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**STANDING COMMITTEE ON DEFENCE  
(2019-20)**

**(SEVENTEENTH LOK SABHA)**

**MINISTRY OF DEFENCE**

**DEMANDS FOR GRANTS  
(2019-20)**

**CAPITAL OUTLAY ON DEFENCE SERVICES, PROCUREMENT POLICY, DEFENCE  
PLANNING AND MARRIED ACCOMMODATION PROJECT  
(DEMAND NO. 20)**

**THIRD REPORT**



**LOK SABHA SECRETARIAT**

**NEW DELHI**

**December, 2019 / Agrahayana, 1941 (Saka)**

**THIRD REPORT**

**STANDING COMMITTEE ON DEFENCE**

**(2019-20)**

**(SEVENTEENTH LOK SABHA)**

**MINISTRY OF DEFENCE**

**DEMANDS FOR GRANTS**

**(2019-20)**

**CAPITAL OUTLAY ON DEFENCE SERVICES, PROCUREMENT POLICY, DEFENCE  
PLANNING AND MARRIED ACCOMMODATION PROJECT**

**(DEMAND NO. 20)**

*Presented to Hon'ble Speaker, Lok Sabha on 20.12.2019*

*Laid in Rajya Sabha on 13.12.2019*



**LOK SABHA SECRETARIAT**

**NEW DELHI**

**December, 2019 / Agrahayana, 1941 (Saka)**

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## COMPOSITION OF THE STANDING COMMITTEE ON DEFENCE (2019-20)

**SHRI JUAL ORAM**

-

**CHAIRPERSON**

### **Lok Sabha**

2. Shri Deepak Adhikari (Dev)
3. Shri Hanuman Beniwal
4. Shri Ajay Bhatt
5. Shri Devusinh J. Chauhan
6. Shri Nitesh Ganga Deb
7. Shri Rahul Gandhi
8. Shri Annasaheb Shankar Jolle
9. Prof (Dr.) Ram Shankar Katheria
10. Smt. (Dr.) Rajashree Mallick
11. Shri Pashupati Kumar Paras
12. Shri Kapil Moreshwar Patil
13. Shri Anumula Revanth Reddy
14. Shri Jugal Kishore Sharma
15. Dr. Shrikant Eknath Shinde
16. Shri Prathap Simha
17. Shri Brijendra Singh
18. Shri Mahabali Singh
19. Shri Kotagiri Sridhar
20. Shri Durga Das Uikey
21. Dr. Kalanidhi Veeraswamy

### **Rajya Sabha**

22. Dr. Ashok Bajpai
23. Shri Prem Chand Gupta
24. Shri V. Lakshmikantha Rao
25. Shri Sanjay Raut
26. Dr. T. Subbarami Reddy
27. Smt. Vijila Sathyananth
28. Dr. Abhishek Manu Singhvi
29. Shri Kamakhya Prasad Tasa
30. Lt. Gen. Dr. D. P. Vats
31. Vacant

## **SECRETARIAT**

- |   |                     |   |                             |
|---|---------------------|---|-----------------------------|
| 1 | Smt. Kalpana Sharma | - | Additional Secretary        |
| 2 | Dr. Sanjeev Sharma  | - | Director                    |
| 3 | Shri Rahul Singh    | - | Deputy Secretary            |
| 4 | Smt. Sunita         | - | Assistant Committee Officer |

## **INTRODUCTION**

I, the Chairperson of the Standing Committee on Defence (2019-20), having been authorised by the Committee, present this Third Report (Seventeenth Lok Sabha) on Demands for Grants of the Ministry of Defence for the year 2019-20 on 'Capital Outlay on Defence Services, Procurement Policy, Defence Planning and Married Accommodation Project (Demand No. 20)'.

2. The Demands for Grants of the Ministry of Defence were laid on 17 July, 2019 in Lok Sabha. The Committee took evidence of the representatives of the Ministry of Defence on 14, 15 and 18 November, 2019. The draft Report was considered and adopted by the Committee at their Sitting held on 09 December, 2019.

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

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

**New Delhi  
09 December, 2019  
18, Agrahayana 1941 (Saka)**

**JUAL ORAM  
Chairperson  
Standing Committee on Defence**

## **ABBREVIATIONS**

<b>SL. NO.</b>	<b>ABBREVIATIONS</b>	<b>FULL FORM</b>
1.	AoN	Acceptance of Necessity
2.	ALH	Advance Light Helicopter
3.	AAP	Annual Acquisition Plan
4.	BG	Bank Guarantee
5.	BDL	Bharat Dynamics Limited
6.	BEML	Bharat Earth Movers Limited
7.	BEL	Bharat Electronics Limited
8.	BE	Budget Estimates
9.	CCS	Cabinet Committee on Security
10.	CIDC	Central Industrial Development Council
11.	CNC	Contract Negotiation Committee
12.	CL	Committed Liabilities
13.	CFA	Competent Financial Authority
14.	DAC	Defence Acquisition Council
15.	DOMW	Defence Offsets Management Wing
16.	DPP	Defence Procurement Procedure
17.	DRDO	Defence Research and Development Organisation
18.	DSE	Defence Services Estimates
19.	DPRs	Detailed Project Reports
20.	DGQA	Director General Quality Assurance
21.	DCN	Draft Cabinet Note
22.	EPB	Essential Parameters 'B'
23.	ERV	Exchange Rate Variation
24.	ECWCS	Extreme Cold Weather Clothing System
25.	FTP	Fast Track Procedure
26.	FET	Field Evaluation Trials
27.	FDI	Foreign Direct Investment
28.	GRSE	Garden Reach Ship Builders and Engineers Ltd
29.	HQIDS	Headquarters Integrated Defence Staff
30.	HAL	Hindustan Aeronautics Limited
31.	HSL	Hindustan Shipyard Ltd
32.	IBC	Indian Building Congress
33.	IOPs	Indian Offset Partners
34.	IDDM	Indigenously Designed, Developed and Manufactured
35.	IDSA	Institute for Defence Study and Analysis
36.	LD	Liquidated Damages
37.	LCA	Light Combat Aircraft
38.	LTIPP	Long Term Integrated Perspective Plan
39.	MAP	Married Accommodation Project
40.	MDL	Mazagon Dock Shipbuilders Limited
41.	MSMEs	Micro, Small and Medium Enterprises
42.	MIDHANI	Mishra Dhatu Nigam limited
43.	NCC	National Cadet Corps
44.	NS	New Schemes
45.	OF	Ordnance Factories

46.	OEMs	Original Equipment Manufacturers
47.	PLANET	Planning Archiving and Analysis Network
48.	POVs	Professional Officers Valuations
49.	PCIP	Pre Contract Integrity Pact
50.	QCBS	Quality and Cost Based Selection
51.	RFP	Request for Proposal
52.	RE	Revised Estimates
53.	SCME	Special Clothing and Mountaineering Equipment
54.	SCOPE	Satyam Centre of Professional Excellence
55.	SHQs	Service Headquarters
56.	SCAP	Services Capital Acquisition Plan
57.	SCAPCC	Services Capital Acquisition Plan Categorisation Committee
58.	SQRs	Services Qualitative Requirements
59.	SMEs	Small and Medium Enterprises
60.	SIPRI	Stockholm International Peace Research Institute
61.	SP	Strategic Partnership
62.	TOEC	Technical Offset Evaluation Committee



## REPORT

### PART I

#### CHAPTER I

#### CAPITAL OUTLAY ON DEFENCE SERVICES

##### DEMAND NO. 20

The Committee have been informed that Capital Outlay on Defence Services, caters for the expenditure incurred on durable assets. Demand No. 20 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), National Cadet Corps (NCC), Married Accommodation, National Defence Academy and Rashtryia Rifles.

#### **Projections made by the three Services and Allocations made by the Ministry of Finance under Revenue and Capital Head of the three services**

1.2 Details regarding the projections, allocations made at BE, RE and actual expenditure incurred under Revenue and Capital heads for the three services from 2014-15 onwards are as follows:-

#### REVENUE

(₹ in crore)

Year	Service	BE		RE		Expenditure
		Projected	Allocated	Projected	Allocated	
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	23,817.52	22,856.44
2017-18	Army	1,52,491.22	1,19,961.51	1,29,287.59	1,21,451.80	1,27,507.48
	Navy	22,473.64	18,493.82	20,545.47	18,878.93	18,715.05
	Air Force	29,147.29	24,802.33	29,746.42	27,209.61	27,393.20
2018-19	Army	1,51,814.73	1,27,059.51	1,41,456.91	1,29,812.34	1,34,241.38
	Navy	23,747.75	19,571.37	24,420.58	20,795.04	20,856.23
	Air Force	35,260.79	28,821.27	32,407.37	28,105.43	28,291.25
2019-20	Army	1,57,896.23	1,40,398.49			
	Navy	27,086.29	22,211.71			
	Air Force	34,849.50	29,601.69			

(# Includes allotment to NCC, Military Farms, Rashtriya Rifles and ECHS which were 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)

**Note:** Navy includes Joint Staff

## CAPITAL

(₹ in crore)

Year	Service	BE		RE		Expenditure
		Projected	Allocated	Projected	Allocated	
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	#	#	22,530.04	#	19,996.88
	Air Force	30,223.31	22,000.09	36,512.95	19,596.28	30,414.79
2017-18	Army	42,485.93	25,205.71	40,791.43	25,205.71	27,148.26
	Navy	28,591.56	19,348.16	27,717.41	19,348.16	20,118.58
	Air Force	62,048.85	33,570.17	52,548.50	33,570.17	34,917.60
2018-19	Army	44,572.63	26,815.71	41,614.41	26,815.71	27,438.66
	Navy	35,695.41	2	30,735.65	20,890.87	21,509.60
	Air Force	77,694.74	0,848.16	68,579.46	35,770.17	36,451.74
2019-20	Army	44,690.98	29,511.25			
	Navy	37,220.98	23,156.43			
	Air Force	74,894.56	39,347.19			

(# Includes allotment to NCC, Military Farms, Rashtriya Rifles and ECHS which were 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)

**Note:** Navy includes Joint Staff

## REVENUE + CAPITAL

(₹ in crore)

Year	Service	BE		RE		Expenditure
		Projected	Allocated	Projected	Allocated	
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#	141943.08#	145364.04#
	Navy	48,725.87	39,424.88	41,878.27	37410.27	37133.65
	Air Force	66,995.01	53,451.25	60,330.17	52057.38	53271.23
2017-18	Army	1,94,977.15	1,45,167.22	1,70,079.02	1,46,657.51	1,61,680.78
	Navy	51065.20	37841.98	48262.88	38227.09	42,425.13
	Air Force	91,196.14	58,372.50	82,294.92	60,779.78	64,743.83
2018-19	Army	1,96,387.36	1,53,875.22	1,83,071.32	1,56,628.05	1,61,680.04
	Navy	59,443.16	40,419.53	55,156.23	41,685.91	42,365.83
	Air Force	1,12,955.53	645,91.44	1,00,986.83	63,875.60	64,742.99
2019-20	Army	2,02,587.21	1,69,909.74			
	Navy	64,307.27	45,368.14			
	Air Force	1,09,744.06	68,948.88			

(# Includes allotment to NCC, Military Farms, Rashtriya Rifles and ECHS which were 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)

**Note:** Navy includes Joint Staff

1.3 Details of budget provided under the Defence Services Estimates (DSE) in Budget Estimates (BE), Revised Estimates (RE) and Actual Expenditure for the last five years and the current year 2019-20 are tabulated below:-

(₹ in crore)

Years	BE Projections	BE Allocations	RE Projections	RE Allocation	Actual Expenditure
2014-15	3,08,362.72	2,29,000.00	2,42,139.91	2,22,370.00	2,18,694.18
2015-16	2,87,386.33	2,46,727.00	2,50,381.69	2,24,636.00	2,25,894.85
2016-17	2,91,983.55	2,49,099.00	2,89,744.69	2,48,004.97	2,51,780.73
2017-18	3,27,497.84	2,62,389.81	3,26,758.33	2,67,107.95	2,76,572.48
2018-19	4,01,043.61	2,82,733.27	3,67,388.18	2,85,423.14	2,90,803.99
2019-20	4,05,784.84	3,05,296.07	-	-	-

1.4 The Ministry informed that Capital Outlay provides allocation for land and construction works of the three services and others, capital expenditure of various Defence Departments and for Capital Acquisitions of the Services, etc. as given below:

(₹ in crore)

	BE 2018-19	RE 2018-19	BE 2019-20
<b>Revenue (Net)</b>	1,85,323.19	1,88,118.10	2,01,901.76
<b>Capital (Acquisition)</b>	74,115.99	73,882.95	80,959.08
<b>Capital (other than Acquisition)</b>	19,866.14	20,099.18	22,435.23
<b>Total Capital</b>	93,982.13	93,982.13	1,03,394.1
<b>Total (Rev+Capital)</b>	2,79,305.32	2,82,100.23	3,05,296.07

**Details of Capital Budget**

(₹ in crore)

	BE 2018-19	RE 2018-19	BE 2019-20
<b>Capital (Acquisition including DGOF Supplies)</b>	74,115.99	73,882.95	80,959.08
<b>Capital ( other than Acquisition)</b>			
<b>Land &amp; Works of 3 Services (including Married Accommodation Projects)</b>	9,318.05	9,593.80	11,055.79
<b>DRDO, DGOF and Other Defence Departments</b>	10,548.09	10,505.38	11,379.44
<b>Total Capital)</b>	<b>93,982.13</b>	<b>93,982.13</b>	<b>1,03,394.31</b>

1.5 The Ministry submitted details of Service-wise Projections and Allocation made under Capital and Revenue heads for 2019-20:-

(₹ in crore)

Service	Revenue (Net)		Capital		Total Allocation (Revenue + Capital)
	Projection	Allocation	Projection	Allocation	
<b>Army</b>	1,57,896.23	1,40,398.49	44,690.98	29,511.25	<b>1,69,909.74</b>
<b>Navy</b>	23,170.60	19,031.20	35,713.84	22,227.53	<b>41,258.73</b>
<b>Joint Staff</b>	3,915.69	3,180.51	1,507.14	928.90	<b>4,109.41</b>
<b>Air Force</b>	34,849.50	29,601.69	74,894.56	39,347.19	<b>68,948.88</b>

The allocated funds will be optimally and fully utilized towards operational activities. Based on expenditure during the year, additional funds will be sought at Supplementary/ RE stage. It will be ensured that urgent and critical capabilities are acquired without any compromise to operational preparedness of the Defence Services.'

#### **Capital Budget –Allocation Vs. projection**

	(₹ in crore)	
	<b>RE 2018-19</b>	<b>BE 2019-20</b>
Projection	153643.42	170905.66
Allocations	93982.13	103394.31

1.6 The Ministry was asked to state the areas where compromises have been made or likely to be made due to reduced budgetary allocation as compared to the projections made by the three Services and other organisations/heads. The Ministry in its reply stated:

'Under the revenue segment, provision is first made for salary and other obligatory expenses. The balance allocation available is distributed to meet the requirement of stores (including ordnance), transportation (of personnel and stores), revenue works and maintenance, etc.

In so far as the capital segment is concerned, funds are first set aside to meet the projected Committed Liabilities likely to materialise during the year. The remaining allocation is distributed to meet the projected requirement for other items.

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

1.7 The Ministry has also stated that allocated funds will be optimally and fully utilized towards operational activities. Based on expenditure during the year, additional funds will be sought at Supplementary/ RE stage. It will be ensured that urgent and critical capabilities are acquired without any compromise to operational preparedness of the Defence Services.

1.8 The Committee have been apprised that the Ministry is bound by the budgetary ceiling conveyed by Ministry of Finance. Therefore, the reduced allocations have been passed on uniformly among all the Services. This reflects the compromises made in the modernization process of Defence Services thereby negatively impacting their capabilities.

Now the Ministry will forward the requirements of the services under Capital Head to the Ministry of Finance for favourable consideration at supplementary/ Revised Estimates stage. The Ministry was asked whether, the matter has been taken up proactively at the Ministerial level to avoid default in payment of committed liabilities. The Ministry in its reply has submitted as under:

‘While keeping in view payment of Committed Liabilities, consideration for an additional allotment of ₹ 13,300 crore above the Budget Estimates (BE), for meeting inescapable and obligatory expenses to offset the impact of custom duty payments, rupee devaluation and increase in oil prices, had been taken up with M/o Finance at Ministerial level in DO letter No. 11(10)/Bud-I/2018/3500-F/RM/18 dated 28<sup>th</sup> September, 2018. In reply to the said DO letter, Hon’ble Finance Minister, in DO letter No. 4(4)-B(AC)/2018 dated 27<sup>th</sup> November, 2018 to Hon’ble Defence Minister, had conveyed that additional requirement towards rupee devaluation and rising fuel prices, suitable increase has been provided for meeting these additionalities under revenue head through Demand No. 20-Defence Services Estimates (Revenue) in RE 2018-19. This increase is based on the pace of expenditure in the current year and the likely savings under other budget heads of the Ministry.’

**The Committee were provided the following information in regard to Defence Budget (DSE):**

**Service-wise Distribution**

(₹ in crore)						
Services	Revenue	percent age	Capital	percenta ge	Total	percent share
Army*	1,41,501.19	70.08	29,522.21	28.55	1,71,023.40	56.02
Navy	22,211.71	11.00	23,156.43	22.40	45,368.14	14.86
A.F.	29,601.69	14.66	39,347.19	38.05	68,948.88	22.58
DGOF	50.58	0.03	884.05	0.86	934.63	0.31
R&D	8,536.59	4.23	10,484.43	10.14	19,021.02	6.23
<b>Total</b>	<b>2.01,901.76</b>	<b>100.00</b>	<b>1,03,394.31</b>	<b>100.00</b>	<b>3,05,296.07</b>	<b>100</b>

\*Army Budget includes NCC, DGQA, ECHS, Military Farms & Rashtriya Rifles.

### Percent Share of Revenue & Capital (DSE)

	Army		Navy			
	Rev	Cap	Rev	Cap	Rev	Cap
2007-08	74	26	44	56	43	57
2008-09	82	18	45	55	43	
2009-10	80	20	41	59	43	57
2010-11	80	20	37	63	38	62
2011-12	82	18	38	62	37	63
2012-13	84	16	40	60	35	65
2013-14	85	15	39	61	33	67
2014-15	84	16	38	62	38	62
2015-16	83	17	43	57	40	60
2016-17	80	20	46	54	43	57
2017-18	82	18	48	52	44	56
2018-19	83	17	49	51	44	56
2019-20(BE)	83	17	49	51	43	57

### Capital Budget- Trend of Utilization

Year	Budgetary Estimates (BE)	Revised Estimates (RE)	Actual	percent Utilization
2014-15	94,587.95	81,965.24	81,886.98	99.90
2015-16	94,588.00	81,400.00	79,958.31	98.23
2016-17	86,340.00	79,370.29	86,370.92	108.82
2017-18	86,488.01	86,488.01	90438.39	104.57
2018-19	93,982.13	93,982.13	95229.06	101.33

### Committed Liability vs. Modernisation Budget

Year	Committed Liabilities (₹ in crore)	Allocation (₹ in crore)	Shortages (₹ in crore)
2016-17	73,553	62,619	10,933
2017-18	91,382	68,965	22,417
2018-19	1,10,044	73,883	36,161
2019-20	1,13,667	80,959	32,709

1.9 The Committee in their 42<sup>nd</sup> Report on Demands for Grants 2018-19, had noted that the Ministry of Defence had projected requirement of ₹ 1,72,203.30 crore, which included ₹ 1,10,043.78 crore for Committed Liability and ₹ 31,434.88 crore for New Schemes, under Capital Budget for Financial Year 2018-19. However, only ₹ 93,982.13

crore were allocated under Capital Budget for FY 2018-19 by the Ministry of Finance. The allocation under Capital Budget not only fell far short of projections by Ministry of Defence but the allocation does not even cover Committed Liabilities. The shortfall in Capital Budget vis-à-vis the committed liability was ₹ 16,061.65 crore. In this context, the Ministry was asked to state the steps taken in overcoming the shortfall. The Ministry in this regard enumerated as under:

‘Although Ministry of Finance had not allocated requirements projected by this Ministry under Capital Budget for FY 2018-19, Capital Expenditure of the Ministry has gone up in the past few year Defence Capital Expenditure is maintained at approximately 34percent of the total allocation under Defence Services Estimates to meet the critical and operational requirements of the Armed Forces. The allocated Capital Budget has been fully utilised since 2016-17, reversing the previous trends of surrender of funds. Further, it is added that preparedness of the Defence Forces is the first and foremost priority of this Ministry and it is ensured that critical requirements of Services do not suffer due to want of funds. To this effect earmarking of allocation for specific purposes was resorted to.’

1.10 The Committee, in their 48<sup>th</sup> Report had fervently urged the Ministry to ensure that the allocations to the Services under the Capital Head be appropriately increased at the Revised estimate stage so as to enable our Services to fulfil their Committed Liabilities and meet the requirements of exemplary operational preparedness. The Ministry in its reply stated as under:

‘This Ministry had projected ₹ 2,08,871.31 crore under Revenue Head and ₹ 1,53,643.42 crore under Capital Head to Ministry of Finance in RE 18-19. M/o Finance had allocated ₹ 1,88,118.19 crore under Revenue Head which was increase of ₹ 2,794.91 crore over BE 18-19 allocation. However, no additional allocation was made under Capital Head in RE 18-19. It may be relevant to point out that under Capital Head there was trend of cut in Budget Allocation at RE stage due to slow pace of expenditure. This trend was reversed in Financial Year 2017-18 and 2018-19 due to extensive delegation of financial power Accordingly, Budget Estimates were retained in Revised Estimates. The allocated Capital Budget has been fully utilised since 2016-17, reversing the previous trends of surrender of funds.’

### **Service-wise Projections and Allocation**

1.11 The data supplied to the Committee contains as under

‘Details of Service-wise Projections and Allocation made under Capital and Revenue heads for 2019-20:



(₹ in crore)

Service	Revenue (Net)		Capital		Total Allocation (Revenue + Capital)
	Projection	Allocation	Projection	Allocation	
<b>Army</b>	1,57,896.23	1,40,398.49	44,690.98	29,511.25	<b>1,69,909.74</b>
<b>Navy</b>	23,170.60	19,031.20	35,713.84	22,227.53	<b>41,258.73</b>
<b>Joint Staff</b>	3,915.69	3,180.51	1,507.14	928.90	<b>4,109.41</b>
<b>Air Force</b>	34,849.50	29,601.69	74,894.56	39,347.19	<b>68,948.88</b>

The allocated funds will be optimally and fully utilized towards operational activities. Based on expenditure during the year, additional funds will be sought at Supplementary/ Revised Estimates stage. It will be ensured that urgent and critical capabilities are acquired without any compromise to operational preparedness of the Defence Services.'

### **Modernization of Defence Forces**

1.12 The Ministry was asked to elaborate on the various steps taken for modernization of Defence Forces. The Ministry in its reply stated as under:

'Modernisation involves the acquisition of new state-of-the-art platforms, technologies and weapon systems to upgrade and augment Defence capabilities. Modernisation of Defence Forces is a continuous process based on threat perception, operational challenges and technological changes to keep the Armed Forces in a state of readiness to meet the entire spectrum of security challenges. Government attaches the highest priority to ensure that the Armed Forces are sufficiently equipped to meet any operational requirement. This is achieved through induction of new equipment and technological upgradation of capabilities. The equipment requirements of the Armed Forces are planned and progressed through a detailed process which includes 15 Year Long Term Integrated Perspective Plan (LTIPP), a five year Service-wise Capability Acquisition Plan, a two year roll-on Annual Acquisition Plan and deliberations by the Defence Acquisition Council chaired by the Raksha Mantri.

2. In May 2001, the Defence Industry sector, which was hitherto reserved for the public sector, was opened up to 100percent for Indian private sector participation, with Foreign Direct Investment (FDI) up to 26 per cent both subject to licensing. Further, Department of Industrial Policy & Promotion, Ministry of Commerce & Industry has notified revised FDI policy under which FDI is allowed under automatic route upto 49percent and beyond 49percent through Government route wherever it is likely to result in access to modern technology or for other reasons to be recorded.

3. During the last three financial years (2016-17 to 2018-19), 149 contracts, have been signed with Indian vendors (91) and foreign vendors (58) for capital procurement of Defence equipment for Armed Forces.
4. Government is taking measures for modernization of the Armed Forces, through procurement of new equipment and upgrading of existing equipment and systems. The modernization projects are being progressed as per the approved Capital Acquisition Plans and in terms of the extant Defence Procurement Procedure.
5. Since the launch of 'Make in India' in Sep. 2014, several measures have been taken by the Government to promote indigenous design, development and manufacture of defence & aerospace equipment in the country under 'Make in India' by harnessing the capabilities of the public and private sector.
6. Government has notified the Strategic Partnership (SP)' Model which envisages establishment of long term Strategic Partnership with Indian entities through a transparent and comparative process, wherein they would tie up with global Original Equipment Manufacturers (OEMs) to seek technology transfers to set up domestic manufacturing infrastructure and supply chain.
7. Modernisation of Defence Forces is funded through Capital segment of the Defence Budget.'

### **Capital Budget as 'Non Lapsable' and 'Roll on'**

1.13 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. The Committee while examining DFG 2019-20, again sought information on the issue from the Ministry of Defence. The Ministry in its reply has stated as under:

'The matter of creation of 'Non-lapsable Capital Fund Account' was taken up with M/o Finance and the same was not agreed to by M/o Finance. Further, Hon'ble Finance Minister had written to the then Hon'ble Chairman of the Standing Committee on Defence requesting therein to consider following the present mechanism of authorisation of budget from Parliament on Annual basis, which is simple and working well currently.'

## **Committed Liabilities and New Schemes**

1.14 The Committee find that Committed Liability refers to payments anticipated during a financial year in respect of contracts concluded in previous year 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 year 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.

1.15 When asked about projected and allocated budget for committed liabilities and new schemes in Defence Budget in 2019-20, the Ministry informed the Committee 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:-

(₹ in crore)

<b>SERVICE</b>	<b>Projection BE 2019-20</b>	<b>Allocation BE 2019-20</b>
<b>Army</b>	35,581.09	23,000.63
<b>Navy</b>	32,243.37	21,177.00
<b>Air Force</b>	68,612.15	34,409.89

1.16 On the negative effect on various projects due to shortfall, the Ministry stated:

‘The allocated funds are optimally and fully utilized towards operational activities. However, if required, the schemes will be reprioritized to ensure that urgent and critical capabilities are acquired without any compromise to operational preparedness of the Defence Services.’

1.17 On additional funds for Committed Liabilities and New Schemes during 2018-19, the Ministry stated 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 ₹ 54,701.81 crore at RE stage 2018-19 under Modernization (Capital Acquisition), however, no additional allocation was made by Ministry of Finance under the Capital head.’

**Capital outlay spent during the Eleventh and the Twelfth Plan on committed liabilities and new schemes**

1.18 The Ministry was asked to furnish a statement indicating the data of in the context of Army, Air Force, Navy, NCC, DGQA, DPSUs and Ordnance Factories separately on Capital outlay spent during the Eleventh and the Twelfth Plan on committed liabilities and new schemes, the Ministry in this regard stated as under:

‘In the Defence Services Estimates, there is no separate allocation of funds for Committed Liabilities and New Schemes. Allocation under Capital Acquisition (Modernisation) includes both Committed Liabilities and New Schemes. Data on actual expenditure under Capital Acquisition during the Eleventh Plan and the Twelfth Plan, separately for Army, Navy and Air Force, is given below:

(₹ in crore)

YEAR	Capital Acquisition Expenditure		
	ARMY	NAVY	AIR FORCE
<b><u>XI Plan</u></b>			
2007-08	6695.53	8403.77	12641.26
2008-09	5379.90	8828.65	15660.99
2009-10	8159.88	12662.76	17437.61
2010-11	7217.79	16108.01	22181.56
2011-12	5308.02	17899.40	27164.08
<b><u>XII Plan</u></b>			
2012-13	10871.79	16301.99	31053.00
2013-14	10426.49	19165.44	36917.99
2014-15	13867.40	20905.54	30809.39
2015-16	14488.34	18414.78	29045.66
2016-17	22287.80	18419.88	28255.35

1.19 In respect of NCC, DGQA and Ordnance Factories, year-wise details of Capital expenditure for Eleventh and Twelfth Plan period were given as under:

(₹ in crore)

SERVICE/DEPTT.	NCC	DGQA	Ordnance Factories
<b><u>XI Plan</u></b>			
2007-08	4.67	7.43	150.43
2008-09	3.32	28.64	352.13
2009-10	3.60	16.06	240.53
2010-11	3.13	15.01	454.22
2011-12	3.15	7.10	278.48

<b><u>XII Plan</u></b>			
2012-13	0.69	4.94	349.07
2013-14	0.68	11.12	465.34
2014-15	0.37	5.46	746.19
2015-16	1.17	10.98	679.76
2016-17	7.81	8.93	716.70

Regular budgetary support for DPSUs is not provided out of the Defence Services Estimates. However, provision for occasional loan/equity for Defence PSUs is made out of MoD (Civil) budget.

## 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 The objectives of the Defence Procurement Policy are to achieve substantive self-reliance in the design, development and production of equipment/weapon systems/platforms required for Defence in as early a time frame as possible; to create conditions conducive for the private industry to take an active role in this endeavour; to enhance potential of SMEs in indigenization and to broaden the Defence R&D base of the country.

2.3 The Ministry supplied following information on the objectives achieved so far under the new Defence Procurement Policy and impact of 'Make-in-India' policy on the existing production policy of the Ministry of Defence:

'The key objectives of 'Make in India' initiative of the Government are being realised through several policy measures. Further it provides thrust to all the policy framework including Defence Production Policy. Since the launch of 'Make in India' in September 2014, several measures have been taken by the Government to promote indigenous design development and manufacture of Defence and aerospace equipment in the country under 'Make in India' by harnessing the capabilities of the public and private sector, especially Micro, Small and Medium Enterprises (MSMEs). The following measures have been taken to make the country self-reliant in Defence production and minimise dependence on imports Defence weapons.

1. **Industrial Licencing:** Industrial licensing regime for Indian manufacturers in Defence sector has been liberalized. This has reduced entry barriers for new entrants in Defence sector, particularly Small and Medium Enterprises (SMEs). The total number of Defence licenses issued has more than

doubled from 215 as on 31<sup>st</sup> March, 2014 to 452 till date covering total of 275 Companies.

2. The 'Make' Procedure has been simplified with provisions for funding of 90 per cent of development cost by the Government to Indian industry and reserving projects not exceeding development cost of ₹ 10 crore (Government funded) and ₹ 3 crore (Industry funded) for MSMEs.
3. **'Make-II' Procedure:** Separate procedure for 'Make-II' sub-category has been notified wherein a number of industry friendly provisions have been introduced. This effort of the Government to promote industry participation in indigenous development of defence items has yielded extremely encouraging response. In less than a year, 44 projects relating to Army, Navy & Air Force, have been accorded 'Approval in Principle'. Furthermore, for the first time, the Government has provided an opportunity to industry to make suo-moto suggestions to the armed services regarding defence equipment. The suo-moto mechanism has resulted in 9 Defence projects to be co-developed by Indian industry for the use of Armed Forces. This augurs well for greater self-reliance in our Defence requirement.
4. **FDI Policy:** Foreign Direct Investment (FDI) Policy has been revised and under the revised policy, Foreign Investment up to 49 per cent is allowed through automatic route and above 49 per cent under Government route. Significant FDI inflows in Defence and Aerospace sectors have been witnessed. Defence industry sector was opened up in May 2001 and so far, FDI inflows of over ₹ 3134 crores have been received in defence and aerospace sector. Further, FDI inflow in Defence and Aerospace has been reported as ₹ 1,812 crore after 2014.
5. **Defence Exports:** The process of granting 'No objection Certificate' for export of defence stores has been simplified. Simplification of procedures has resulted in export of ₹10,745 crore in 2018-19. Our defence exports have increased to 7 folds from 2016-17. Defence Public Sector Undertakings have been encouraged to increase their export portfolio to 25 per cent of their turnover.
6. **Defence Procurement Procedure (DPP):** Defence Procurement Procedure (DPP) was revised in 2016. Specific provisions have been introduced for stimulating growth of the domestic defence industry. A new category of procurement 'Buy {Indian-IDD (Indigenously Designed, Developed and Manufactured)}' has been introduced in DPP-2016 to promote indigenous design and development of defence equipments. This Category has been accorded top most priority for procurement of capital equipment. Besides this, preference is being given to 'Buy (Indian)' and 'Buy and Make (Indian)' categories of capital acquisition over 'Buy (Global)' & 'Buy & Make (Global)' categories.
7. 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. As a result of said efforts, during the last 5 years i.e. 2014-15 to 2018-19 Government has accorded Acceptance of Necessity (AoN) to 204 proposals, worth ₹ **404880** crore approximately under 'Buy (Indian-IDDM)', 'Buy (Indian)', 'Buy and Make (Indian)', 'Buy and Make', Strategic Partnership Model or 'Make' categories of capital procurement as per Defence Procurement Procedure (DPP) . In all the above categories Indian Industry would be engaged in defence manufacturing either through direct recipient of Request for Proposal (RFP) or in collaboration with foreign OEMs.

8. **IDEX:** iDEX framework has been created with the aim to encourage and nurture innovations in the Indian Defence sector and create an ecosystem where start-ups, MSMEs and individual innovators can interact easily with the Indian defence establishment and supply them with the latest technological innovations . It is matter of pride that more than 600 applicants, comprising of Start ups & MSMEs, have participated in response to 'Defence India Startup Challenge' and now we have 44 winners developing products and technologies against 14 problem statements bringing out the requirements of the Armed Forces.
9. **Enabling MSMEs in expanding their base in defence production:** In Make-I category of development of prototype of defence products/platforms projects not exceeding development cost of ₹ 10 crore are reserved for MSMEs. Similarly under Make-II category of development of prototype of defence products/platforms projects not exceeding development cost of ₹ 3 crore are reserved for MSMEs. iDEX is also aimed at supporting MSMEs, Start-ups, Individual Innovators etc provide them grants/ funding and other support to carry out R&D. Besides, approx 8,000 MSMEs as vendors are engaged in supplying various items to OFB and Defence PSUs. Various initiative have been taken to address issues of timely payments like implementation of TReDS in DPSUs. Regular interactions are taking place to settle the grievance of vendors at OFB. **Defence Investor Cell has been opened in DDP to address the issues being faced by vendors especially MSME vendor.** Non-Core items of OFB have been uploaded on Gem which would enable them to supply these items to Armed Forces which were hitherto reserved for Ordnance Factories
10. **Defence Corridors:** Two defence industry corridors have been set up in Tamil Nadu and Uttar Pradesh in collaboration with the States Govt to provide state-of-the-art infrastructure and facilities for setting up defence production facilities. Development of these corridors will not only help in achievement of accelerated development and regional industry agglomeration, but will also facilitate a well-planned and efficient industrial base which will lead to increased defence production in the country and the region.
11. **Testing facilities:** The Test facilities/ infrastructure available with various Government agencies Ordnance Factory Board (OFB), Defence Public Sector Undertakings (DPSUs), Defence Research and Development Organisation (DRDO), Directorate General of Quality Assurance (DGQA),



and Scottish *Housing Quality Standard (SHQS)* have been made available to private sector with the objective to assist them in design & development of defence systems. The details of test facilities, procedure and other Terms & conditions are available on websites of respective Government Agencies. An 'SoP for allocation & utilisation of Proof ranges/Field firing Ranges for Private Industry' has also been notified.

12. **Indigenisation policy:** Government has notified a Policy for indigenisation of components and spares used in Defence Platforms in March 2019 with the objective to create an industry ecosystem which is able to indigenize the imported components (including alloys & special materials) and sub-assemblies for Defence equipment and platform manufactured in India
13. **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 of efforts taken, offset compliance has improved significantly. As on 01<sup>st</sup> Dec, 2019, the total obligation is US \$3.59 billion. Out of this, claims for US \$ 2.83 billion have been received.
14. **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'.

### **Defence Production Corridors**

2.4 During the oral evidence: Defence Secretary apprised the Committee as under:

“दो इंडस्ट्रियल कॉरिडोर एक उत्तर प्रदेश में और एक तमिलनाडु में बनाने की घोषणा की गई थी। उत्तर प्रदेश में स्टेकहोल्डर्स कंसल्टेशन की पाँच मीटिंग्स की गई थीं और around ₹ 3700 crore investments have already been announced by DPSUs and the private industries also. अभी हम लोग एक डिटेल्ड प्रोजेक्ट रिपोर्ट की तैयारी कर रहे हैं। एक कंसल्टेंट को भी एंगेज किया गया है। उसकी जो रिकमेंडेशंस होंगी, on the basis of that, we will take it up with the appropriate authority for the scheme and whatever will be the financial requirement. इस बीच में उत्तर प्रदेश और तमिलनाडु दोनों स्टेट्स अपनी डिफेंस और एरोस्पेस की पॉलिसीज लेकर आए हैं। जिसमें उन्हें क्या – क्या इंसेंटिव्स देने हैं, it has already been announced.”

2.5 The Ministry supplied the following information on the expenditure on purchase of defence equipment from Indian and Foreign vendors for three services during the last five years:-

## **CAPITAL EXPENDITURE**

(₹ in crore)

	<b>Total Procurement</b>	<b>Procurement from Foreign Vendors</b>	<b>Procurement from Indian Vendors</b>
<b>2014-15</b>	<b>65,859.98</b>	<b>25,980.98</b>	<b>39,879.00</b>
<b>2015-16</b>	<b>62,341.86</b>	<b>23,192.22</b>	<b>39,149.64</b>
<b>2016-17</b>	<b>69,150.12</b>	<b>27,278.09</b>	<b>41,872.03</b>
<b>2017-18</b>	<b>72,732.28</b>	<b>29,035.41</b>	<b>43,696.87</b>
<b>2018-19</b>	<b>75,920.74</b>	<b>36,957.06</b>	<b>38,963.69</b>

2.6 On the steps taken by the Ministry of Defence to achieve timely, efficient and effective procurement, the Ministry in its written reply submitted as under:

The following measures have been envisaged in DPP 2016 for achieving timely, efficient, and effective procurement:

- (i) Inclusion of beneficiary bank details for Bank Guarantee in the Request for Proposal (RFP).
- (ii) Permitting confirmation of Bank Guarantee (BG) provided by a Foreign Bank and issuance of BG by Private Sector Banks Authorized by Ministry of Finance.
- (iii) Provisions for reassessment of Acceptance of Necessity (AoN) cost on receipt of DPRs (Detailed Project Reports) in 'Make' cases.
- (iv) Reckoning the date of ERV (Exchange Rate Variation) for Option Clauses to be the Last Date of Submission of Commercial Bids in Original case.
- (v) Inclusion of details of Independent Monitors in RFP.
- (vi) Clarity on imposition of LD (Liquidated Damages) and constituting of POVs (Professional Officers Valuations) in Contract Amendment cases.
- (vii) Doing away with additional BG for EPB (Essential Parameters 'B') in case EPB are trial evaluated during FET (Field Evaluation Trials).
- (viii) Permitting LC payment through all banks authorized by RBI for Government transactions.
- (ix) Exemption of CNC (Contract Negotiation Committee) from furnishing Reasonability of Cost Certificate for DPSU Equipment already Priced by Committee constituted under orders of Raksha Mantri.
- (x) Alignment of period of payment of Guaranteed sum by bank.
- (xi) Delegation of Financial powers to Services Headquarters from ₹150 crore to ₹300 crore.

- (xii) Broad timeframe for completing procurement activities (from 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.
- (xiii) 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.
- (xiv) Draft Request for Proposal (RFP) has to accompany Statement of Case (SoC) for AoN.
- (xv) 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).
- (xvi) 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.
- (xvii) 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.
- (xviii) Cases with AoN value of more than ₹ 150 crore to be directly brought before Services Capital Acquisition Plan Categorisation Higher Committee **(SCAPCHC)** thereby eliminating initial placement of such cases before Services Capital Acquisition Plan Categorisation Committee **(SCAPCC)**.
- (xix) The aim of Fast Track Procedure (FTP) cases enhanced to cover urgent operational requirements relating to both foreseen and emergent situations.
- (xx) RFI process has been elaborated in detail as the first step of the acquisition process and its objectives have been clearly defined.
- (xxi) Parameters of Services Qualitative Requirements (SQRs) have been classified as Essential Parameters A and B. Essential Parameters A are generally a part of the contemporary equipment available in the market. Essential Parameters – B are those parameters which can be developed and achieved by the vendors using available technologies. Essential Parameters B are to be achieved mandatorily by L1 vendor after signing of contract.
- (xxii) SQRs will also have Enhanced Performance Parameters, to cater to additional capabilities over and above the essential parameters; vendors meeting the same will be given additional weightage during evaluation of their product cost.'

2.7 During the oral evidence: Defence Secretary apprised the Committee as under:

“सर, जैसा आपने कहा इम्पोर्ट पर हमारी जितनी निर्भरता है, उसको कम करने की लगातार कोशिश की जा रही है। उस दिशा में एक बड़ा कदम वर्ष 2016 में उठाया गया। यह आसानी से न समझ में आने वाली स्लाइड है, लेकिन मूलतः इस में यह लिखा गया है कि अगर कोई भी सामान देश में कोई भी इंडस्ट्री बना सकती है तो उसका इम्पोर्ट नहीं किया जाएगा, तो सब से पहले जिस भी सामान की सर्विसेज़ की रिकायर में टहोती है, उसमें यह मालूम किया जाता है कि इस चीज़ को देश में बनाया जा सकता है। उसके बनाने की टेक्नोलॉजी यहीं पर है, यदि नहीं है तो क्या विदेश से वह टेक्नोलॉजी लाकर उसे यहाँ बना सकते हैं, तो उस जरिये से उस को बनाया जा सके। अगर किसी भी हालत में देश में बनाने की संभावना नहीं है, उसी कसमें केवल इसको इम्पोर्ट किया जाए। एक चीज़ तो यह हो गई, जहाँ पर टेक्नोलॉजी अवलेबल है। दूसरा, यह पाया गया कि बहुत सारी एडवांस टेक्नोलॉजी अभी देश में उपलब्ध नहीं हैं। उनको डेवलप करने के लिए मे कवन और मे कटूनाम की दो नयी स्कीम्स शुरू की गई हैं। मे कटू जो पिछले साल फरवरी-मार्च में शुरू की गई है, उसके तहत तकरीबन 44 प्रोजेक्ट्स इंडस्ट्री को दिये गये हैं, जिन पर काम चल रहा है। यहाँ पर नई टेक्नोलॉजी बनायी जा रही है और नया प्रोडक्ट बनाया जा रहा है, जिससे उनका पार्टिसिपेशन बढ़ रहा है। इसमें तीसरा इनीशिएटिव स्ट्रेटिजिक पार्टनरशिप मॉडल का है, क्योंकि हमारी बहुत सारी चीज़ें ऐसी होती हैं, जिसमें संख्या कम होती है और लांग टर्म एसोसिएशन है। जैसे फाइटर प्लेन बनाने वाली बहुत सारी कंपनियाँ तो होंगी नहीं, केवल एक ही कंपनी फाइटर प्लेन बनायेगी या अगर कोई आपने टैंक बनाया, तो टैंक बनाने वाली बहुत सारी कंपनियाँ नहीं आएंगी। जिसके साथ भी हमने एक बार टाईअप कर लिया, तो 20-30 साल तक उनके साथ जुड़े रहेंगे। हमें उनके साथ एक स्ट्रेटिजिक रिलेशनशिप बनानी पड़ेगी। पहली बार वर्ष 2016 में यह कोशिश की गई कि जो बड़े इक्विपमेंट्स हैं, उनमें चार आइटम्स चिन्हित किये गए हैं। उसमें हेलीकॉप्टर, फाइटर प्लेन, टैंक और सबमरीन है। इन चार चीज़ों के लिए हम स्ट्रेटिजिक पार्टनरशिप करेंगे, जहाँ पर लीडरशिप हमारी इंडस्ट्री की होगी, लेकिन हमारी इंडस्ट्री किसी विदेशी कंपनी को साथ ले कर, उसकी टेक्नोलॉजी से यहाँ पर बनाए और उस की फ्यूचर टेक्नोलॉजी यहाँ पर उसको उपलब्ध करा सकें। इन चारों इनिशिएटिव्स पर काम हुआ है। जैसे स्लाइड में दिखाया गया था, पिछले दो सालों में हम घरेलू इंडस्ट्री को जो ऑर्डर दे रहे हैं, उसकी संख्या लगातार धीरे-धीरे बढ़ रही है। अभी भी हमें इस पर बहुत काम करने की आवश्यकता है, लेकिन अब हम लोग लगातार इसमें आगे बढ़ रहे हैं।”

**Accountability and Transparency in Defence Procurement**

2.8 The Ministry submitted the following information on the measures instituted for ensuring accountability and transparency in defence procurement cases:

‘Measures for promoting Probity, Public Accountability and Transparency in Defence capital procurements, include:

- (i) Execution of Pre Contract Integrity Pact (PCIP) for all cases above ₹ 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 approval of the Competent Financial Authority (CFA).

- (iv) Guidelines for Penalties in Business Dealings with Entities and Capacity Assessment for Shipbuilding Entities have been notified.'

2.9 During the oral evidence: Defence Secretary apprised the Committee as under:

“महोदय, डिफेंस सर्विस एस्टीमेट में हमारा बजट डबल हुआ है, वर्ष 2010-11 में 1,54,000 करोड़ रुपये था और इस साल 3,05,000 करोड़ रुपये हो गया है। पहले हमारे रेवेन्यू में कम जाता था, अब रेवेन्यू में ज्यादा जाने लग गया है और केपिटल में कम जाता है। जितना हम केपिटल में इंक्रीज करना चाहते हैं, उतना इंक्रीज नहीं हो पाया है। बजट में जो और इंक्रीज हुआ है, उसमें पेंशन में हाई इंक्रीज हुआ है। बजट हमारा दोगुना बढ़ा है, लेकिन इसी दौरान पेंशन हमारी तीन गुना बढ़ी है, इसलिए 37 हजार करोड़ रुपये से 1,12,000 करोड़ रुपये हो गया है। इन दोनों वजह से जहां हमें संख्या चाहिए, पर्याप्त मात्रा में हमारे पास नहीं है।”

### **Increasing dependence on foreign suppliers for military hardware**

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

‘Capital procurement of Defence equipment is undertaken from various domestic as well as foreign vendor based on operational requirements of the Armed Forces, the availability or capacity to produce the equipment in India and abroad to keep the Armed Forces in a state of readiness to meet the entire spectrum of security challenges.

During the last four financial years (2015-16 to 2018-19), Out of total 210 contracts, 75 contracts worth about ₹ 1,67,898 crore have been signed with foreign vendors including USA, Russia, Israel, France etc for procurement of Defence equipment for Armed Forces. The Defence equipment imported during this period includes helicopters, aircrafts, missiles, rifles, artillery guns, simulators and ammunition.’

2.11 The Ministry supplied following information on the supply of ECWCS to the Forces and development of its source in the country:

‘ECWCS stands for ‘Extreme Cold Weather Clothing System’ which falls under the category of SCME (Special Clothing and Mountaineering Equipment) items required by Armed Forces in Glacier regions. It is a three layered individual clothing item for soldiers deployed in the Siachen Glacier and other similar high altitude areas meant for providing adequate protection, thermal insulation and comfort from extreme cold climate and rough weather conditions at an altitude of more than 18,000 feet, low temperature up to -50°C and wind velocity of more than 40 Km/hr. Measures to monitor quality of supply are inherent in the procurement process and are ensured by Director General of Quality assurance (DGQA) as well as the User, both during procurement and usage. Apart from foreign suppliers, an indigenous manufacturer is also participating in the ongoing procurement process for ECWCS items.’

2.12 During oral evidence a representative of the Army stated as under:

"I will answer the question regarding special clothing. The special clothing which is used above 12,000 ft. and going up to 18,000-19,000 ft., as on date, virtually about 80 per cent of it is imported. There is no indigenous capability existing in India to make it. That is the first part of it. As and when somebody indigenises in India, the bottom line is that he will match the standards of the imported item otherwise we do not accept it. Although we want to indigenise, but this is the bottom line which is not compromised. So, this figure of nearly 100 per cent variation, I do not think so. Also it is supplied across right from Siachen glacier to East when you go, at that altitude, it is a common clothing which is given to everybody. Neither has any such representation ever come to us.

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

'No authoritative and official information of India being the largest importer of Defence equipment is available as no country officially reveals information on import of Defence equipment. However, in the report published in February 2017 by the Stockholm International Peace Research Institute (SIPRI), India has been shown as the largest importer of Defence equipment for the year 2012-16. Capital procurement of Defence equipment is undertaken from various domestic as well as foreign vendors, as per extant Defence Procurement Procedure (DPP), based on threat perception, operational challenges and technological changes so as to keep the Armed Forces in a state of readiness to meet the entire spectrum of security challenges.

Some of the factors like lack of investors willing to commit resources for limited orders, prohibitive cost of infrastructure required and uncertainty of continued demand for future due to nature of warfare are among the reasons for our continued dependence on imports in Defence Sector.'

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

2.14 The Ministry supplied the following information on the Import content of equipment produced and developed by DRDO, Ordnance Factories and DPSUs:

**OFB**: Ordnance Factory Board (OFB) products are classic example of successful implementation of "Make in India" programme initiated by the Government as almost 90percent items of OFB products are indigenously made.

Average import content in respect of Ordnance Factories products has been around 10percent. OFB has been making continuous endeavors 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 Original Equipment Manufacturers (OEMs).

2.15 Import content during last three years is given as under:

**Table- I**

<b>Financial Year</b>	<b>Value of Issue (VOI) (Rs in Crore)</b>	<b>Import Content (Rs in Crore)</b>	<b>Indigenization Content (Rs in Crore)</b>	<b>percent age of import content over Vol</b>
2016-17	14825	1837	12988	12 percent
2017-18	14127	1474	12653	10 percent
2018-19	12866	1186	11680	9 percent

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

**Table- II**

<b>SI No.</b>	<b>Item</b>	<b>Import content at present (As percent of cost)</b>
1	Pinaka Rocket	Nil
2	Bi-Modular Charge System for 155mm Ammunition	Nil
3	105mm Artillery Gun	Nil
4	Infantry Combat Vehicle BMP-II	3.00 percent
5	High Resolution Binocular	6.94 percent
6	Naval Gun AK-630	5.41 percent
7	155mm x 45 Calibre Artillery Gun System "Dhanush" under User Evaluation	16.00 percent
8	Tank T-90	26.13 percent
9	All kind of Rifles and Small Arms i.e. INSAS, LMG, Assault Rifle 7.62x39mm GHATAK etc.	Nil

2.17 **GSL:** The information regarding import content for the last three years and current year in respect of GSL is as under:

**Table- III**

<b>Year</b>	<b>Value of Production (₹Cr.)</b>	<b>Import Content (₹ Cr.)</b>	<b>Indigenous Content (₹ Cr.)</b>	<b>percent Import Content (₹ Cr.)</b>
2016-17	1030	263	767	26
2017-18	1343	336	1007	25
2018-19	848	215	633	25
2019-20 (Up to Sep 2019)	401	71	330	18

**Table- III(a)**

<b>Project</b>	<b>Duration</b>	<b>Import content percent</b>
6 CGOPVs	May 2012 - Nov 2017	38
5 CGOPVs	Aug 2016 - Jun 2021	26#

# Steel Plates, Gearboxes, Steering Gear system, Fin stabilizer system, Heli Grid, Doors (water & Weather tight) and Gemini Boats have been indigenised for on-going 5 CGOPVs project. The indigenous content has increased from 62percent in last project to 74percent in this project.

**2.18 Details of import content of equipment procured during the last five years is as below:**

**Table- IV**

<b>Year</b>	<b>VoP (Rs Cr)</b>	<b>Direct Import (Rs Cr)</b>	<b>Import content as a percent of VoP</b>
2014-15	294.16	99.51	33.82
2015-16	593.29	159.63	26.90
2016-17	629.05	65.18	10.36
2017-18	644.77	72.84	11.30
2018-19	594.90	92.04	15.47

**Import Content of the recent Shipbuilding Projects (completed and on hand projects)**

2.19 The progressive indigenization for different platform varies due to the nature of the platform and availability of local capacity. The Indigenous content and the Import content of recent completed and on hand projects are indicated herewith;

**Table- V**

<b>S. No</b>	<b>Project</b>	<b>Indigenous content (approx)</b>	<b>Import Content (approx.)</b>
1.	10 T BP Tugs for Indian Navy (6 Nos)	66 percent (Achieved)	34 percent (Achieved)
2.	Support Vessel (11184)	80 percent (Achieved)	20percent (Achieved)
3.	Pontoons for SPVs (2 Nos)	100 percent (Achieved)	--
	Berthing Pontoons (2 Nos)	100 percent (Achieved)	--
4.	Diving Support Vessel for Indian Navy (2 Nos)	Target: 30 percent	On hand
5.	50 T BP Tugs for Indian Navy (4 Nos)	Target:30 percent	On hand



## 2.20 GRSE

GRSE's import content is reducing gradually by means of indigenization. GRSE has achieved over 90percent indigenization in the building ASW Corvettes and Landing Craft Utility ships and over 70 per cent indigenisation for inshore Patrol vessel and Water jet Fast Attack Crafts.

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

**Table- VII**

<b>Project</b>	<b>Import Content</b>
P17 Frigates (Completed) – 3Nos.	48percent
P15A Destroyers (Completed) 3Nos.	41percent
P15B Destroyers (in progress) 4 Nos.	28percent
P17A Frigates (in progress) - 4 Nos.	25percent
P75 Submarines # (2 Nos. delivered and 4 in progress)	50percent

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

2.22 **BDL:** Details of product developed by BDL and their import contents are as under:

**Table- VIII**

<b>NAME OF THE PRODUCT</b>	<b>IMPORT CONTENT</b>
AKASH SURFACE TO AIR MISSILE	4percent
ADVANCE LIGHT WEIGHT TORPEDO	3percent
KONURS-M ATGM	10percent
INVAR ATGM	21.4percent
MILAN -2T ATGM	29percent

2.23 **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 in products manufacture by BEL in these areas during last five years is as under:

**Table- IX**

<b>Year</b>	<b>(Percent) of Import Content on Sales Turnover</b>
2014-15	20 percent
2015-16	24 percent
2016-17	26 percent
2017-18	22 percent
2018-19	24 percent

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

**Table- X**

Year	Import Content (₹ in crore)	Net VoP (₹ in crore)	Import content as percent of Net VoP
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	601.92	3226.89	18.65
2018-19	883.92	3466.83	25.48

2.25 **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 in value terms for the platforms under manufacture at HAL is 40percent to 60percent. The details are given below:

**Table- XI**

Sl. No.	Platform	Import Content (percent by Value)
1	SU-30MKI	40 percent
2	LCA	40 percent
3	ALH	46 percent
4	DO-228	60 percent

2.26 During oral evidence, Defence Secretary apprised the Committee as under:

“सर, इस की लगातार कोशिश हो रही है, मेकवन और मेकटू की कोशिश है, डी आर डीओ के लोग भी आएंगे और प्रोडक्शन की पूरी टीम रहेगी, वे इस पर ज्यादा प्रकाश डाल पाएंगे। इसमें नई टेक्नोलॉजी को इजाद करने की जरूरत है और इस में कुछ प्रोग्रेस हुई है। हम लोगों ने तेजस फाइटर एयर क्राफ्ट बनाया है। दूसरी सबमरिन में भी हमने कुछ तरक्की की है। तीन मुख्य टेक्नोलॉजी है जिसमें हमें ज्यादा काम करने की जरूरत है। एक इंजन या प्रोपल्शन है, चाहे वह टैंक हो या एयरोप्लेन हो, सबमरिन या नेवी की शिप हो, हम इंजनों के लिए कहीं न कहीं बाहरी कंपनी पर आश्रित हैं, वह टेक्नोलॉजी अभी देश में विकसित नहीं हुई है। दूसरा मैटेरियल है, दुनिया में जो एडवांस्ड कंट्रीज हैं, उन्होंने मैटेरियल ऐसा बनाया है जो हल्का है और ज्यादा स्ट्रॉंग है और जो मार खाने पर जल्दी टूटता नहीं है या हाई टैम्परेचर या लो टैम्परेचर पर भी काम करता है। मैटेरियल टेक्नोलॉजी में बहुत एडवांस्मेंट हुई है। हमने भी काफी मैटेरियल्स बनाए हैं लेकिन हमें इस पर और काम करने की जरूरत है। तीसरी चीज चीप टेक्नोलॉजी है, आज भी हम लोग साफ्टवेयर में बहुत आगे निकल गए हैं। लेकिन हार्डवेयर या चीप टेक्नोलॉजी में पूरी तरह से इम्पोर्ट पर आश्रित हैं। नए एक्किपमेंट में ज्यादा से ज्यादा इलेक्ट्रॉनिक्स का उपयोग हो रहा है। इन चीजों पर डी आर डी ओ काम कर रहा है, डिफेंस पब्लिक सेक्टर अंडरटेकिंग काम कर रहा है, एकेडमिक इंस्टीट्यूशन और इंडस्ट्रीज सभी को मिलकर और काम करने की जरूरत है। जब तक हम इस टेक्नोलॉजी पर अपनी क्षमता नहीं बढ़ाएंगे तब तक इम्पोर्ट पर आश्रित रहेंगे।”

## **Offset Clause**

2.27 On Defence offset, the Ministry submitted the following written information:

1. Offsets under Defence Capital Acquisition were introduced in the Defence Procurement Procedure (DPP) in 2005 based on the recommendation of Kelkar Committee. The Offset guidelines in DPP have been amended 5 times thereafter.

2. As per Defence Procurement Procedure (DPP 2016) there are 05 categories of capital procurement for defence equipment's i.e. (i) Buy (Indian-IDDMM), (ii) Buy (Indian), (iii) Buy & Make (Indian), (iv) Buy & Make and (v) Buy (Global). The offset provision is applicable only on "Buy Global" and "Buy and Make" category of contracts. The offset provisions apply in capital acquisition contracts which are more than ₹ 2,000 crore. The threshold level of ₹ 2,000 crore was raised from ₹300 crore in 2016. However, the offsets are not applicable to procurements under "Fast Track Procedure" and in "Option Clause" cases if the same was not envisaged in the original contract. It is relevant to note that offset applicability on Indian companies under 'Buy Global' cases do not arise in case the indigenization component is more than 30percent. Offset contracts are co-terminus with the main procurement contract and signed along with the main procurement contract after approval of CFA. The period of offset discharge can be extended on exceptional ground by a maximum period of 02 year. The DPP stipulates eligible products/services for discharge of offset obligations which covers defence products, products for internal security and civil aerospace. The responsibility for fulfilment of offsets obligations lies with the main vendor. However, the vendor is permitted to discharge his obligations through Tier 1 sub-vendors based on their work share. The vendors are free to select their Indian Offset Partners (IOP) from DPSU/OFB/DRDO/private industry. The vendors are allowed to submit offset details either at the time of seeking offset credits or one year prior to discharge of offset obligations.

3. Foreign vendors are permitted to bank offset credit in anticipation of future contracts. Banking of offset credits is permissible only for eligible avenues under the offset guidelines. The banked offset credits are non-transferable except between the main contractor and his Tier-1 sub-contractors within the same procurement contract. Assignment of offset credits to the vendors is only after completion of transactions and audit by MoD. Offset banking period has been allowed up to 7 years and pre-banked credits being allowed to fulfil maximum 50 per cent offset obligation of any given contract.

4. The key objective of the Defence Offset Policy 2016 is to leverage capital acquisitions to develop Indian defence industry by:-

- (i) Fostering development of internationally competitive enterprises.
- (ii) Augmenting capacity for Research, Design and Development related to defence products and services.
- (iii) Encouraging development of synergistic sectors like civil aerospace and internal Security.

5. Offset obligations can be discharged by any one or a combination of the following 06 avenues:

SI No	Discharge Avenue	Indian Offset Partner	Features
1	Direct purchase of Products & Services	Private Sector/DPSU/OFB	Eligible product/services Listed (Investment in civil infrastructures & training has been excluded)
2	FDI in JV	Private Sector/DPSU/OFB	Through equity investment
3	Investment through TOT	Private Sector/DPSU/OFB	Through JV/non equity route
4	Investment through eqpt	Private Sector/DPSU/OFB	Through non equity route
5	Provision of equipment	Govt Institutions including DRDO	Through non equity route
6	Technology Acquisition	DRDO	Critical technologies listed

Note: Minimum of 70 per cent discharge has to be fulfilled through first four avenues. Moreover, engineering design & testing and software have been capped to 20 per cent of the offset obligation in a contract.

6. Multipliers are incentives for offsets in targeted areas, to promote MSME and acquisition of critical technology. The following multipliers are permitted under DPP 2016:

IOP	Multiplier
MSME	1.5
DRDO (Critical Technology)	
a) For Indian Armed Forces	2.0
b) For military & civil application	2.5
c) No restrictions	3.0

7. Verification of offset claims upto 2017 was US\$ 88.0 million only which has now increased to US\$ 1328.50 million. Out of the total contracted obligations, US\$ 2.83 million has been discharged by the vendors, of which US \$ 1328.50 million has been accepted in audit and the balance claims are under clarification/examination.

8. 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. As a result of offsets, 171 IOPs have been created which has contributed to the strengthening of the defence eco-system.

9. 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 sector. 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 partner.
- 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 sector.
- 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 multiplier.
- 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 On the gains of the Offset provisions and changes the new DPP made, the Ministry supplied the following information:

'The key objective of the Defence Offset Policy is to leverage capital acquisitions to develop Indian defence industry by:-

- (a) Fostering development of internationally competitive enterprises
- (b) Augmenting capacity for Research, Design and Development related to Defence products and services and
- (c) Encouraging development of synergistic sectors like civil aerospace and internal security.'

### **Defence Offsets Monitoring Wing(DOMW)**

2.29 To monitor and audit of offsets per year, the Ministry has setup a "Defence Offsets Management Wing (DOMW)" under the Department of Defence Production in August 2012 and has entrusted it 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;

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 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 approved as the nominated audit agency to audit the offset discharge claims.
- (c) A Committee under the chairmanship of AS/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 vendor.
- (d) DOMW has also been constantly engaging with the vendors and other stake holders and responding to their queries in regular manner through meetings and interactions. A facilitation mechanism has been evolved in the SCOPE complex to assist the vendors on various issues relating to 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 31<sup>st</sup> October 2019, 54 offset contracts (32-IAF, 15-IN and 07-IA) have been signed. The total offset obligations work out to BUSD 11.80 approx (contracts with different denominations converted to USD). The obligations to be discharged till October, 2019 amounts to 3.60 BUSD approx. through their quarterly/six monthly reports. Verification of offset claims upto 2017 was US\$ 88.0 million only which has now increased to US\$ 1250 million.

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 Partner. 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'.

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

'Offset obligations are cast upon the vendors under capital acquisition wherein the vendor is required to discharge their offset obligations in line with the agreed schedule as provided in the offset contract with the Indian Offset Partners and the transactions are reported 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 Defence Acquisition Council (DAC) headed by Hon'ble Raksha Mantri, where vendors have been given an option to provide details of IOPs and products even after signing of contracts making it more realistic. Further, the process for contract amendment has been made flexible by allowing change of Indian Offset Partners (IOPs) and offset components for the signed contracts.

In order to assess the impact of the offset on Indian defence industry, Institute for Defence Study and Analysis (IDSA) was tasked to undertake a study on offset implementation. Main findings are as follows:

- (i) About 87 per cent of offset discharge has been executed through 15 Indian Offset Partners (IOPs) wherein top 05 IOPs have received 51.76 per cent offsets and top 10 have received 76.11 per cent.
- (ii) More than 90 per cent of offset discharge undertaken is through direct purchase of products and services.
- (iii) Repeat orders on the same IOPs in a number of contracts.
- (iv) There were very few takers for ToT, FDI etc'.

2.31 On the instances where offsets as promised could not be materialised and action there to, the Ministry stated as under:

'Offset obligations are to be discharged within a time frame that can extend beyond the period of the main procurement contract by a maximum period of two year. The period of the main contract includes the period of warranty of the equipment being procured under the main contract. Offset contracts are long term and complex in nature. These contracts are at various stages of implementation. Vendors report the offset discharge undertaken through quarterly/six monthly 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 annual offset contracts, penalty/interim penalty that has been imposed on shortfalls in offset discharge by the vendor. The total penalty that has been imposed worked out to 38.19 MUSD.

In order to disincentives vendors from frequent requests of rephasing of offset obligations to tide over shortfalls and escape penal provisions, the rephasing clauses have been modified recently in the Defence Offset Guidelines. As per the revised provisions, a vendor may, giving reasons, request re-phasing of the offset obligations within the period of the offset contract. The first re-phasing request of the vendor will be processed without any disincentives if the spread of re-phasing is restricted up to the following year. However, if the re-phasing of offset value is proposed over the subsequent years, then 5 per cent additional obligation will be imposed on re-phased value of every year. The re-phasing request for second and subsequent attempts will be processed by imposing additional 5 per cent on proposed yearly re-phased offset value irrespective of the spread of re-phasing. This yearly additional 5 per cent offset obligation for processing re-phasing request will be over and above the outright financial penalty on shortfall specified at Para 8.13 of Defence Offset Guidelines. JS (DOMW) may allow the request, with the approval of Secretary (Defence Production). Re-phasing will not be permitted beyond the period stipulated in Para 5.2 of the guidelines'.



2.32 During oral evidence the representative of the Ministry submitted as under:

“Sir, the offset obligations have to be discharged over a period of years which is normally the period of the contract and the warranty period, and it can be extended up to two years on case to case basis. The discharge is worked out year wise. The tendency, at times, has been that instead of discharging what has been worked out, they tend to backload it towards the later year. That is why, the penalty clauses have been changed in a manner that for the first time, if they ask for a rephrasing of the offset obligations, there are no disincentives but after that, there is a 5 per cent imposition of penalty on the amount that has not been discharged. If you see, out of a total of 11.8 billion US Dollars, which is supposed to be the offset discharge till 2025, the offset obligation discharge of 3.25 Billion US Dollars has already become due. Out of that, 2.83 billion US Dollars has been claimed as offset discharge of which 1.25 billion US Dollars have been accepted, 0.28 billion US Dollars have been rejected as the claims were not correct, 0.31 billion US Dollars is under examination and regarding rest of the 0.92 billion US Dollars, certain queries have been made by the CGDA, and the OEMs are replying to that. The total penalty which has till now been worked out is 38.19 million USD, and this is recovered either when they pay it immediately or by invocation of the bank guarantee. If, till the end of the contract, they have not done it, we see to it that the final payment is withheld.”

## **CHAPTER III**

### **DEFENCE PLANNING**

#### **FIVE YEAR DEFENCE PLANS**

The Defence Five Year Plans are formulated to elaborate the necessary steps to maintain and augment Defence capabilities in line with the RM's Operational Directive, 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 The allocations given at BE, RE stage and actual expenditure during the five year plan periods starting from 8 to 13 Plan are as under:

(₹ in Crore)

<b>Plan (Period)</b>	<b>Budget Estimates</b>	<b>Revised Estimates</b>	<b>Expenditure</b>
8 <sup>th</sup> (1992-97)	1,12,978.47	1,18,921.47	1,19,033.12
9 <sup>th</sup> (1997-2002)	2,43,101.00	2,37,263.91	2,26,133.97
10 <sup>th</sup> (2002-07)	3,79,300.00	3,61,000.00	3,57,627.17
11 <sup>th</sup> (2007-12)	6,55,062.49	6,65,882.50	6,72,714.63
12 <sup>th</sup> (2012-17)	10,95,262.55	10,49,932.98	10,55,763.75

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 therefore, the following information was supplied by the Ministry:

‘Activities included in the plans proceeded during the Plan period within the available budget allocations. The allocated funds are optimally and fully utilized towards operational activities. If required, the schemes are reprioritized to ensure that urgent and critical capabilities are acquired without any compromise to operational preparedness of the Defence Forces’.

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 12<sup>th</sup> Plan was approved by the RM. MoF, however, did not approve the Plan. While formulating the guidelines for the 13<sup>th</sup> 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 year.

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’.

3.5 The Ministry submitted the following information on the steps been taken till date so acquisition can take place as per the plan:

‘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 Ministry of Defence. Amendments are made to the DPP, as and when required, to streamline the acquisition process. Extant DPP 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.

Thus, institutional mechanisms have been put in place by the MoD to monitor progress of acquisition plans. MoD has also set up PLANET (Planning Archiving and Analysis Network) to maintain Services Capital Acquisition database in order to monitor progress of cases, efficient query management and analysis of data after accord of AoN.’

### **Advance Planning for the Forces**

3.6 The Ministry supplied the following information on the advance planning for the Forces:

‘The long term capital acquisition requirements of services are reflected in the Long Term Integrated Perspective Plan (LTIPP), which is for 15 year. The present LTIPP covers the period 2012-27. Deriving from 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 finalization by signing of contracts/placement of indent.

Capital procurement of Defence equipment is undertaken from various domestic as well as foreign vendor based on operational requirements of the Armed Forces, the availability or capacity to produce the equipment in India and abroad to keep the Armed Forces in a state of readiness to meet the entire spectrum of security challenges. During the last four financial years (2015-16 to 2018-19), 135 contracts have been signed with Indian vendors and 75 contracts have been signed with foreign vendors for procurement of Defence equipment for Armed Forces. The Defence equipment contracted during this period includes helicopters, missiles, Bullet Proof Jackets, aircrafts, rifles, 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 fulfill the promise made to the Armed Forces by the Government of India. The total deficiencies of two lakh dwelling units have been slated for construction in four phases.

#### Budgetary Provisions

4.2 Details of projections and allocations made to MAP and the expenditure incurred during the last five years along with the details of the projected and allocated budget for the year 2019-20 are as under: -

#### MARRIED ACCOMMODATION PROJECT : ALLOTMENT / EXPENDITURE

(₹ in crore)				
Year	Service	Projection	Allotment	Expenditure
<b>2014-15</b>	Army (902/45)	1600.0000	1641.5580	1605.6640
	Navy (912/41)	354.5000	198.0000	196.2880
	Air Force (917/41)	297.7800	129.3650	122.0960
	<b>Total</b>	<b>2252.2800</b>	<b>1968.9230</b>	<b>1924.0480</b>
	Revenue (565/35)	2.1000	1.7750	1.7072
<b>2015-16</b>	Army (902/45)	1500.0000	2374.192	2365.796
	Navy (912/41)	200.6500	190.000	190.493
	Air Force (917/41)	250.0000	180.000	180.327
	<b>Total</b>	<b>1950.6500</b>	<b>2744.192</b>	<b>2736.616</b>
	Revenue (565/35)	1.7500	1.900	1.891
<b>2016-17</b>	Army (902/45)	2400.0000	1675.000	1675.993
	Navy (912/41)	180.0000	110.000	102.236
	Air Force (917/41)	250.0000	180.000	179.832
	<b>Total</b>	<b>2830.0000</b>	<b>1965.000</b>	<b>1958.061</b>
	Revenue (565/35)	1.6200	2.251	2.229

<b>2017-18</b>	Army (902/45)	1672.0000	1120.000	1099.931
	Navy (912/41)	108.0000	68.000	67.255
	Air Force (917/41)	197.0000	175.000	176.525
	<b>Total</b>	<b>1977.0000</b>	<b>1363.000</b>	<b>1343.711</b>
	Revenue (565/35)	2.5000	2.747	2.132
<b>2018-19</b>	Army (902/45)	1200.0000	756.961	761.917
	Navy (912/41)	57.0000	28.000	27.702
	Air Force (917/41)	200.0000	90.000	89.381
	<b>Total</b>	<b>1457.0000</b>	<b>874.961</b>	<b>879.000</b>
	Revenue (565/35)	2.5000	3.350	3.368
<b>2019-20 (Apr to Sep 19)</b>	Army (902/45)	2500.000	300.000	179.940
	Navy (912/41)	60.000	50.000	13.710
	Air Force (917/41)	110.000	80.000	33.590
	<b>Total</b>	<b>2670.000</b>	<b>430.000</b>	<b>227.240</b>
	Revenue (565/35)	3.350	1.782	1.240

4.3 During power point presentation before the Committee, the Ministry submitted the following information:

**Budget MAP (Capital)**

(₹ in crore)

<b>Year</b>	<b>Projection</b>	<b>Allotment</b>	<b>Expenditure</b>
2015-16	1950.6500	2744.192	2736.616
2016-17	2830.0000	1965.000	1958.061
2017-18	1977.0000	1363.00	1343.711
2018-19	1457.0000	874.961	879.000
2019-20*	2670.0000	430.000	227.240

\*As on 31<sup>st</sup> Oct 2019

**Funds Required: MAP Phase III**

<b>Year</b>	<b>20-21</b>	<b>21-22</b>	<b>22-23</b>	<b>23-24</b>	<b>24-25</b>	<b>25-26</b>	<b>26-27</b>	<b>27-28</b>	<b>Total</b>	<b>No of DUs</b>
Funds Req'd.	2000	2000	2000	2000	3000	4000	4000	3900	23400	70432
Funds proposed	2000	2000	2000	2000	-	-	-	-	8000	24592
Shortfall	-	-	-	-	3000	4000	4500	3900	15400	45840

4.4 The Ministry asked to state the areas where compromises have been made or are likely to be made due to reduced budgetary allocation, if any, against the projections made by the MAP in 2019-20. The Ministry submitted the following information:

`MAP was raised for construction of 57,875 Dwelling Units, 69,904 Dwelling Units and 71,102 Dwelling Units under Phase I, Phase II and Phase III respectively. Phase I has been completed. Present progress of MAP Phase II is 93.70 per cent. 71,102 Dwelling Units are required to be constructed in MAP Phase-III. Keeping in view the budgetary priorities, Army Headquarters have conveyed their decision to restrict the planning for MAP Phase III to 24,592 Dwelling Units. Accordingly, planning for MAP Phase III has commenced at the following 13 locations consolidated into eight packages:-

Ser No	Stations	No of Dwelling Units
(a)	Delhi & Gurgaon	4045
(b)	Meerut	1798
(c)	Chandimandir, Ambala & Patiala	6783
(d)	Panagarh	1809
(e)	Dehradun	4407
(f)	Jaisalmer	1915
(g)	Pune, Kirkee&Dehu Road	1950
(h)	Bangalore	1885

Consultants for the above eight locations have been nominated and preparation of DPR has commenced. Draft Cabinet Note (DCN) for phase III was submitted to Ministry of Finance duly recommended by Hon'ble Raksha Mantri. Certain observations were raised by Ministry of Finance on DCN. Revised DCN is under process. Phase III could commence after accord of approval by the CCS'.

#### **Details of additional allocation sought by the MAP in 2018-19**

4.5 `No Additional allocation was sought by MAP in 2018-19. However the allotment was only ₹ 874.961 crore against demand projection of ₹ 1,457 crore in 2018-19. CCS approval is being sought for commencement of MAP Phase III'.

#### **Current status of Phase II and III of MAP**

4.6 The current status of Phase II and III of MAP is as follows:-

##### **`Phase-II**

(i) MAP Ph-II commenced in Jul 2008, with the probable date of completion of 31st March, 2012. The scale of Accommodation and specifications were enhanced

in Sep 2009 and work commenced thereafter. 69,904 Dwelling Units are being constructed in Phase-II which included 58,250 Dwelling Units for Army, 7,660 Dwelling Units for Air Force and 3,994 Dwelling Units for Navy. As on date, 69,232 Dwelling Units have been contracted, 56, 128 Dwelling Units have been completed and 13,776 Dwelling Units are in various stages of construction.

(ii) There has been delay in execution of Phase II due to the then prevailing economic situation in the country between 2010 to 2014. The poor performance of the contractors led to cancellation of 34 out of 63 contracts. The cancelled contracts have since been re-concluded except for four and work has recommenced. The overall progress of Phase II is 93.90 per cent. It is expected that full completion of Phase-II will be achieved by Dec 2021.

(iii) The quality of construction has been widely appreciated by all ranks and Commander. Six of the Phase II Projects have been awarded prestigious Central Industrial Development Council (CIDC) Award and Indian Building Congress (IBC) Award for best construction in their category.

### **Phase-III**

(iv) 71,102 Dwelling Units are required to be constructed in MAP Ph-III where Army is the major stake holder as 70,432 Dwelling Units are to be constructed for Army. Draft Cabinet Note (DCN) for this phase has been submitted to Ministry of Finance with the approval of Hon'ble Raksha Mantri. The Ministry of Finance raised certain observations in this regard which are under examination in consultation of Def.(Fin).

(v) The competent authority has approved distribution of work load between DG MAP and MES with a ratio of 55 per cent and 45 per cent. Keeping in view the budgetary priorities, Army Headquarters have conveyed their decision to restrict the planning for MAP Phase III to 24,592 Dwelling Units. Accordingly, planning for MAP Phase III has commenced at the following eight locations:-

<b>S. No.</b>	<b>Stations</b>	<b>No of Dwelling Units</b>	<b>Technology</b>
(a)	Delhi & Gurgaon	4045	Precast Construction
(b)	Meerut	1798	Shear Wall
(c)	Chandimandir, Amabala & Patiala	6783	Precast Construction
(d)	Panagarh	1809	Shear Wall
(e)	Dehradun	4407	Shear Wall
(f)	Jaisalmer	1915	Conventional
(g)	Pune, Kirkee&Dehu Road	1950	Shear Wall
(h)	Bangalore	1885	Shear Wall



The selection of consultants using Quality and Cost Based Selection (QCBS) process for these Dwelling Units has been completed by DG MAP. Topographical survey, soil testing and DPR preparation of these 13 stations have commenced. Almost 92 per cent of these Dwelling Units are being constructed using modern construction technology (Pre Cast or Shear Wall).

(vi) New construction technologies are being adopted for speedy and quality construction in MAP Phase III. DG MAP has invested significant time and resource for the preparation of the same. In addition the contract conditions have also been revised and their Govt approval obtained for bringing in more transparency, accountability and efficiency in the system.

(vii) In addition to the above, a strong case has been prepared for improvement in scales and specifications of married accommodation. These improved scales and specifications will significantly improve the standard of living of troops and raise their morale. The Ministry of Defence has agreed to most of these recommendations which are incorporated in MAP Phase III and are part of amended Draft Cabinet Note (DCN).

#### **Current deficiency of dwelling units under MAP**

4.7 The current deficiency of dwelling units under MAP is 1,85,256 Dwelling Units and the distribution is shown below :-

Service	DUs Auth in 2002	DUs held in 2002	Satisfaction level in 2002	DUs Constructed by MAP till date	DUs held in 2019	Deficiency in 2019	Satisfaction level in 2019
Army	4,40,111	1,97,506	45%	94,378	2,91,884	1,48,227	66%
Navy	31,252	18,800	60%	5,829	24,629	6,623	79 %
Air Force	75,775	31,776	42%	13,593	45,369	30,406	60%
<b>Total</b>	<b>5,47,138</b>	<b>2,48,082</b>		<b>1,13,800</b>	<b>3,61,882</b>	<b>1,85,256</b>	

#### **4.8 Mandate: Us Sanctioned**

Phase	Army Air Force	Air Force	Navy	Total	Revised DUs
I	50924	7509	3225	61658	57875
II	58382	5238	3107	66727	69904
III	67134	3362	-	70496	71102* (79152)
Total	176440	16109	6332	198881	198881* (206931)
* 8050 Additional DUs have been recommended for AF & IDS in MAP Phase III					

#### 4.9 **Progress: MAP Phases**

Phase		STNs	DUs	COST (In Cr)	Overall Prog	DUs Completed
I		86	57,875	6032.70	100percent	100percent
II		157	69,904	13,681.90	93.90percent	80.29percent (56.128 DUs)
III	A	13	24,592	7,259.38	DPR for eight PKGs are under progress	
	B	145@+51*	46,510@+8,050	16,020.32+ 2,745.83	@Commencement of planning Approved *Approval Being Considered by Govt.	
Total		452	1,98,881+8,050	42,994.30+2,745.83	1,14,003 of 1,27,779 DUs (89.21percent) completed till date	

#### **Satisfaction level of the occupants**

4.10 On being asked, whether the Ministry has conducted any study regarding satisfaction of the occupants, regarding construction, quality of building material etc. of the dwelling units constructed under MAP, the Ministry in its written reply has stated:

‘Before the launch of MAP Phase III, Phase I and II were evaluated and a High Level Committee headed by Vice Admiral Murugesan was formed on the directions of Ministry of Defence and the report has been submitted in this regard. The High Level Committee has highlighted the delay in execution of MAP Phase II and has recommended the use of new construction technology like Shear Wall and Pre Cast Construction for fast and efficient construction. The High Level Committee has stressed the need for according top priority for the timely and effective execution of MAP Phase III. However, In addition to the institutionalised mechanism to monitor quality of construction of houses under MAP, regular feedback is being obtained from users regarding quality and their satisfaction. The issues raised by the users are being promptly addressed. The feedback has been overwhelmingly positive. The lessons learnt from Phase I have been kept in mind and improvements in Phase II have been implemented. Similarly, the lessons learnt from Phase II have been kept in mind and improvements in Phase III are being planned’.

## **OBSERVATIONS /RECOMMENDATIONS**

### **Capital Outlay on Defence Services**

1. The Committee note that Capital Outlay on Defence Services, caters for the expenditure incurred on durable assets of Defence Services, i.e., Army, Navy, Air Force, Joint Staff, Defence Ordnance Factories, Defence Research & Development Organisation (DRDO), Director General Quality Assurance(DGQA), National Cadet Corps (NCC), Married Accommodation, National Defence Academy and Rashtryia Rifles. During the year 2019-20, the Ministry allocated ₹ 1,03,394.31 crore against the projection of ₹ 1,70,936.07 crore under the Capital Head, leaving a gap of ₹ 67,541.76 crore. Out of it, the Capital (Acquisition including DGOF Supplies) is allocated ₹ 80,959.08 crore, Land & Works of three Services (including Married Accommodation Projects) ₹ 11,055.79 crore, DRDO, DGOF and Other Defence Departments ₹ 22,435.23 crore.

2. The Committee note that the Ministry of Defence has allocated 60.48 per cent less amount than the projection. It is a well known fact that without infusion of new machines, technological upgrades and procurement of Capital intensive platforms, the Armed Forces cannot cope up with the might of other country's armed powers, especially with the inimical neighbours. The Committee, therefore, urge the Ministry of Defence and the Ministry of Finance, not to reduce allocations for the Armed Forces in the Capital Head, which are essential for the development of credible deterrence capabilities. The Committee hope that at least now the Ministry would leave no stone unturned so as to ensure the Forces, allocations as per the projection at the Supplementary Grants stage. It should always be borne in mind that expenditure made on capital outlay during peace time is like building block for the Forces which builds a strong Force/organization in the long run.

### **Committed Liability**

3. The Committee find that 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.

4. The Committee note from the data supplied by the Ministry that in the year 2016-17, instead of Rs. 75,553 crore, only ₹ 62,619 crore were allocated. Similarly in the year 2017-18, instead of ₹ 91,382, only ₹ 68,965 crore were allocated. In the year 2018-19, instead of ₹ 1, 10,044 crore, only ₹ 73,883 crore were allocated. In the year 2019-2020, instead of ₹ 1, 13,667 crore, only ₹ 80,959 crore were allocated. It leaves a shortage of ₹ 10,933 crore, ₹ 22,417 crore, ₹ 36,161 crore and ₹ 32,709 crore respectively all these years which is an issue of concern for the Committee. The Committee find the shortage baffling, as these are the payments towards procurements already done in previous years. The Committee feel that making the country defaulter in payment will not go well in the international markets, therefore, they recommend that allocation as promised should be disbursed for Committed Liabilities.

### **Service-wise Projections and Allocation**

5. The Committee note from the information submitted by the Ministry for Service-wise Projections and Allocation made under Capital head for the year 2019-20 that Army projected an allocation for ₹ 44,690.98 crore, however, it was allocated only ₹ 29,511.25 crore, which is ₹ 15,179.73 crore less than the projection or say 34 per cent less than the amount asked for. Similarly Navy projected for an amount of ₹ 35,713.84 crore but was allocated only ₹ 22,227.53 crore. Joint Staff projected for ₹ 1,507.14 crore but got only ₹ 928.90 crore. The Air Force projected for ₹ 74,894.56 crore but got an allocation of ₹ 39,347.19 crore only, which is less than half of the amount asked for. Although, the Ministry has stated that the allocated funds will be optimally and fully utilized towards operational activities and based on expenditure during the year, additional funds will be sought at Supplementary/ RE stage. The Ministry also assured the Committee that urgent and critical capabilities would be acquired without any compromise to operational preparedness of the Defence Services. However, in practice, the additional amount sought for, never received from the Ministry of Finance, thereby affecting operational preparedness of the Defence Forces. Therefore, the Committee have to recommend firmly that allocations as per the projections by the Services should be made. All efforts should be done to convince the Ministry of Finance to take this portentous issue to a logical conclusion.

### **Additional Allotment sought by the Ministry-interaction with MOF**

6. The Committee learn that the Ministry is bound by the budgetary ceiling conveyed by Ministry of Finance. Therefore, the reduced allocations have been

passed on uniformly among all the Services. This reflects the compromises made in the modernization process of Defence Services thereby negatively impacting their capabilities. Now, as informed to the Committee, the Ministry would forward the requirements of the services under Capital Head to the Ministry of Finance for favourable consideration at supplementary/ Revised Estimates stage. The Ministry was asked whether, the matter has been taken up proactively at the Ministerial level to avoid default in payment of Committed Liabilities. The Ministry in its reply has stated that while keeping in view payment of Committed Liabilities, consideration for an additional allotment of Rs. 13,300 crore above the Budget Estimates (BE), for meeting inescapable and obligatory expenses to offset the impact of custom duty payments, rupee devaluation and increase in oil prices, had been taken up with M/o Finance at Ministerial level vide DO letter No. 11(10)/Bud-I/2018/3500-F/RM/18 dated 28<sup>th</sup> September, 2018. In reply to the said DO letter, Hon'ble Finance Minister, in DO letter No. 4(4)-B(AC)/2018 dated 27<sup>th</sup> November, 2018 to Hon'ble Defence Minister, had conveyed that additional requirement towards rupee devaluation and rising fuel prices, suitable increase has been provided for meeting these additionalities under revenue head through Demand No. 20- Defence Services Estimates (Revenue) in RE 2018-19. This increase is based on the pace of expenditure in the current year and the likely savings under other budget heads of the Ministry.

7. The Committee are happy that the Ministry of Defence has taken up the matter with the Ministry of Finance on the issue, however, they find that there is no clear cut assurance by the Ministry of Finance as it only focused on rupee devaluation and rising fuel prices. Therefore, the Committee are of the view that matter may again be discussed earnestly with the Ministry of Finance to provide allocation as per the projection in the Capital Head.

### **Modernization of Defence Forces**

8. The Committee note from the reply submitted by the Ministry that modernisation involves the acquisition of new state-of-the-art platforms, technologies and weapon systems to upgrade and augment Defence capabilities. The Committee are not oblivious of the fact that modernisation of Defence Forces is a continuous process based on threat perception, operational challenges and technological changes to keep the Armed Forces in a state of readiness to meet the entire spectrum of security challenges. The Committee also note that the Government attaches the highest priority to ensure that the Armed Forces are sufficiently equipped to meet any operational requirement. This is achieved through induction of new equipment and technological upgradation of capabilities. The equipment requirements of the Armed Forces are planned and progressed through a detailed process which includes 15 Year Long Term Integrated Perspective Plan (LTIPP), a five year Service-wise Capability Acquisition Plan, a two year roll-on Annual Acquisition Plan and deliberations by the Defence Acquisition Council chaired by the Raksha Mantri.

9. The Committee further note that various steps are being taken by the Government for modernization i.e. opening up of the Defence Industry sector, which was hitherto reserved for the public sector up to 100percent for Indian private sector participation, with Foreign Direct Investment (FDI) up to 26 per cent both subject to licensing, allowing FDI under automatic route upto 49 per cent and beyond 49 per cent through Government route, seeking technology transfers to set up domestic manufacturing infrastructure and supply chain through the Strategic Partnership (SP)' Model which envisages establishment of long term Strategic Partnership with Indian entities etc.

10. The Committee are happy to learn that new and innovative measures have been taken by the Government for the modernisation of the Forces, however, they still recommend that sufficient allocations should be made to the Forces to modernize existing weapon system and to procure state-of the art equipment. Any predicaments faced by the Ministry in this regard should be intimated to the Committee at the time of furnishing Action Taken Notes (ATNs). The Committee desire that there should be regular interaction with foreign Defence industry partners to make India a lucrative place for investing and making it a Defence industry hub. The Committee also desire that monitoring of Government initiatives should be done at regular intervals so any bottlenecks can be checked at the beginning only.

#### **Defence Procurement Policy**

11. The Committee note that the policy for procurement of Defence equipment for the Armed Forces aims to ensure timely procurement of military equipment, systems and platforms as required by the Armed Forces in terms of performance capabilities and quality standards, through optimum utilisation of allocated budgetary resources. The 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).

12. The Committee also note that the objectives of the Defence Procurement Policy are to achieve substantive self-reliance in the design, development and



production of equipment/weapon systems/ platforms required for Defence in as early a time frame as possible; to create conditions conducive for the private industry to take an active role in this endeavour; to enhance potential of SMEs in indigenization and to broaden the Defence R&D base of the country.

13. The Committee further note that 'Make in India' initiative of the Government are being realised through several policy measures which provides thrust to all the policy framework including Defence Production Policy. It has taken several measures i.e. liberalized Industrial licensing regime for Indian manufacturers in Defence sector, simplification of the 'Make' Procedure with provisions for funding of 90percent of development cost by the Government to Indian industry, notification of separate procedure for 'Make-II' sub-category, opportunity to industry to make suo-moto suggestions to the armed services regarding Defence equipment etc. The suo-moto mechanism has resulted in 9 Defence projects to be co-developed by Indian industry for the use of armed Forces. This augurs well for greater self-reliance in our Defence requirement.

14. The Committee are happy to learn that private sector is taking suo-moto interest in the Defence products. It would not only help the Forces to get better import substituted products but would also pave way for healthy competition between private sector and DPSUs & Ordnance Factories. The Committee also welcome the move of the Government regarding revision of FDI Policy wherein Foreign Investment up to 49 percent is allowed through automatic route and above 49 per cent under Government route attracting FDI inflows of over ₹ 3134 crore. The Committee hope that this propitious move bear fruits in establishing a huge Defence manufacturing base in the country and in coming years we would be self

reliant in this field. In this regard, the Committee at this stage can only recommend that once the ball has been set rolling, all out efforts be made to accomplish the desired results with sustainability.

### **Defence Exports**

15. The Committee learn that the process of granting 'No objection Certificate' for export of Defence stores has been simplified, which has resulted in export of ₹10,745 crore in 2018-19 and Defence exports have increased to 7 folds from 2016-17. While applauding the achievement of this figure, the Committee feel that in comparison to international Defence export market, that is very marginal. Therefore, they recommend the Ministry to take more initiatives and create favourable conditions so that exports are increased substantially in the coming year. The Ministry has informed that Defence Public Sector Undertakings have been encouraged to increase their export portfolio to 25 per cent of their turnover. The expectations of the Ministry with our DPSUs and Ordnance Factories will be met only if these factories make world class quality products. For improvements in the products of DPSUs and Ordnance Factories, the Ministry should encourage Transfer of Technology from the established and reputed manufacturers.

### **Defence Procurement Procedure (DPP)**

16. The Committee note that Defence Procurement Procedure (DPP) was revised in 2016 and specific provisions have been introduced for stimulating growth of the domestic defence industry. A new category of procurement 'Buy {Indian-IDDMM (Indigenously Designed, Developed and Manufactured)}' had been introduced in DPP-2016 to promote indigenous design and development of defence equipments.

**This Category has been accorded top most priority for procurement of capital equipment. Besides this, preference is being given to ‘Buy (Indian)’ and ‘Buy and Make (Indian)’ categories of capital acquisition over ‘Buy (Global)’ & ‘Buy & Make (Global)’ categories. The Committee have every reason to believe that by encouraging ‘Buy (Indian)’ and ‘Buy and Make (Indian)’ categories of capital acquisition, more private sector companies will show interest in the area of defence manufacturing.**

**Besides this, in another welcome move, 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. As a result of said efforts, during the last 5 years i.e. 2014-15 to 2018-19 Government has accorded Acceptance of Necessity (AoN) to 204 proposals, worth ₹ 40,4880 crore approximately under ‘Buy (Indian-IDDM)’, ‘Buy (Indian)’, ‘Buy and Make (Indian)’, Buy and Make’, Strategic Partnership Model or ‘Make’ categories of capital procurement as per Defence Procurement Procedure (DPP) . In all the above categories Indian Industry would be engaged in defence manufacturing either through direct recipient of RFP or in collaboration with foreign OEMs.**

**17. The Committee further note that in DPP 2016 for achieving timely, efficient, and effective procurement many steps has been taken by the Ministry i.e.**

- (i) Inclusion of beneficiary bank details for Bank Guarantee in the Request for Proposal (RFP).**
- (ii) Permitting confirmation of Bank Guarantee (BG) provided by a Foreign Bank and issuance of BG by Private Sector Banks Authorized by Ministry of Finance.**

- (iii) Provisions for reassessment of Acceptance of Necessity (AoN) cost on receipt of DPRs (Detailed Project Reports) in 'Make' cases.**
- (iv) Reckoning the date of ERV (Exchange Rate Variation) for Option Clauses to be the Last Date of Submission of Commercial Bids in Original case.**
- (v) Inclusion of details of Independent Monitors in RFP.**
- (vi) Clarity on imposition of LD (Liquidated Damages) and constituting of POVs (Professional Officers Valuations) in Contract Amendment cases.**
- (vii) Doing away with additional BG for EPB (Essential Parameters 'B') in case EPB are trial evaluated during FET (Field Evaluation Trials).**
- (viii) Permitting LC payment through all banks authorized by RBI for Government transactions.**
- (ix) Exemption of CNC (Contract Negotiation Committee) from furnishing Reasonability of Cost Certificate for DPSU Equipment already Priced by Committee constituted under orders of Raksha Mantri.**
- (x) Alignment of period of payment of Guaranteed sum by bank.**
- (xi) Delegation of Financial powers to Services Headquarters from ₹150 Cr to ₹300 Cr.**
- (xii) Broad timeframe for completing procurement activities (from 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.**
- (xiii) 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.**
- (xiv) Draft Request for Proposal (RFP) has to accompany Statement of Case (SoC) for AoN.**
- (xv) 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).**
- (xvi) 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.**
- (xvii) 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.

- (xviii) Cases with AoN value of more than ₹ 150 crore to be directly brought before SCAPCHC thereby eliminating initial placement of such cases before SCAPCC.
- (xix) The aim of Fast Track Procedure (FTP) cases enhanced to cover urgent operational requirements relating to both foreseen and emergent situations.
- (xx) RFI process has been elaborated in detail as the first step of the acquisition process and its objectives have been clearly defined.
- (xxi) Parameters of SQR have been classified as Essential Parameters A and B. Essential Parameters A are generally a part of the contemporary equipment available in the market. Essential Parameters – B are those parameters which can be developed and achieved by the vendors using available technologies. Essential Parameters B are to be achieved mandatorily by L1 vendor after signing of contract.
- (xxii) SQRs will also have Enhanced Performance Parameters, to cater to additional capabilities over and above the essential parameters; vendors meeting the same will be given additional weightage during evaluation of their product cost.'

The Committee are hopeful that measures taken by the Ministry in the amended DPP 2016 would be successful in bringing institutional changes for the betterment of the Defence Industry, however, they recommend a need of proper monitoring and taking of effective corrective measures swiftly whenever need arises.

### **Defence Corridors**

18. The Committee find that two defence industry corridors have been set up in Tamil Nadu and Uttar Pradesh in collaboration with the States Govt to provide state-of-the-art infrastructure and facilities for setting up defence production facilities. Development of these corridors will not only help in achievement of accelerated development and regional industry agglomeration, but will also facilitate a well-planned and efficient industrial base which will lead to increased defence production in the country and the region. During deliberations, the Committee learnt that around ₹ 3700 crore investments have already been announced by DPSUs and the private industries.

The Committee are happy for the innovative concept and establishing the Corridors in two different corners of the country, which would help to develop local industry. However, at the same time, they also desire that due care should be taken in establishing production facilities to win the trust of investor. They recommend that all-out efforts be done by mulling and implementing the requisite measures in consonance with the two State Governments so that the best outcome of these Corridors is seen and utilised.

### **Dependence on Foreign Vendors for military hardware**

19. The Committee note that Capital procurement of Defence equipment is undertaken from various domestic as well as foreign vendor based on operational requirements of the Armed Forces, the availability or capacity to produce the equipment in India and abroad to keep the Armed Forces in a state of readiness to meet the entire spectrum of security challenges. During the last four financial years

(2015-16 to 2018-19), out of total 210 contracts, 75 contracts worth about ₹ 1,67,898 crore have been signed with foreign vendors including USA, Russia, Israel, France etc. for procurement of Defence equipment for Armed Forces. The Defence equipment imported during this period includes helicopters, aircrafts, missiles, rifles, artillery guns, simulators and ammunition.

20. From the data supplied by the Ministry, the Committee also note that dependence on the foreign vendors is rising all these year. In the year 2014-15, out of total procurement of ₹ 65,859.98 crore, procurement from foreign vendors was ₹ 25,980.98 crore, which was 39.62 per cent of the total expenditure. The exception was the year 2015-16, wherein out of total procurement of ₹ 62,341.86 crore, procurement from foreign vendors was ₹ 23,192.22 crore, which was 37.20 per cent of the total expenditure, 02.5 per cent lower than the previous year. In the year 2016-17, out of total procurement of ₹ 69,150.12 crore, procurement from foreign vendors was ₹ 27,278.09 crore, which was 39.44 per cent of the total expenditure. In the year 2017-18, out of total procurement of ₹ 72,732.28 crore, procurement from foreign vendors was ₹ 29,035.41 crore, making it close to last year's import at 39.92 per cent of the total expenditure. In the year 2018-19 again, out of total procurement of ₹ 75,920.74 crore, procurement from foreign vendors was ₹ 36,957.06 crore, which was 48.67 per cent of the total capital expenditure.

21. This led to very little procurement from the Indian sources as it is inversely proportional to procurement from foreign vendors and would affect our indigenous industry in long run. Therefore, the Committee recommend that the Ministry should chalk out a plan in consultation with DPSUs, OFB, the Services, Indian Industry,

educational institutions of high repute and other stakeholder, and make concrete efforts to reduce dependence on the foreign vendors.

#### **Procurement of Extreme Cold Weather Clothing System (ECWCS)**

22. The Committee note from the replies submitted by the Ministry that 'Extreme Cold Weather Clothing System' which falls under the category of SCME (Special Clothing and Mountaineering Equipment) items invariably required by Armed Forces in Glacier regions. It is a three layered individual clothing item for soldiers deployed in the Siachen Glacier and other similar high altitude areas meant for providing adequate protection, thermal insulation and comfort from extreme cold climate and rough weather conditions at an altitude of more than 18,000 feet, low temperature up to  $-50^{\circ}\text{C}$  and wind velocity of more than 40 Km/hr. Measures to monitor quality of supply are inherent in the procurement process and are ensured by Director General of Quality assurance (DGQA) as well as the User, both during procurement and usage. It has also stated that apart from foreign suppliers, an indigenous manufacturer is also participating in the ongoing procurement process for ECWCS items. However, during the oral evidence, a senior representative of Army apprised the Committee that as on date, virtually about 80 per cent of it is imported and there is no indigenous capability existing in India to make it.

The Committee recommend that as large number of such clothing is required for our Forces in Siachen and other areas, therefore, the Ministry should explore the possibility of developing a industry for manufacturing of the same, so the dependence on foreign sources can be reduced and ECWCS may be customized to Indian needs.



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

23. The Committee are happy to note that Ordnance Factory Board (OFB) products are classic example of successful implementation of "Make in India" programme initiated by the Government as almost 90percent items of OFB products are indigenously made and OFB has been making continuous endeavors 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 Original Equipment Manufacturers (OEMs). The Committee also satisfied with the fact that import content over value of issue has reduced from 12 percent in 2016-17 to 9 per cent in 2018-19. The Committee desire that OFB should take appropriate measures to reduce import content percentage in 155mm x 45 Calibre Artillery Gun System "Dhanush" and T-90 tank which is quite high at 16 and 26 per cent respectively.

The Committee note that Goa Shipyard Ltd has been able to decrease import content during the last three years and also indigenized Steel Plates, Gearboxes, Steering Gear system, Fin stabilizer system, Heli Grid, Doors (water & Weather tight) and Gemini Boats for on-going 5 CGOPVs project. The indigenous content has increased from 62 per cent in last project to 74 per cent in this project. However, 26 per cent import content is still high, therefore, the Committee recommend that GSL should take measures to reduce it further.

The Committee also note that in Mazagaon Dock Ltd, which constructs Warships and Submarines for Indian Navy, import content is quite high and it

ranges from 25 percent to 50 percent depending on the products. The Committee desired that it needs to come down substantially by introducing material from local industry. If, MDL wants to make "Make in India", a success story, similarly, in Bharat Dynamics Ltd (BDL), import content ranges from 3 per cent to 29 per cent, which needs to be checked.

24. In the BEL, which has the line of business including 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 in products manufactured has minimum 20 per cent to 26 percent. The Committee desire that by guiding local capable Indian small scale industry to produce the products required by BEL, import content should be restricted.

The Committee also find that in BEML Ltd, import content during last five years ranged from 15.87 per cent to 25.48 per cent, which is quite high. The Committee recommend that desired steps should be taken to bring it down.

25. Similarly, HAL is currently manufacturing SU-30 MKI, Light Combat Aircraft (LCA), Advance Light Helicopter (ALH) and Dornier Do-228. The import content in value terms for the platforms under manufacture at HAL is 40 per cent to 60 per cent. The Committee recommend that HAL should explore the possibilities from local Defence industry to bring down the import content. The Committee may be apprised of the measures taken by OFB and DPSUs in bringing down the import percentage, within three months of presentation of the report.

### Offset Clause

26. The Committee note that Offsets under Defence Capital Acquisition were introduced in the Defence Procurement Procedure (DPP) in 2005 based on the recommendation of Kelkar Committee. The Offset guidelines in DPP have been amended 5 times thereafter. As mentioned in the earlier part of this report, there are 05 categories of capital procurement for defence equipment's i.e. (i) Buy (Indian-IDDM), (ii) Buy (Indian), (iii) Buy & Make (Indian), (iv) Buy & Make and (v) Buy (Global). The offset provision is applicable only on "Buy Global" and "Buy and Make" category of contracts. The offset provisions apply in capital acquisition contracts which are more than ₹ 2,000 crore. The threshold level of ₹ 2,000 crore was raised from ₹ 300 crore in 2016. However, the offsets are not applicable to procurements under "Fast Track Procedure" and in "Option Clause" cases if the same was not envisaged in the original contract. It is relevant to note that offset applicability on Indian companies under 'Buy Global' cases do not arise in case the indigenization component is more than 30 per cent. Offset contracts are co-terminus with the main procurement contract and signed along with the main procurement contract after approval of Competent Financial Authority (CFA). The period of offset discharge can be extended on exceptional ground by a maximum period of 02 year. The DPP stipulates eligible products/services for discharge of offset obligations which covers defence products, products for internal security and civil aerospace. The responsibility for fulfilment of offsets obligations lies with the main vendor. However, the vendor is permitted to discharge his obligations through Tier 1 sub-vendors based on their work share. The vendors are free to select their Indian Offset Partners (IOP) from DPSU/OFB/DRDO/private industry. The vendors are allowed to submit offset details either at the time of seeking offset credits or one

year prior to discharge of offset obligations.

27. The Committee have learnt that 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 sector. 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. For the purpose, the Committee recommend that while granting and allowing Offsets, participation of companies of repute should be encouraged and it should be ensured that companies offer servicing of the products for atleast twenty years after the sale of the product.

#### **Defence Planning**

28. The Committee note that 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 Revised Estimate of ₹ 3, 61, 000.00 crore, the expenditure incurred during 10th Plan was ₹ 3, 57,627.17 crore. Further, against the projection of ₹ 6, 65,882.50 crore, the expenditure incurred during 11th Plan was ₹ 6,72,714.63 crore, which was clearly a case of overspending. Again, in 12th Plan, the expenditure incurred was ₹ 10,55,763.75 crore against a projection of ₹ 10,49,932.98. However, the Ministry of Defence has claimed that activities included in the plans proceeded

during the Plan period within the available budget allocations. The allocated funds are optimally and fully utilized towards operational activities. If required, the schemes are reprioritized to ensure that urgent and critical capabilities are acquired without any compromise to operational preparedness of the Defence Forces. The period of 13<sup>th</sup> Defence five year plan is from the year 2017 to 2022. However, the Ministry has not given the BE or RE for the same even after two years of beginning of the plan, therefore, the Committee recommend that in future, the Ministry should take due care in supplying the information to them. They would like to be apprised of the reasons of non-furnishing of this information.

#### **Non fructification of Defence Five Year Plans**

29. The Committee note that although the 12th Plan was approved by the Raksha Mantri, it was not acceded 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 year. 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 of the Ministry of Finance. The Committee cannot comprehend the reason for non-approval of the Defence Plans by the Finance Ministry and indifference of the Ministry of Defence towards it. It is surprising for the Committee to know the rationale given by the Ministry that Plan does not act as hindrance in implementation of Defence projects. The Committee are of the view that if that is the matter then there was no need for

formulating any plan in the first place. Considering the above factors, the Committee recommend that in the light of this recommendation of the Committee, the Ministry should consider afresh and invariably try to take some sort of consent from the Ministry of Finance so that the Plans get a teeth at the time implementation.

#### **Long Term Integrated Perspective Plan (LTIPP)**

30. From the information submitted to the Committee, 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. Extant DPP 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.

Thus, institutional mechanisms have been put in place by the MoD to monitor progress of acquisition plans.

The Committee are happy that the Ministry has also set up PLANET (Planning Archiving and Analysis Network) to maintain Services Capital Acquisition database in order to monitor progress of cases, efficient query management and analysis of data after accord of AoN. However, considering the fate of Five Year Defence Plans, the Committee recommend that monitoring of 15 year LTIPP, 5 year Services Capital Acquisition Plan (SCAP) and Annual Acquisition Plan (AAP) should be done by constituting a High Powered Committee, which would have the final say in the decision making of above plans and meet at regular intervals. The scope of the Committee should be widened so it can also look into the matters relating to national security doctrines and related operational directives and decide acquisitions as per the changes in the world security scenario.

31. The Committee observe that for Married Accommodation Project the allocations during the year 2015-16 was ₹ 2744.19 crore. This was more than the projections of ₹ 1950.65 crore. The expenditure was ₹ 2736.61 crore which was almost 100 per cent of the allocated amount. During the years 2016-17 and 2017-18 the allocation was less than the projections. However, the expenditure was almost 100 per cent of the allocated amount. The Committee are pained to note that during the year 2018-19 against the projection of ₹ 1457 crore the allocations were only 874 crore. The gap between projection and allocation is ₹ 582.04 crore. But the utilisation is ₹ 879 crore. During the year 2019-20 against the projections of ₹ 2679 crore the allocation is only ₹ 430 crore. There is shortfall of ₹ 2240 crore. The Ministry has spent ₹ 227.24 crore as on 31<sup>st</sup> October, 2019.

32. The Committee find that Phase-II of the MAP has been approved by the CCS on 22<sup>nd</sup> May, 2008 for construction of 66,727 dwelling units with the probable date of

completion of 31st March, 2012. Scale of Accommodation and specifications were enhanced in September 2009 and works commenced thereafter 69,904 Dwelling Units are being constructed in Phase-II which included 58,250 Dwelling Units for Army, 7,660 Dwelling Units for Air Force and 3,994 Dwelling Units for Navy. As on date, 69,232 Dwelling Units have been contracted, 56,128 Dwelling Units have been completed and 13,776 Dwelling Units are in various stages of construction. The main reasons attributed to the delay, due to the then prevailing economic situation in the country between 2010 to 2014. The poor performance of the contractors led to cancellation of 34 out of 63 contracts. The cancelled contracts have since been re-concluded except for four and work has recommenced. The overall progress of Phase II is 93.90 per cent. It is expected that full completion of Phase-II will be achieved by Dec 2021. The Committee are constrained to note that there has been considerable delay in execution of Phase II. Even after completion of prolonged seven and half years since March 2012, the Ministry could not complete the works of Phase II of MAP and now the time for completion of works has been extended to 2021. The Committee take note of this delay. The Committee have been apprised of various reasons for the delay.

Without going into the merit of such reasons, the Committee recommend that the Ministry of Defence to take effective steps to ensure early completion of the Phase-II of MAP by providing adequate allocations during the present and future financial year. Also, since it shows an unhealthy trend and lack of planning as well as oversight, the Committee would now like to know the exact reasons why 34 out of 63 contracts were cancelled earlier. They would also like to be apprised whether any penalty was imposed on the erring contractors due to the poor performance. Cancellation of more than 50 per cent of the contracts is a serious issue. The



Committee should be apprised as to how these contractors were selected and what was the basis of selection. At this stage, they recommend that in future such situations should not recur at any cost.

### **Delay in Phase III of MAP**

33. The Committee note that 71,102 Dwelling Units are required to be constructed in MAP Ph-III where Army is the major stake holder as 70,432 Dwelling Units are to be constructed for Army. Draft Cabinet Note (DCN) for this phase has been submitted to Ministry of Finance with the approval of Hon'ble Raksha Mantri. The Ministry of Finance raised certain observations in this regard which are under examination in consultation of Def. (Fin).

Keeping in view the budgetary priorities, Army Headquarters have conveyed their decision to restrict the planning for MAP Phase III to 24,592 Dwelling Units. Accordingly, planning for MAP Phase III has commenced at the eight locations viz; Delhi & Gurgaon; Meerut; Chandimandir, Amabala & Patiala; Panagarh; Dehradun; Jaisalmer; Pune, Kirkee & Dehu Road; and Bangalore.

The Committee take serious note of the prolonged delay in the planning of Phase III of MAP and the budgetary constrained involved thereon. Therefore, they recommend the Ministry of Defence to complete the consultation process with the Ministry of Finance at the earliest and provide adequate budgetary allocation thereof. The developments in this regard be intimated to the Committee.

### **Current Deficiency of Dwelling Unit**

34. The Committee learn that the Current deficiency of dwelling unit under MAP is 1,85,256 units. During the year 2019-20 the authorized dwelling unit (DU) for Army is 2,91,884. The deficiency is 1,48,227 and the satisfaction level is any 66 per cent. With regard to Navy, the held units are 24,629 and the deficiency is 6,623. The satisfaction level is 79 per cent. So far as Air Force is concerned the held number of unit is 45,369 and deficiency is 30,406. The satisfaction level is 60 percent. The Committee observe that Army, the manpower intensive organization is facing huge shortage of Married Accommodation. Keeping in view the low level of satisfaction of the services in general and Army in particular, the Committee in no uncertain words recommend that the Ministry of Defence accords top priority for the timely and effective execution of MAP under Phase II and Phase III without further loss of time. The Committee specifically emphasize and recommend to allocate the desired allocations for the completion of MAP.

New Delhi  
09 December, 2019  
18, Agrahayana, 1941 (Saka)

JUAL ORAM  
Chairperson  
Standing Committee on Defence

**STANDING COMMITTEE ON DEFENCE (2019-20)**

**MINUTES OF THE SECOND SITTING OF THE STANDING COMMITTEE ON  
DEFENCE (2019-20)**

The Committee sat on Thursday, the 14<sup>th</sup> November, 2019 from 1100 hrs. to 1730 hrs. in Committee Room 'B', Ground Floor, Parliament House Annexe, New Delhi.

**PRESENT**

**Shri Jual Oram**

–

**Chairperson**

**MEMBERS**

**LOK SABHA**

2. Shri Nitesh Ganga Deb
3. Shri Annasaheb Shankar Jolle
4. Prof. (Dr.) Ram Shankar Katheria
5. Shri Pashupati Kumar Paras
6. Shri Kapil Moreshwar Patil
7. Dr. Shrikant Eknath Shinde
8. Shri Brijendra Singh
9. Shri Mahabali Singh
10. Shri Durga Das Uikey
11. Dr. Kalanidhi Veeraswamy

**RAJYA SABHA**

12. Dr. Ashok Bajpai
13. Shri Prem Chand Gupta

**SECRETARIAT**

1. Smt. Kalpana Sharma - Additional Secretary
2. Dr. Sanjeev Sharma - Director
3. Smt. Jyochnamayi Sinha - Additional Director
4. Shri Rahul Singh - Deputy Secretary

**LIST OF WITNESSES****MINISTRY OF DEFENCE**

<b>S. No.</b>	<b>Name of Officer</b>	<b>Designation</b>
1.	Dr. Ajay Kumar	Defence Secretary
2.	Ms. Gargi Kaul	Secretary (Defence Finance)
3.	Shri Barun Mitra	Special Secretary
4.	Shri Jiwesh Nandan	Additional Secretary
5.	Dr. Chitra Rajagopal	Director General-Resource & Management (R&M)
6.	Lt. Gen. MM Naravane	Vice Chief of Army Staff (VCOAS)
7.	Vice Admiral G Ashok Kumar	Vice Chief of the Naval Staff (VCNS)
8.	Lt. Gen. SK Upadhya	Master-General of the Ordnance (MGO)
9.	Air Mshl Sandeep Singh	Deputy Chief of the Air Staff (DCAS)
10.	Air Mshl HS Arora	Vice Chief of the Air Staff (VCAS)
11.	Lt. Gen. Arvind Dutta	Adjutant General
12.	Lt. Gen. Rajeev Chopra	Director General of National Cadet Corps (DGNCC)
13.	Lt. Gen. Paramjit Singh Sangha	Director General of Military Operations (DGMO)
14.	Shri Apurva Chandra	Director General (Acquisition) DG(Acq)
15.	Lt. Gen. Sanjay Chauhan	Director General (DG)
16.	Ms Mala Dutt	Additional Secretary & Financial Adviser (Acquisition), AS&FA (Acq)
17.	Lt. Gen. Gopal R	Quarter Master General (QMG)
18.	Shri Subir Mallick	Additional Financial Adviser & Joint Secretary, (Addl. FA & JS)
19.	Rear Admiral Sanjay Vatsayan	Assistant chief of Naval Staff (ACNS)
20.	Smt. Nidhi Chhibber	Joint Secretary
21.	Lt. Gen. Sanjay Chauhan	Director General
22.	Maj Gen. RK Malhotra	Additional Director General (ADG)
23.	Shri Puneet Agarwal	Joint Secretary
24.	Shri Rajeev Singh Thakur	JS (Army)
25.	Shri Ashwani Kumar	Additional Financial Adviser & Joint Secretary (Addl. FA & JS)
26.	Shri Rajesh Sharma	Addl. FA & JS
27.	Shri Shantanu	Joint Secretary
28.	Dr. Md. Nazmuddin	Economic Adviser & Joint Secretary
29.	Shri Sanjai Singh	Joint Secretary & Acquisition Manager (Air), JS&AM(Air)
30.	Lt. Gen. Sudarshan Srikant Hasabnis	Deputy Chief of Army Staff (DCOAS)
31.	Smt Dipti Mohil Chawla	Joint Secretary & Acquisition Manager (Maritime Systems), JS&AM (MS)
32.	Shri A N Das	Additional Financial Adviser (AN) Addl. FA(AN)
33.	Maj. Gen. HS Shanbhag	Technical Manager (Land Systems), TM(LS)
34.	Air Vice Mshl Jeetendra Mishra	Assistant Chief of Air Staff, Projects (ACAS)
35.	R Adm Alok Bhatnagar	Additional Director General ADG(A)

36.	Shri Shantanu	Joint Secretary
37.	Shri Vedveer Arya	Finance Manager (MS), FM (MS)
38.	Shri Ghayas Uddin Ahmad	Finance Manager (Land System)
39.	Shri Puneet Agarwal	Finance Manager (Air)
40.	Lt Gen Sanjay Verma	Director General (DG)
41.	Dr. Ravindra Singh	Director
42.	Sh. Vipul Gupta	Associate Director

2. At the outset, the Chairperson welcomed the Members of the Committee and informed them that the Union Budget for the year 2019-20 had already been passed, however, examination of Demands for Grants for the year 2019-20 was a mandatory exercise consequent to the observation by the Hon'ble Speaker on 11<sup>th</sup> July, 2019 that the Demands stand referred to the concerned Departmentally related Standing Committees, after they have been constituted, for examination and report to the House. He further informed them of the agenda for the Sitting i.e. deliberation on the subjects 'General Defence Budget, Procurement Policy and Capital Outlay on Defence Services, Army, Directorate General of Quality Assurance (DGQA), National Cadet Corps (NCC), Sainik Schools and Air Force'. The Committee then welcomed the representatives of the Ministry of Defence and the Services/Organisations to the second 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 healthy expenditure pattern of Ministry of Defence.

4. A Power Point Presentation on General Defence Budget was then made before the Committee. This was followed by detailed deliberations on the following issues:

- i. Mismatch between projection and allocation of funds leading to gap of ₹ 33,000 crore in committed expenditure;
- ii. Delegation of financial power and allocation of budget to National Cadet Corps (NCC);
- iii. Increase in Defence Budget in proportion of percentage of GDP of the country;

- iv. Projection and allocation of budget in regard to Air Force;
- v. Utilisation of total Defence budget till date;
- vi. Compromises made or likely to be made due to reduced budgetary allocations;
- vii. Commercial use of Defence Lands without compromising the security of the area;
- viii. Rationalisation of budget to avoid overspending;
- ix. Revenue generation by Defence Research and Development Organisation (DRDO) and Ordnance Factories Board (OFB);
- x. Creation of post of Chief of Defence Staff;
- xi. Improvement in quality of products of OFB, especially cloth/material used in parachute;
- xii. Penalty provisions in offset obligations;
- xiii. Special equipment like garment and footwear for Army personnel posted in high altitude and harsh weather conditions;
- xiv. Special Allowance for personnel posted in high altitude areas;
- xv. Defence Production Corridor; and
- xvi. Timely supply of equipment to 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. Ensuring quality of products manufacture under 'Make in india'
- ii. Servicing of equipment provided by new indigenous companies and their sustainability;
- iii. Efforts to encourage indigenization in Defence Sector to reduce dependence on imports;
- iv. Greater value of contracts in terms of amount being awarded to foreign vendors;
- v. Steps taken to achieve timely, effective and efficient procurement;
- vi. Benchmark pricing in Acquisition; and
- vii. Transfer of Technology in Rafale aircraft.

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

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

- i. Mismatch between projection and allocation of funds to Army;
- ii. Requirement of surveillance equipment;
- iii. Anomalies in allowance to personnel posted in North-Eastern parts;
- iv. Rationalization of manpower in Army; and
- v. Modernisation.

7. Thereafter, the Chairperson invited representatives of Directorate General of Quality Assurance (DGQA). The representatives of DGQA commenced their briefing through a Power Point presentation which was followed by discussion on following issues:

- i. Involvement of users in DGQA;
- ii. Number of engineers in DGQA;
- iii. Updation of training given to DGQA personnel; and
- iv. Corrective measures taken to avoid supply of faulty equipment provided to the Services.

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

- i. Budgetary provisions for Sainik Schools;
- ii. Meeting of the Board of Governors;
- iii. Expansion of Sainik Schools;
- iv. Intake of girl students in Sainik Schools; and
- v. Measures to increase intake of Sainik School Students into NDA.

9. The Vice Chief of the Air Staff briefed the Committee regarding overview on modernisation plan of Indian Air Force (IAF) and thereafter, a Power Point presentation was made. This was followed by detailed deliberations on following issues:

- i. Delay in supply of aircraft by Hindustan Aeronautics Limited (HAL);
- ii. Transfer of Technology in procurement of Rafale aircraft;
- iii. Measures taken to nullify accidents in IAF due to old aircraft/technical defects/human error;
- iv. Need for increase in number of Aircraft shelters;
- v. Solid waste management to avoid accidents due to bird hits;
- vi. Need to amend the Air Force Act of 1937;
- vii. Unauthorized construction around the air strips;
- viii. Squadron strength; and
- ix. Mismatch between projection and allocation of funds and effect on Air defence preparedness.

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

- i. Efforts made by the Ministry to expedite processing of applications of institutions waiting to be attached with NCC and liaise with the State Governments in this regard;
- ii. Skill development of NCC Cadets, especially in the field of Defence Production;
- iii. Linking of NCC with employment generation to increase interest in NCC;
- iv. Recruitment of Ex-Servicemen in NCC;
- v. Expansion of NCC in private institutions;
- vi. Review of institutes attached with NCC where appropriate infrastructure is not available; and
- vii. Increase in budget of NCC.



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

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

**The Committee then adjourned.**

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**STANDING COMMITTEE ON DEFENCE (2019-20)**

**MINUTES OF THE THIRD SITTING OF THE STANDING COMMITTEE ON  
DEFENCE (2019-20)**

The Committee sat on Friday, the 15<sup>th</sup> November, 2019 from 1100 hrs. to 1830 hrs. in Committee Room 'B', Parliament House Annexe, New Delhi.

**PRESENT**

**Shri Jual Oram**

–

**Chairperson**

**MEMBERS**

**LOK SABHA**

12. Shri Nitesh Ganga Deb
13. Shri Annasaheb Shankar Jolle
14. Dr. Shrikant Eknath Shinde
15. Shri Brijendra Singh
16. Shri Mahabali Singh
17. Shri Durga Das Uikey
18. Dr. Kalanidhi Veeraswamy

**RAJYA SABHA**

9. Dr. Ashok Bajpai
10. Shri Kamakya Prasad Tasa
11. Lt. Gen. Dr. D.P. Vats

**SECRETARIAT**

1. Smt. Kalpana Sharma - Additional Secretary
2. Dr. Sanjeev Sharma - Director
3. Smt. Jyochnamayi Sinha - Additional Director
4. Shri Rahul Singh - Deputy Secretary

**LIST OF WITNESSES**

**MINISTRY OF DEFENCE**

<b>S. No.</b>	<b>Name of Officer</b>	<b>Designation</b>
1.	<b>Dr. Ajay Kumar</b>	<b>Defence Secretary</b>
2.	Dr. G Satheesh Reddy	Secretary DR&D
3.	Ms. Gargi Kaul	Secretary Defence Finance
4.	DG K Natrajan,	DG, ICG
5.	Vice Admiral G Ashok Kumar	VCNS
6.	Shri Jiresh Nandan	AS(JN)
7.	Shri Barun Mitra	Special Secretary
8.	Lt Gen Harpal Singh	DGBR
9.	Smt. Deepa Bajwa	DGDE
10.	Lt Gen R K Anand	DG LW&E
11.	Ms. Mala Dutt	AS & FA
12.	Lt. Gen SK Upadhyay	MGO
13.	Lt Gen Manoj M Naravane	VCOAS
14.	Lt Gen Sudarshan Srikant Hasabnis	DCOAS
15.	Lt Gen Raj Shukla	DG PP
16.	Lt Gen Gopal R	QMG
17.	Lt Gen TK Chawla	DG
18.	Lt. Gen Paramjit Singh	DGMO
19.	Lt Gen PS Rajeshwar	CISC (Chairman Chief of Staff Committee)
20.	Lt Gen Harpal Singh	DGBR
21.	Lt Gen SK Shrivastava	Engineer-in-Chief
22.	Lt Gen Arvind Dutta	Adjutant General
23.	Lt Gen Surinder Singh Mahal	DG MP&PS
24.	Lt Gen Shantanu Dayal	DG DC&W
25.	Dr. MSR Prasad	DG (MSS)
26.	Dr. Sudhir Kumar Mishra	DG
27.	Dr. Guru Prasad	DG
28.	Dr. Chitra Rajagopal	DG(R&M)
29.	Dr Samir V Kamat	DG
30.	Shri Pravin K Mehta	DG
31.	Sh. Sudhir Gupta	DG
32.	Sh. KS Varaprasad	DG
33.	Dr. AK Singh	DG (LS) & DS
34.	Dr. Sudhir Kamath	DG (MED & CoS)
35.	Ms. J. Manjula	DG

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 requested the representatives of the Ministry of Defence to brief the Committee on various issues included in the agenda for the day. and drew their attention to Direction 55(1) of the Directions by the Speaker, Lok Sabha.

3. The representatives of the Ministry of Defence commenced their briefing through a PowerPoint presentation on Defence Research and Development. This was followed by detailed deliberations on following issues:

- (i) allocation of adequate funds to meet estimated expenditure for DRDO,
- (ii) requirement of additional funds to take up futuristic projects,
- (iii) efforts towards 'Make in India',
- (iv) development of aircraft technology,
- (v) research in propulsion, material and chip technology within the country,
- (vi) manpower requirements in DRDO,
- (vii) modernization of research infrastructure, etc.

4. Thereafter, a power point presentation was given on Navy which was followed by discussion on following points:

- (i) shortfall between required and allocated budget for Navy,
- (ii) huge 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 airfields,
- (viii) international maritime cooperation,
- (ix) safety of fishermen,
- (x) Operational preparedness of Navy, etc.

5. Thereafter, a Power Point presentation on Joint Staff was made by the representatives of the Ministry of Defence which was followed by discussion on following points:

- (i) expanding role and responsibilities of Joint Staff,
- (ii) Chief of Integrated Defence Staff
- (iii) construction of Defence Museum,
- (iv) intelligence gathering and dissemination,
- (v) plan for Defence University, etc.

6. Thereafter, a presentation on Coast Guard Organization was made before the Committee by the representatives of Coast Guard. This was followed by deliberations on the issues as under:

- (i) requirement of adequate budgetary support,
- (ii) construction of Indian Coast Guard Academy, Mangalore,
- (iii) safety of fishermen, etc.

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

7. Then a Power Point presentation was made on Directorate General Defence Estate (DGDE) by the representatives of DGDE which was followed with deliberations on the following points:

- (i) financial issues of Cantonment boards,
- (ii) encroachment of Defence Lands by civilians,
- (iii) ammunition dumps in Cantonment areas,
- (iv) non-implementation of Central Government Schemes,
- (v) inconvenience to Civilian population,
- (vi) issues relating to building bye-laws in Cantonment, etc.

8. Thereafter, the representatives of the Ministry of Defence gave Power Point presentation on Military Engineer Services (MES). This was followed by detailed discussions on the following issues:

- (i) prioritisation of available resources,
- (ii) achievement of construction targets by MES
- (iii) adoption of state-of-the-art technology,
- (iv) pending cases in the Ministry of Defence, etc.

9. Then the representatives of Ministry of Defence made Power Point presentation on Married Accommodation Project (MAP). This was followed by detailed discussions on the following issues:

- (i) budgetary allocations for MAP,
- (ii) review of satisfaction level of Forces,
- (iii) early completion of MAP,
- (iv) use of latest technologies in construction of MAP,

10. Thereafter, a Power Point presentation was made by the representatives of Ministry of Defence on Canteen Stores Department (CSD) which was followed by discussion on the following points:

- (i) irregularities in CSD,
- (ii) quality of items supplied by CSD,
- (iii) online presence of CSD, etc.

11. Thereafter, a Power Point presentation was made by the representatives of BRO on Border Roads Organization (BRO) which was followed by discussion on the following points:

- (i) status of fund availability in BRO,
- (ii) required and existing number of equipment with BRO,
- (iii) reasons for delays in execution of road projects,
- (iv) single window clearance system,
- (v) construction of underwater tunnel in Brahmaputra river,
- (vi) shortage of manpower, etc.
- (vii) priority to be assigned for construction of roads in difficult areas.

12. The Chairperson directed the representatives of the Ministry of Defence and other organisations 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.**

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**STANDING COMMITTEE ON DEFENCE (2019-20)**

**MINUTES OF THE FOURTH SITTING OF THE STANDING COMMITTEE ON  
DEFENCE (2019-20)**

The Committee sat on Monday, the 18<sup>th</sup> November, 2019 from 1500 hrs. to 1830 hrs. in Committee Room No. C, Parliament House Annexe, New Delhi.

**PRESENT**

**Shri Jual Oram**

–

**Chairperson**

**MEMBERS**

**LOK SABHA**

2. Shri Hanuman Beniwal
3. Shri Ajay Bhatt
4. Shri Nitesh Ganga Deb
5. Smt. (Dr.) Rajashree Mallick
6. Shri Kapil Moreshwar Patil
7. Shri Anumula Revanth Reddy
8. Shri Jugal Kishore Sharma
9. Dr. Shrikant Eknath Shinde
10. Shri Brijendra Singh
11. Shri Durga Das Uikey

**RAJYA SABHA**

12. Dr. Ashok Bajpai
13. Shri V. Lakshmikantha Rao
14. Shri Sanjay Raut
15. Smt. Vijila Sathyananth
16. Shri Kamakhya Prasad Tasa
17. Lt. Gen. Dr. D. P. Vats

**SECRETARIAT**

- |    |                        |   |                      |
|----|------------------------|---|----------------------|
| 1. | Smt. Kalpana Sharma    | - | Additional Secretary |
| 2. | Dr. Sanjeev Sharma     | - | Director             |
| 3. | Smt. Jyochnamayi Sinha | - | Additional Director  |
| 4. | Shri Rahul Singh       | - | Deputy Secretary     |



**LIST OF WITNESSES**  
**MINISTRY OF DEFENCE**

<b>S. No.</b>	<b>Name of Officer</b>	<b>Designation</b>
1.	<b>Dr. Ajay Kumar</b>	<b>Defence Secretary</b>
2.	Sh. Subhash Chandra	Secretary(DP)
3.	Ms. Gargi Kaul	Secretary (Defence Finance)
4.	Dr. G Satheesh Reddy	Secretary DR&D & Chairman
5.	Smt. Sanjeevanee Kutty	Secretary(ESW)/I.A.S
6.	Shri Barun Mitra	Special Secretary(DP)
7.	Shri Jiresh Nandan	Additional Secretary(JN)
8.	Dr. Chitra Rajagopal	DG(R&M)
9.	Shri Saurabh Kumar	DGOF & Chairman/OFB
10.	Lt Gen Sanjay Verma	DGWE
11.	Lt Gen Manoj M Naravane	VCOAS
12.	Lt Gen Sudarshan Srikant Hasabnis	DCOAS (P&S)
13.	Lt Gen SK Upadhaya	MGO
14.	Lt Gen Raj Shukla	DGPP
15.	Lt Gen TK Chawla	DGFP
16.	Lt Gen Arvind Dutta	Adjutant General
17.	Lt Gen Surinder Singh Mahal	DG MP&PS
18.	Lt Gen Shantanu Dayal	DG DC&W
19.	Maj Gen J V Prasad	MDECHS
20.	Maj Gen MK Sagoch	DGR
21.	Maj Gen Mukesh Kumar	ADG MP
22.	Brig Mrigendra Kumar	Secretary(KSB)
23.	Major General Sanjeev Sengar	CEO IRRPI
24.	Shri Subir Mallick	Addl FA & JS
25.	Dr. Amit Sahai	JS(P&C)
26.	Sh. Rajesh Sharma	Addl. FA & JS
27.	Sh. Ashwani Kumar	Addl. FA & JS
28.	Sh. R.K. Karna	Addl. FA & JS
29.	Sh. A.N Das	Addl. FA & JS
30.	Sh Pudi Hari Prasad	JS(ESW)
31.	Shri Shantanu	JS(LS)
32.	Shri Chandraker Bharti	JS(Aero)
33.	Shri Sanjay Jaju	JS(DIP)
34.	Shri Vinay Mohan Chamola	Offg. CMD (HAL)
35.	Radm(Retd) L V Sarat Babu	CMD (HSL)
36.	Shri D.K. Hota	CMD(BEML)
37.	Cmde B.B. Nagpal, NM	CMD(GSL)
38.	RADM V K Saxena (Retd)	CMD (GRSE)
39.	Dr. D.K. Likhi	CMD(MIDHANI)
40.	Shri M.V. Gowtama	CMD, BEL
41.	Cdr Jasbir Singh	Dir(S&HE) (MDL)
42.	Shri Vivek C Verma	Secretary, OFB
43.	Sh. Ambarish Barman	Director (Budget)

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 fourth sitting of the Standing Committee on Defence and requested them to brief the Committee on various issues included in the agenda for the day. He also drew their attention to Direction 55(1) of the Directions by the Speaker, Lok Sabha.

3. The representatives of the Ministry of Defence commenced their briefing through a Power Point presentation on Defence Public Sector Undertakings. This was followed by detailed deliberations on the following issues:

- 1) Inadequate capacity utilization due to low order book
- 2) Low cash resume due to delayed payments in DPSUs
- 3) Creating assets in Blue Water economy
- 4) Giving priority of payments to SMEs
- 5) Upgradation of Aircraft produced by HAL
- 6) International Competition
- 7) Decline in production of DPSUs
- 8) Measures to be taken to increase Defence Exports by DPSUs
- 9) Disinvestment of DPSUs

Thereafter, a Power Point presentation was given on the Ordnance Factory Board (OFB) which was followed by discussion on the following points:

- 1) Quality of mountaineering wear supplied to forces
- 2) Shortage of budget
- 3) Late receipt of indents from Army
- 4) Exporting of Ordnance Factories' products to other countries
- 5) Reduction in targets by Army after finalization

- 6) Upgradation and quality of tank and guns
- 7) Plans for filling the technological gaps for producing systems for higher altitudes
- 8) Delay in civil works done by Military Engineering Services (MES) leading to delay in capacity augmentation projects like T-72, T-90 etc.
- 9) Issues related to R&D by Ordnance Factories.
- 10) Issue regarding corporatisation of Ordnance Factories.

4. Thereafter, a presentation was made on Ex-Servicemen Welfare and Ex-Servicemen Contributory Health Scheme and pursued with deliberations on the subject which included following issues:

- 1) Resettlement of Ex-Servicemen
- 2) Issues related to One Rank One Pension (OROP)
- 3) Problems faced by Ex-servicemen in the states and appointment of a Brigadier level officer to liaison with Government on the issues
- 4) Complaints about non-availability of medicines in ECHS
- 5) Non-payment of medical bills to the hospitals
- 6) Delay of construction of buildings due to paucity of funds
- 7) Appoint of specialized doctors under ECHS

5. The Chairperson then directed the representatives of the Ministry of Defence to furnish written replies to all the queries which remain unanswered at the earliest.

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

**The Committee then adjourned.**

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## **STANDING COMMITTEE ON DEFENCE**

### **MINUTES OF THE FIFTH SITTING OF THE STANDING COMMITTEE ON DEFENCE (2019-20)**

The Committee sat on Monday, the 9 December, 2019 from 1500 hrs. to 1530 hrs. in Committee Room No. 1, Block-A, Parliament House Annexe Extension Building, New Delhi.

#### **PRESENT**

**Shri Jual Oram** - **Chairperson**

#### **LOK SABHA**

- |   |                              |
|---|------------------------------|
| 2 | Shri Devusinh J. Chauhan     |
| 3 | Shri Nitesh Ganga Deb        |
| 4 | Shri Annasaheb Shankar Jolle |
| 5 | Shri Kapil Moreshwar Patil   |
| 6 | Shri Jugal Kishore Sharma    |
| 7 | Shri Brijendra Singh         |
| 8 | Shri Kotagiri Sridhar        |
| 9 | Shri Durga Das Uikey         |

#### **RAJYA SABHA**

- |    |                           |
|----|---------------------------|
| 10 | Dr. Ashok Bajpai          |
| 11 | Shri V. Lakshmikantha Rao |
| 12 | Shri Sanjay Raut          |
| 13 | Smt. Vijila Sathyananth   |
| 14 | Shri Kamakhya Prasad Tasa |
| 15 | Lt. Gen. Dr. D. P. Vats   |

#### **SECRETARIAT**

- |                           |   |                      |
|---------------------------|---|----------------------|
| 1. Smt. Kalpana Sharma    | - | Additional Secretary |
| 2. Dr. Sanjeev Sharma     | - | Director             |
| 3. Smt. Jyochnamayi Sinha | - | Director             |

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

- i. First Report of the Standing Committee on Defence (17th Lok Sabha) on 'Demands for Grants of the Ministry of Defence for the year 2019-20 on General Defence Budget, Border Roads Organisation, Indian Coast Guard, Military Engineer Services, Directorate General Defence Estates, Defence Public Sector Undertakings, Canteen Stores Department, Welfare of Ex-Servicemen, Ex-Servicemen Contributory Health Scheme, Defence Pensions and Sainik Schools (Demand Nos. 18 and 21)';
- ii. Second Report of the Standing Committee on Defence (17th Lok Sabha) on 'Demands for Grants of the Ministry of Defence for the year 2019-20 on Army, Navy, Air Force and Joint Staff (Demand Nos.19 and 20)';
- iii. Third Report of the Standing Committee on Defence(17th Lok Sabha) on 'Demands for Grants of the Ministry of Defence for the year 2019-20 on Capital Outlay on Defence Services, Procurement Policy, Defence Planning and Married Accommodations Project (Demand No. 20)'; and
- iv. Fourth Report of the Standing Committee on Defence(17th Lok Sabha) on 'Demands for Grants of the Ministry of Defence for the year 2019-20 pertaining to Ordnance Factories, Defence Research and Development Organisation, Directorate General of Quality Assurance, and National Cadet Corps (Demand Nos. 19 and 20 )'.

3. After some deliberations, the Committee adopted the above reports without any modifications. Hon'ble Chairperson also informed the Members that in case they have any suggestion to make in the draft reports, they may do so by giving it writing to Hon'ble Chairperson by 12 noon of Tuesday, 10<sup>th</sup> December, 2019.

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

**The Committee then adjourned.**

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