenues for discharge of offsets and included the option of provision of investment in kind in Indian enterprises in the form of equipment and /or Transfer of Technology.

35. The Committee have been apprised that as on date, a total of 42 Defence offset contracts have been signed in MoD out of which 27 cases pertain to Indian Air Force and 04 cases of Indian Navy and 11 of Indian Army. The total offset obligations are estimated at approximately US$ 11.20 billion over a period from 2008-2024. The Committee would like to know the value of total offset obligations that have been realized till date.

36. The Committee note that these offset contracts are under different stages of implementation by the foreign OEMs. Once executed, it is estimated that the respective contract shall cause, on account of offset provisions, 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. Further, due to liberalised banking provisions, the Original Equipment Manufacturers are expected to invest more in Indian Industries, spurring growth in the related areas with visible results in near future, and commensurate gains in coming years. This shall be independent of the existence or otherwise of any immediate main acquisition proposal.

37. 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. 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. The Committee appreciate the Ministry's initiatives in

resolving the problems being faced in execution of offset contracts and desire that the Ministry would constantly strive towards effective implementation of offset guidelines based on the inputs of vendors while also keeping in mind the interest of the nation.

38. The Committee have learnt that the offset guidelines provide for imposition of penalty in case of shortfalls in annual offset discharge by the vendor. In 11 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 approximately US $ 38.19 Million. The Committee, in this context, recommend that the Ministry of Defence ensure that the penalties imposed on the defaulter vendors reasonably compensate for the losses incurred due to shortfall in discharge of offset obligations.

Foreign Direct Investment (FDI)

39. The Committee note that the Government has reviewed the Foreign Direct Investment (FDI) Policy in Defence Sector in June 2016 thereby allowing FDI under automatic route upto 49% and beyond 49% wherever it is likely to result in access to modern technology or for other reasons to be recorded. Further, Defence Industry is subjected to industrial license under Industries (Development & Regulation) Act, 1951 and manufacturing of small arms and ammunition under the Arms Act, 1959. The Ministry has claimed that by allowing higher FDI in the Defence Sector, the global companies having high-end technologies, can be encouraged to set up their manufacturing base in India in collaboration with Indian companies, thereby resulting in creation of employment opportunities, saving of foreign exchange and increasing indigenisation. Although the Ministry has submitted that the Defence Sector, being sensitive, carefully calibrated approach for foreign investment is being adopted. The

Committee cannot refrain from advising the Ministry to institute ironclad measures to ensure that the security of our Nation is not jeopardized due to liberalized policy.

Defence Planning

40. The Defence Five Year Plans are formulated to chalk out the necessary steps to maintain and augment defence capabilities in line with the Raksha Mantri's Operational Directives, the Long Term Perspective Planning(LTPP) and the current threat perception. These plans help to estimate the outlay required to achieve the planned objective. The Committee observe that against the projection of Rs.4,18,101.00crore, the expenditure incurred during 10th Plan was Rs.3,57,893.42 crore. Further, against the projection of Rs.6,48,750.16 crore, the expenditure incurred during 11th Plan was Rs. 6,72,714.63 crore, which was clearly a case of overspending. Again, in 12th Plan, the expenditure incurred was Rs.10,81,644.89 crore against a projection of Rs.11,39,000.00. However, the Ministry of Defence has claimed that activities included in the Plans proceeded during the Plan period within the available budget allocations, and projections in respect of annual budgets were made in line with Five Year Plans and available allocations were prioritized accordingly.

41. The Committee note that although the 12th Plan was approved by the Raksha Mantri, it was not concentrated to by the Ministry of Finance. As per the Ministry of Defence, while formulating guidelines for the 13th Defence Plan it was decided that the Plan may be sent to Ministry of Finance for information only and not for approval as such. The Ministry of Finance will be kept in loop about the requirements of the Defence Forces in the coming years. The Ministry of Defence has submitted that non approval of Defence Plan does not act as hindrance in implementation of Defence projects.

Activities planned are likely to proceed according to available annual budget allocations. The Defence Plan serves only as a guide for formulating annual budgetary projections even without the formal approval or consent of the Ministry of Finance.**

42. It escapes the Committee's understanding that inspite of their earlier recommendations, the Ministry does not deem it important to get the Defence Plans approved by the Ministry of Finance. It is quite evident that the claims of the Ministry of carrying planned activities and projects as per the available budget allocations and projections in respect of annual budgets made in line with Five Year Plans are belied by the trends of underspending and overspending during the Defence Five Year Plans. Moreover, seeking the consent of the Ministry of Finance seems to be a logical approach as the Ministry is the authority to allocate funds for Defence Plans. Hence, the Committee desire that the Ministry of Defence should shun the practice of not taking approval for the Defence plan by the Ministry of Finance. This would amount to a holistic and prudent budget planning.

<u>Long Term Integrated Perspective Plan (LTIPP)</u>

**43. The Headquarters Integrated Defence Staff (HQIDS), in consultation with the Service Headquarters (SHQs), had evolved the 15 year Long Term Integrated Perspective Plan (LTIPP). Presently, LTIPP 2012-2027 is in vogue and has been approved by the Defence Acquisition Council. 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). The LTIPP is translated into the SCAP, covering a five year period. The AAP of each service is a two year roll on plan for capital acquisition and consists of the schemes from the approved five year SCAP. Thus, LTIPP gets finally translated to short

term plan (AAP) and the cases included in the AAP are progressed for acquisition as per the Defence Procurement Procedure. Progress of procurement cases is regularly reviewed in Service Headquarters and the Ministry of Defence. Amendments are made to the DPP, as and when required, to streamline the acquisition process. DPP-2016 focuses on institutionalising, streamlining and simplifying defence procurement procedure to give a boost to 'Make in India' initiative of the Government of India, by promoting indigenous design, development and manufacturing of defence equipment, platforms, systems and sub-systems.

44. As per the Ministry, 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 upto 30th November, 2017, 33 contracts worth Rs. 33,517.88 crore have been signed in respect of the three Services. The Committee would like to know the details of delivery schedule, cost implications and management of availability of funds with regard to these contracts. As evident from the data and information made available, the Committee would once again like to recall here that there appears to be a disjunct between the availability of resources and the Demands of the Armed Forces. This appears to be more so in the case of modernization schemes. Also, there are issues relating to inter services resource allocation and effective prioritization of schemes within the services.

The Committee also note in this regard that the Ninth Defence Plan was the last one to receive the approval of Cabinet Committee on Security. Thereafter, all the Defence plans have been formulated and evolved within the Ministry of Defence (MoD) and the Service Headquarters (SHQs) without any external inputs or approvals. In the light of these facts, the Committee feel that it would be a necessity for taking an overall

view, covering aspects over and above the Service Headquarters priorities viz. by way of including foreign policy imperatives, resource availability and indigenous capability development. For meeting this end, the Committee would recommend the Government to consider establishing an institutional mechanism, with an appropriately senior person heading it. Such an institutional mechanism could preferably be on the lines of similar institutions in the Space/Atomic Energy Sectors.

With a clearly defined mandate, such an Institution, group or Committee could, in conjunction with the Defence Acquisition Council (DAC), factor in inputs from the Ministries of Finance and External Affairs, identify 'Make in India' opportunities, fix long term financially sustainability priorities for Defence Acquisition etc. The institution could also evolve cogent national security doctrines and related operational directives for the consideration and approval by the Raksha Mantri (RM) and the CCS. The Committee wish to be informed of the action /initiatives taken towards this end.

<u>Married Accommodation Project (MAP)</u>

45. The Ministry has informed that the overall progress of MAP Phase II is 86.5 % and has also provided details of station-wise progress of the project. During oral evidence of the representatives of the Ministry of Defence, Director General, MAP assured the Committee that 97.5% completion rate of MAP Phase II would be achieved by March 2019. Further, planning for MAP Phase III has commenced, process for selection of consultants has started and the Cabinet Committee on Security Note for MAP Phase III is at the stage of inter-Ministerial consultations. The Committee strongly urge the Ministry to make serious efforts for timely completion of MAP Phase II and III so as to

fulfill its avowed objective of eradicating the deficiency of married accommodation for service personnel.

46. The Committee note that no formal study on quality of construction of the accommodation provided under MAP has been done by the Ministry of Defence. The Ministry informed that guidelines and provision for quality material and quality construction are contained in Contract Agreements. Moreover, quality checks are done at various levels of officers of Married Accommodation Project/Military Engineering Service and the contractors and consultants rectify any defects observed by them. Further, Central Vigilance Commission (CVC) and Additional Directorate General Technical Examination (ADGTE) undertake the technical audit of the MAP construction at various stages of construction. Departmental action against the delinquent officials is also taken in cases where dereliction of duties is observed. The Committee feel that even though there is an institutionalized mechanism to monitor quality of construction of houses under MAP, the ground reality can only be checked by way of inputs of the residents of its dwelling units. Hence, the Committee recommend that the Ministry undertake a formal study/survey of the occupants of houses constructed under MAP on the basis of parameters such as, quality of construction, building material, planning etc. and thereby gauge their satisfaction regarding the dwelling units.

New Delhi **MAJ GEN B C KHANDURI, AVSM (RETD)**
12 March, 2018 **Chairperson**
21 Phalguna, 1939 (Saka) **Standing Committee on Defence**

STANDING COMMITTEE ON DEFENCE (2017-18)

MINUTES OF THE FIFTH SITTING OF THE STANDING COMMITTEE ON DEFENCE (2017-18)

The Committee sat on Thursday, the 15th February, 2018 from 1100 hrs. to 1520 hrs. in Committee Room No. 53, Parliament House, New Delhi.

PRESENT

Maj Gen B C Khanduri, AVSM (Retd) - Chairperson

MEMBERS

LOK SABHA

2. Col Sonaram Choudhary(Retd)
3. Shri Thupstan Chhewang
4. Shri H D Devegowda
5. Shri Sher Singh Ghubaya
6. Dr Mriganka Mahato
7. Shri Kalraj Mishra
8. Shri Partha Pratim Ray
9. Shri A P Jithender Reddy
10. Smt Pratyusha Rajeshwari Singh

RAJYA SABHA

11 Shri Harivansh
12 Shri Basawaraj Patil
13 Smt Ambika Soni

SECRETARIAT

1. Smt Kalpana Sharma - Joint Secretary
2. Shri TG Chandrasekhar - Director
3. Smt Jyochnamayi Sinha - Additional Director
4. Shri Rahul Singh - Under Secretary

LIST OF WITNESSESS

MINISTRY OF DEFENCE

SNO	NAME OF OFFICER	DESIGNATION
1.	Shri Sanjay Mitra	Defence Secretary
2.	Dr Ajay Kumar	Secretary (DP)
3.	Dr S Christopher	Secretary DR&D
4.	Lt Gen Sarath Chand	VCOAS
5.	Lt Gen SK Dua	CISC
6.	Shri SK Kohli	FA(DS)
7.	Shri Apurva Chandra	DG(Acq)
8.	Shri Jiwesh Nandan	Additional Secretary
9.	Shri Sanjiv Mittal	FA (Acq)
10.	Lt Gen RR Nimbhorkar	MGO
11.	Lt Gen Sanjay Verma	DG WE
12.	Lt Gen PN Rao	DG FP
13.	Lt Gen SK Patyal	DCOAS
14.	Lt Gen BS Sehrawat	DGNCC
15.	Vadm AK Jain	DCIDS (PP&FD)
16.	Vice Admiral G Ashok Kumar	DCNS
17.	Dr Zakwan Ahmed	DG(R&M)
18.	Sh AN Das	Addl FA & JS
19.	Shri Subir Mallick	Addl FA & JS
20.	Shri Rajib Kumar Sen	Economic Adviser
21.	Shri R K Karna	Addl FA & JS
22.	Shri Ashwini Kumar	Addl FA & JS
23.	Rear Admiral Sanjay Vatsayan	ACNS (P&P)
24.	Ms Dhartiri Panda	Addl FA & JS
25.	Shri V Anandarajan	Joint Secretary
26.	Shri Rajeev Singh Thakur	JS (Army)
27.	Smt Nidhi Chibber	Joint Secretary
28.	Maj Gen KJS Dhillon	ADG PP ‘A’
29.	Maj Gen Shantanu Dayal	ADG Proc
30.	Maj Gen HS Shanbhag	Technical Manager (LS)
31.	Maj Gen Sanjay Thapa	ADG FP
32.	RAdm KM Dhir	ACIDS
33.	IG VD Chafekar	DDG (P&P)
34.	Maj Gen Pankaj Saxena	ACIDS (FP)

35.	Rear Adm B Dasgupta	ADG (A)
36.	Brig Deepak Obhrai	DDG P&M Cell
37.	Brig Dhiraj Seth	DDG PP (Plans)
38.	DIG Alankar Singh	PD(SA)
39.	Cmde G Rambabu	Inspecting Officer SSC
40.	Cmde Vineet McCarty	PDNP
41.	Captain Prakash Gopalan	DNP
42.	Mrs Maulishree Pande	Director (Fin/Budget)
43.	Col Rajeev Kapoor	Offg DACIDS (Budget)
44.	Shri TD Diwivedi	Dir (Air-II)
45.	Smt Vibha Sood	PD P&F
46.	Brig Shivender Singh	DDG (Lgs)
47.	Col SK Vohra	Dir Lgs(A)
48.	Col Chetan Gurbax	Dir Coord
49.	Col Sudhanshu Arya	Inspecting Officer SSC
50.	Col Puneet Aggarwal	Dir PP(Lgs)
51.	Col PG Sankpal	Dy MA to VCOAS
52.	Sh Vipul Gupta	Addl Dir DPA
53.	Smt Poornima Rajendran	DS(Trg) & Hony Secy (SSC)

2. At the outset, the 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 and the Defence Services. The Chairperson welcomed the representatives to the fifth Sitting of the Standing Committee on Defence and drew their attention to Direction 55(1) of the Directions by the Speaker, Lok Sabha.

3. Thereafter, the Chairperson requested the representatives of the Ministry of Defence to brief the Committee on various issues included in the agenda for the day. The Defence Secretary initiated the discussion by briefly touching upon Defence Services Estimates and other Demands for Grants of the Ministry of Defence. He also apprised the Committee about non-reduction of amount at Revised Estimates stage by Ministry of Finance due to healthy expenditure pattern of Ministry of Defence.

4. The Committee were informed about delegation of powers to Coast Guard, NCC, BRO, Services Headquarters for post contract management and perimeter security aspects.

Thereafter, A power Point Presentation on General Defence Budget was made before the Committee. This was followed by detailed deliberations on the following issues:

(i) Issue relating to non procurement of Bullet Proof Jackets.

(ii) Procurement of Ammunition and Weapon System.

(iii) Low Allocation to Army.

(iv) Escalation in the cost of equipment nullifying the increase in the budget.

(v) Non availability of adequate Capital Budget.

(vi) Continuous reduction of Defence Budget in terms of percentage of GDP of the Country.

(vii) Making capital budget as 'Roll on and Non-Lapsable'.

(viii) Measures for adequately equipping being taken for the Forces.

5. Thereafter, a Power Point presentation on Defence Procurement Policy was made. This was followed by extensive discussion on the following points:

(i) Steps taken to achieve timely, effective and efficient procurement.

(ii) Impact analysis of newly-formulated Defence Procurement Procedure (DPP 2016).

(iii) Strategic Partnership with Private Sector.

(iv) Impact of 'Make in India' policy on existing production policy.

(v) Issues relating to huge committed liabilities and non availability of budget for new schemes owing to ceiling from the Ministry of Finance.

(vi) Support to Medium, small and Micro Enterprises (MSME) in area of Defence production.

The Committee took break for lunch and resumed the Sitting at 1400 hrs.

6. Thereafter, the Chairperson invited the representatives of Army. The representatives of the Army commenced their briefing through a Power Point presentation. This was followed by detailed deliberations on following issues:

(i) Status of present operational preparedness of Army;

(ii) Issues relating to deficiencies of weapons, stores and ammunition;

(iii) Non availability of capital budget for Committed Liabilities and New Schemes;

(iv) Break up of utilisation of Army Budget i.e. 63 per cent for salaries, maintenance; operational requirement; 20 per cent for modernisation, 14 per cent for other matters etc.

7. Thereafter, the Chairperson invited the representatives of NCC. The representatives of the NCC commenced their briefing through a Power Point presentation. This was followed by discussion on following issues:

(i) Issues relating to Introduction of NCC in more schools;

(ii) Need for creating infrastructure and improving quality of training with the increase in strength of cadets.

8. Thereafter, the Chairperson invited representatives of Sainik Schools. The representatives of the Sainik Schools also commenced their briefing through a Power Point presentation. This was followed by discussion on following issues:

(i) Opening of more Sainik Schools in the States;

(ii) Making Sainik Schools co-educational/separate Sainik Schools for girls; and

(iii) Measures taken to improve standard of training in Sainik Schools so as to increase the intake of cadets of Sainik Schools in NDA.

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

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

The Committee then adjourned.

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STANDING COMMITTEE ON DEFENCE (2017-18)

MINUTES OF THE SIXTH SITTING OF THE STANDING COMMITTEE ON DEFENCE (2017-18)

The Committee sat on Friday, the 16th February, 2018 from 1100 hrs. to 1550 hrs. in Committee Room 'B', Parliament House Annexe, New Delhi.

PRESENT

Maj Gen B C Khanduri, AVSM (Retd) - Chairperson

MEMBERS

LOK SABHA

2. Shri Dipak Adhikari (Dev)
3. Col Sonaram Choudhary(Retd)
4. Shri Thupstan Chhewang
5. Shri Dharambir Singh
6. Dr Mriganka Mahato
7. Shri Kalraj Mishra
8. Shri Partha Pratim Ray
9. Smt Mala Rajya Lakshmi Shah
10. Smt Pratyusha Rajeshwari Singh

RAJYA SABHA

11 Shri Harivansh
12 Shri Madhusudan Mistry
13 Shri Basawaraj Patil
14 Smt Ambika Soni

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3.	Lt Gen Sarath Chand	VCOAS
4.	Air Mshl SB Deo	VCAS
5.	Vice Admiral Ajit Kumar P	VCNS
6.	Shri Jojneswar Sharma	Director General (Secy. Rank)
7.	Lt Gen SK Dua	CISC
8.	Shri S.K. Kohli	FA(DS)
9.	Shri Jiwesh Nandan	Additional Secretary
10.	Shri Sanjiv Mittal	FA (Acq)
11.	Air Mshl R Nambiar	DCAS
12.	Lt Gen Suresh Sharma	Engineer-in-Chief
13.	Vadm AK Jain	DCIDS (PP &FD)
14.	Lt Gen Ashok Ambre	QMG
15.	Lt Gen. PS Rajeshwar	DG PP (AS Level)
16.	Lt Gen Sanjay Verma	DGWE
17.	Lt. Gen Anil Chauhan	DGMO
18.	Lt. Gen SK Shrivastava	DGBR
19.	Lt Gen PN Rao	DG FP
20.	Lt Gen SK Patyal	DCOAS
21.	Shri Rajendra Singh	DGICG
22.	Dr Zakwan Ahmed	DG(R&M)
23.	Shri A. Bhaskar Reddy	Sr. Addl Director General(AS level)
24.	Shri Jayant Sinha	Joint Secretary (Works)
25.	Sh. A.N. Das	Addl.FA & JS
26.	Shri Subir Mallick	Addl FA & JS
27.	Sh. R.K. Karna	Addl. FA & JS
28.	Ms. Dharitri Panda	Addl. FA(D)

29.	Sh. Ashwani Kumar	Addl. FA & JS
30.	Shri Bharat Khera	JS (Air/BR)
31.	Shri Sanjai Singh	JS & AM (Air)
32.	Maj Gen Pankaj Saxena	ACIDS(FP)
33.	Maj Gen Sanjeev Jain	DG MAP
34.	Maj Gen Dig Vijay Setia	
35.	Maj Gen SPS Kohli	Offg DG Works
36.	Maj Gen Sanjay Thapa	ADB FP
37.	Maj Gen KJS Dhillon	ADG PP 'A'
38.	Air Vice Mshl MSG Menon	ACAS (AF Works)
39.	Maj Gen Shantanu Dayal	ADG Proc
40.	AVM BR Krishna	ACAS (Plans)
41.	AVM J Chalapati	ACAS (Proj)
42.	AVM P Subhash Babu	ACAS(Fin P)
43.	IG VD Chafekar	DDG (P&P)
44.	Rear Admiral Sanjay Vatsayan	ACNS (P&P)
45.	Shri P Daniel	Addl Director General (JS level)
46.	Shri Rakesh Mittal	Addl Director General(JS level)
47.	Sh. Ajay Singh	Chief Executive CW&E
48.	Shri BK Jain	CE Jt DG
49.	Brig KC Panchanathan	DDG Mo(C)
50.	Brig. AK Das	DDG (TP)
51.	Brig Anurag Bhasin	DDG 'B'
52.	Cmde Vineet McCarty	PDNP
53.	Mrs. Maulishree Pande	Director (Fin/Budget)
54.	Brig Deepak Obhrai	DDG P&M Cell
55.	Brig Dhiraj Seth	DDG PP (Plans)
56.	Shri T.D. Dwivedi	Director (Air-II)
57.	Col RS Rawal	TS to DG MAP
58.	Col Vivek Pathak	Dir E2W(PPC)
59.	Shri Alok Negi	Dir (Plans)
60.	Captain Sathish Vasudev	DNP(PP)
61.	Captain Prakash Gopalan	DNP
62.	Col Puneet Aggarwal	Dir PP(Lgs)
63.	Col PG Sankpal	Dy MA to VCOAS
64.	Shri Harish Kumar	Director
65.	Smt Sharmistha Maitra	DDG (Adm & Coord) (Dir level)

2. At the outset, the Chairperson welcomed the Members of the Committee and informed them about the agenda for the Sitting. The Chairperson welcomed the representatives to the

Sitting of the Committee and drew their attention to Direction 55(1) of Directions by the Speaker, Lok Sabha.

3. The Chairperson initiated the discussion and requested the representatives of the Ministry of Defence to brief the Committee on various issues included in the agenda for the day.

4. The representatives of the Ministry of Defence commenced their briefing through a PowerPoint presentation on Air Force. This was followed by detailed deliberations on following issues:

(i) Allocation of funds and expenditure,
(ii) Requirement of additional funds to meet emergency procurements and war situation,
(iii) Efforts towards 'Make in India',
(iv) Depletion in squadron strength,
(v) shortage of manpower and cockpit to pilot ratio,
(vi) shortfall in trainer aircraft,
(vi) modernization of military air fields, etc.

5. Thereafter, a presentation was given on Navy and Joint Staff which was followed by discussion on following points:

(i) Shortfall between required and allocated budget,
(ii) Inadequacies in capital budget,
(iii) Shortage of manpower,
(iv) Depletion in fleet strength,
(v) Obsolescence,
(vi) Delay in delivery of vessels by Shipyards,
(vii) Modernization of naval base,
(viii) Operational preparedness, etc.

6. Thereafter, a presentation on Coast Guard Organization was made before the Committee. This was followed by queries from Members on various issues which included the ones shown hereunder:

(i) shortfall in provision of funds,

(ii) state of coastal security, etc.

(iii) issues relating to GST and customs duty.

(The Committee took break for lunch and resumed the Sitting at 1430 hrs.)

7. A presentation was made on Directorate General Defence Estate (DGDE) which was pursued with deliberations on the subject. Members made various queries on the following points:

(i) Blocking of roads used by ordinary citizens by DGDE,

(ii) Encroachment of Defence Lands by civilians and removal of the same with the help of State Governments,

(iii) Digitisation of records in DGDE,

(iv) Financial problems of Cantonment boards,

(v) issues relating to building bye-laws in cantonment

(vi) Inviting public representatives, MPs and MLAs of that area to the Sitting.

8. The Ministry gave presentation on Military Engineer Services. This was followed by detailed discussions on the subjects and Members asked questions on the following issues:

(i) Delay in completion of projects,

(ii) Prioritisation of available resources,

(iii) Adoption of state-of-the-art technology,

(iv) Pending cases in the Ministry of Defence.

9. The Ministry made presentation on Married Accommodation Project. This was followed by detailed discussions on the subjects and Members asked questions on the following issues:

(i) Satisfaction level of the forces,

(ii) Early completion of phase-II and phase-III of MAP,

(iii) Amendments in MAP works procedure,

10. Thereafter, a presentation was made on Border Roads Organization (BRO) which was followed by discussion on the following points:

(i) Status of Border connectivity,
(ii) Delegation of financial powers in BRO,
(iii) Handing over of roads from BRO to PWD and *vice-versa*
(iii) Long Term Roll on Works Plan,
(iv) Fund for Sela pass project, etc.

11. The Chairperson directed the representatives of the Ministry of Defence to furnish written replies to all the queries at the earliest.

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

The Committee then adjourned.

STANDING COMMITTEE ON DEFENCE

MINUTES OF THE EIGHTH SITTING OF THE STANDING COMMITTEE ON DEFENCE (2017-18)

The Committee sat on Friday, 12 March, 2018 from 1000 hrs. to 1030 hrs. in Committee Room 'C', Parliament House Annexe, New Delhi.

PRESENT

Maj Gen B C Khanduri, AVSM (Retd) - Chairperson

Lok Sabha

2. Shri Suresh C Angadi
3. Shri Shrirang Appa Barne
4. Col Sonaram Choudhary(Retd)
5. Shri Dharambir Singh
6. Shri Gaurav Gogoi
7. Smt Mala Rajya Lakshmi Shah
8. Smt Pratyusha Rajeshwari Singh

Rajya Sabha

9. Shri Harivansh
10. Shri Sanjay Raut

SECRETARIAT

1.	Smt. Kalpana Sharma	-	Joint Secretary
2.	Shri T G Chandrasekhar	-	Director
3.	Smt Jyochnamayi Sinha	-	Additional Director
4.	Shri Rahul Singh	-	Under 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) Thirty-Seventh Report on 'Action Taken by the Government on the Observations/Recommendations contained in the Twenty Eighth Report (16th Lok Sabha) on General Defence Budget, Border Roads Organisation, Indian Coast Guard, Military Engineer Services, Canteen Stores Department, Directorate General Defence Estates, Defence Public Sector Undertakings, Welfare of Ex-Servicemen, Defence Pensions and Ex-Servicemen Contributory Health Scheme'.

ii) Thirty-Eighth Report on 'Action Taken by the Government on the Observations/Recommendations contained in the Thirtieth Report (16th Lok Sabha) on Ordnance Factories, Defence Research and Development Organisation, Directorate General of Quality Assurance and National Cadet Corps'.

iii) Thirty-Ninth Report on 'Action Taken by the Government on the Observations/Recommendations contained in Thirty Fourth Report (16th Lok Sabha) on Provision of Medical Services to Armed Forces including Dental Services'.

iv) Fortieth Report of the Standing Committee on Defence (16th Lok Sabha) on 'Demands for Grants of the Ministry of Defence for the year 2018-19 on General Defence Budget, Border Roads Organisation, Indian Coast Guard, Military Engineer Services, Directorate General Defence Estates, Defence Public Sector Undertakings, Welfare of Ex-Servicemen, Defence Pensions and Ex-Servicemen Contributory Health Scheme (Demand No. 19 & 22)'.

v) Forty-First Report of the Standing Committee on Defence (16th Lok Sabha) on 'Demands for Grants of the Ministry of Defence for the year 2018-19 on Army, Navy and Air Force (Demand No. 20)'.

vi) Forty-Second Report of the Standing Committee on Defence(16th Lok Sabha) on `Demands for Grants of the Ministry of Defence for the year 2018-19 on Capital Outlay on Defence Services, Procurement Policy and Defence Planning (Demand No. 21)'.

vii) Forty-Third Report of the Standing Committee on Defence(16th Lok Sabha) on 'Demands for Grants of the Ministry of Defence for the year 2018-19 pertaining to Revenue Budget of Ordnance Factories, Defence Research and Development Organisation, DGQA and NCC (Demand No. 20)'.

3. After deliberations, the Committee adopted the above mentioned reports with slight modifications.

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

The Committee then adjourned.

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