



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

**(SEVENTEENTH LOK SABHA)**

**MINISTRY OF DEFENCE**

**DEMANDS FOR GRANTS  
(2020-21)**

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

**(DEMAND NO. 20)**

**SEVENTH REPORT**



**LOK SABHA SECRETARIAT**

**NEW DELHI**

**March, 2020/Phalguna, 1941 (Saka)**



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PLANNING AND MARRIED ACCOMMODATION PROJECT**

**(DEMAND NO. 20)**

*Presented to Lok Sabha on 13.03.2020*

*Laid in Rajya Sabha on 13.03.2020*



**LOK SABHA SECRETARIAT**

**NEW DELHI**

**March, 2020/Phalguna, 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. Dr. Sudhanshu Trivedi

## SECRETARIAT

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

## INTRODUCTION

I, the Chairperson of the Standing Committee on Defence (2019-20), having been authorised by the Committee, present this Seventh Report (Seventeenth Lok Sabha) on Demands for Grants of the Ministry of Defence for the year 2020-21 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 10 February, 2020 in Lok Sabha. The Committee took evidence of the representatives of the Ministry of Defence on 17, 18, 19, 20 and 21 February, 2020. The draft Report was considered and adopted by the Committee at their Sitting held on 12 March, 2020.

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;**  
**5 March, 2020**  
**15 Phalguna, 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.	DGMAP	Directorate General of Married Accommodation Project
22.	DCN	Draft Cabinet Note
23.	EPB	Essential Parameters 'B'
24.	ERV	Exchange Rate Variation
25.	ECWCS	Extreme Cold Weather Clothing System
26.	FTP	Fast Track Procedure
27.	FET	Field Evaluation Trials
28.	FDI	Foreign Direct Investment
29.	GRSE	Garden Reach Ship Builders and Engineers Ltd
30.	HQIDS	Headquarters Integrated Defence Staff
31.	HAL	Hindustan Aeronautics Limited
32.	HSL	Hindustan Shipyard Ltd
33.	IBC	Indian Building Congress
34.	IOPs	Indian Offset Partners
35.	IDDM	Indigenously Designed, Developed and Manufactured
36.	IDSA	Institute for Defence Study and Analysis
37.	LD	Liquidated Damages
38.	LCA	Light Combat Aircraft
39.	LTIPP	Long Term Integrated Perspective Plan
40.	MAP	Married Accommodation Project
41.	MDL	Mazagon Dock Shipbuilders Limited
42.	MSMEs	Micro, Small and Medium Enterprises
43.	MIDHANI	Mishra Dhatu Nigam limited
44.	NCC	National Cadet Corps
45.	NS	New Schemes
46.	OF	Ordnance Factories
47.	OEMs	Original Equipment Manufacturers
48.	PLANET	Planning Archiving and Analysis Network



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

## REPORT

### PART I

#### CHAPTER I

#### CAPITAL OUTLAY ON DEFENCE SERVICES

##### DEMAND NO. 20

The Committee learnt that Capital Outlay provides allocation for Land & Construction Works of the three Services and others, capital expenditure of various Defence Departments and for Capital Acquisitions of the Services, etc. It 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 Project, National Defence Academy and Rashtryia Rifles etc.

#### 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 as given to the Committee regarding the projections, allocations made at BE, RE, and actual expenditure incurred under Capital and Revenue heads for the three Services in a tabular form from 2015-16 onwards are as follows:

#### REVENUE

(Rs. in crore)

Year	Service	BE		RE		Expenditure
		Projected	Allocated	Projected	Allocated	
2015-16	Army	1,09,758.2	1,03,315.91	1,04,408.45	1,00,106.78	1,02,847.18
	Navy	2	15,525.64	15,838.30	14,635.18	14,992.04
	Air Force	18,546.58 29,632.28	23,000.09	23,000.09	20,377.09	21,020.95
2016-17	Army#	1,15,561.7	1,12,764.62	1,21,686.11	1,17,925.22	1,16,901.93
	Navy	8	17,424.79	19,348.23	17,813.99	17,136.77
	Air Force	18,502.56 25,728.60	23,655.83	23,817.22	23,817.52	22,856.44
2017-18	Army	1,52,491.2	1,19,961.51	1,29,287.59	1,21,451.80	1,27,507.48
	Navy	2	18,493.82	20,545.47	18,878.93	18,715.05
	Air Force	22,473.64 29,147.29	24,802.33	29,746.42	27,209.61	27,393.20
2018-19	Army	1,51,814.7	1,27,059.51	1,41,456.91	1,29,812.34	1,34,241.38
	Navy	3	19,571.37	24,420.58	20,795.04	20,856.23
	Air Force	23,747.75 35,260.79	28,821.27	32,407.37	28,105.43	28,291.25

2019-20	Army	1,52,321.3	1,40,398.49	1,52,424.82	1,42,773.83	1,11,859.10
	Navy	2	22,211.71	28,737.09	22,786.71	15,880.05
	Air Force	27,086.29	29,601.69	40,382.40	29,951.69	23,379.75
		34,849.50				
2020-21	Army	1,65,228.2	1,45,785.88	-	-	-
	Navy	8	22,934.75			
	Air Force	32,237.96	29,962.66			
		43,904.17				

(# Includes allotment to NCC, Military Farms, Rashtriya Rifles and ECHS which were shifted to modified Grant No. 20-MoD(Miscellaneous) in FY 2016-17, for the purpose of comparison with previous as well as future years. Except for Military Farms and ECHS, other organizations were transferred back to Defence Services Estimates in FY 2017-18. In FY 19-20 Military Farms and ECHS also reverted back to DSE)

## **CAPITAL**

(Rs. in crore)

Year	Service	BE		RE		Expenditure
		Projected	Allocated	Projected	Allocated	
2015-16	Army	31,938.67	27,342.42	27,845.33	24,230.47	20,703.70
	Navy	26,268.13	25,003.24	25,152.20	19,740.06	19,874.69
	Air Force	46,191.96	33,686.75	35,780.78	30,442.15	31,198.32
2016-17	Army#	37,960.18	26,935.81	34,489.90	24,017.86	28,462.11
	Navy	30,223.31	22,000.09	22,530.04	19,596.28	19,996.88
	Air Force	41,266.41	29,795.42	36,512.95	28,239.86	30,414.79
2017-18	Army	42,485.93	25,205.71	40,791.43	25,205.71	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	41614.41	26,815.71	27,438.66
	Navy	35,695.41	20,848.16	30735.65	20,890.87	21,509.60
	Air Force	77,694.74	35,770.17	68579.46	35,770.17	36,451.74
2019-20	Army	44,660.57	29,511.25	46,032.00	29,666.90	19,817.19
	Navy	37,220.98	23,156.43	40,123.18	26,156.43	23,050.79
	Air Force	74,894.56	39,347.19	81,301.99	44,947.19	37,154.79
2020-21	Army	50,373.60	32,462.38			
	Navy	45,268.31	26,688.28			
	Air Force	66,207.29	43,281.91			

(# Includes allotment to NCC, Military Farms, Rashtriya Rifles and ECHS which were shifted to modified Grant No. 20-MoD(Miscellaneous) in FY 2016-17, for the purpose of comparison with previous as well as future years. Except for Military Farms and ECHS, other organizations were transferred back to Defence Services Estimates in FY 2017-18. In FY 19-20 Military Farms and ECHS also reverted back to DSE)

1.3 In Budget Estimates(BE) 2019-20, Revised Estimates (RE) 2019-20 and BE Defence 2020-21, the Ministry of Finance allocated funds for Defence Services under Revenue and Capital Outlay as under:

(Rs. in crore)

	<b>BE 2019-20</b>	<b>RE 2019-20</b>	<b>BE 2020-21</b>
<b>Revenue (Net)</b>	2,01,901.76	2,05,901.76	2,09,319.00
<b>Capital (Acquisition including DGOF Supplies)</b>	80,959.08	89,836.16	90,047.80
<b>Capital ( other than Acquisition)</b>			
<b>Land &amp; Works of 3 Services (including Married Accommodation Projects)</b>	11,055.79	10,934.36	12,384.77
<b>DRDO, DGOF and Other Defence Departments</b>	11,379.44	9,623.79	11,301.43
<b>Total (Capital)</b>	1,03,394.31	1,10,394.31	1,13,734.00
<b>Total (Rev+Capital)</b>	3,05,296.07	3,16,296.07	3,23,053.00

1.4 The Committee highlighted in their 3<sup>rd</sup> Report (17<sup>th</sup> Lok Sabha) that against projections of Rs. 1,70,936.07 crore under Capital Head, only Rs. 1,03,394.31 crore were allocated. 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 2019-20, Capital Expenditure of the Ministry has gone up in absolute terms. 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 FY 2017-18 and 2018-19 due to extensive delegation of financial powers. The allocated Capital Budget has been fully utilised since 2016-17, reversing the previous trends of surrender of funds. In the current financial year, based on pace of expenditure Ministry of Finance has allocated additional amount of Rs. 7,000 crore under Capital Head in RE 2019-20.

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 is resorted to as per requirement’.

1.5 On this issue, Secretary Defence Finance further clarified during evidence:

‘सर, मैं इतना ही एंड करना चाहूंगी कि इस साल हम आरई में पैसा ले आए हैं। पहले 2014-15 तक पैसा सरेंडर करते थे, फिर जितना पैसा हमें बजट में मिलता था, उसका पूरा एक्सपेंडिचर करते थे। अब हम इस साल एडिशनल फण्ड्स लाए हैं - 5,730.87 करोड़ रुपये पेंशन में, 7,000 करोड़ रुपये कैपिटल में और 4,000 करोड़ रुपये रेवेन्यू में एक्स्ट्रा लाए हैं। यह बीई से ओवर एंड एबव है। हम पहले बीई 2020-21 में खर्च करें, अगर हम टाइमली खर्च कर पाएंगे तो आरई के टाइम पर हमें और फण्ड्स मिलने के चांसेज हैं। फिर हम उसके लिए फाइनेंस मिनिस्ट्री के पास जाएंगे।’

1.6 In reply to another point wherein, the Ministry was asked to take up the matter with Ministry of Finance to allocate funds at RE stage. The Ministry stated as under:

‘This Ministry had projected Rs. 2,08,871.31 crore under Revenue Head and Rs. 1,53,643.42 crore under Capital Head to Ministry of Finance in RE 18-19. M/o Finance had allocated Rs. 1,88,118.10 crore under Revenue Head which was increase of Rs. 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 FY 2017-18 and 2018-19 due to extensive delegation of financial powers. 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.

In RE 2019-20, this Ministry had projected Rs. 2,32,805.65 crore under Revenue Head and Rs. 1,79,282.77 crore under Capital Head to Ministry of Finance. M/o Finance had allocated Rs. 2,05,901.76 crore under Revenue Head (i.e. an increase of Rs.4000 crore over BE 19-20) and Rs. 1,10,394.31 crore under Capital Head (i.e. an increase of Rs.7,000 crore over BE 19-20)’.

1.6 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. The Committee wanted to know whether it compromised the modernization process of Defence Services or the matter has been taken up proactively at the Ministerial level to avoid default in payment of committed liabilities. The Ministry in this regard, stated as under:

‘In RE 2019-20, this Ministry had projected Rs. 1,79,282.77 crore under Capital Head, which included Rs. 1,51,437.46 crore for Capital Acquisition(Modernization) to Ministry of Finance for favourable consideration. M/o Finance had allocated Rs. 1,10,394.31 crore under Capital Head which includes Rs. 89,836.16 crore for modernization. There was increase of Rs. 8877.08 crore under Capital Acquisition (modernization) head in RE 19-20 over BE 19-20. In BE 20-21 allocation under Capital Head is Rs 1,13,734 crore (including Rs. 90,047.80 crore for modernization)’.

1.7 Details of Service-wise Projections and Allocation made under Capital and Revenue heads for 2020-21 as provided to the Committee are as follows:-

(Rs. in crore)

Service	Revenue (Net)		Capital		Total Allocation (Revenue + Capital)
	Projection	Allocation	Projection	Allocation	
<b>Army</b>	1,65,228.28	1,45,785.88	50,373.60	32,462.38	<b>1,78,248.26</b>
<b>Navy</b>	27,905.69	19,495.10	43,707.48	25,666.49	<b>45,161.59</b>
<b>Joint Staff</b>	4,332.27	3,439.65	1,560.83	1,021.79	<b>4,461.44</b>
<b>Air Force</b>	43,904.17	29,962.66	66,207.29	43,281.91	<b>73,244.57</b>

1.8 In this regard, the Ministry further stated:

‘The allocated funds will be optimally and fully utilized towards operational activities. Based on the pace of expenditure and projections for critical projects made by Ministry of Defence, additional amount of Rs 4,000 crore and Rs. 7,000 crore under Revenue and Capital grants respectively has been allocated by Ministry of Finance in Supplementary and RE 2019-20 stages in this financial year. Similar exercise will also be carried out for the Financial Year 2020-21. It will be ensured that urgent and critical capabilities are acquired without any compromise to operational preparedness of the Defence Services’.

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

‘In accordance with the provisions of Defence Procurement Procedure (DPP), the acquisition of Weapon Systems and equipment for the Armed Forces flows from the Long Term Integrated Perspective Plan (LTIPP). The current LTIPP spells out the capability desired to be achieved by the Armed Forces over a 15 year period (2012-27). The LTIPP is translated into specific assets to be acquired, in the form of Services Capital Acquisition Plan (SCAP), covering a five year period. From the Services Capability Acquisition Plans (SCAP), a list of equipment and weapon systems required to be procured immediately is listed in the form of the Annual Acquisition Plans (AAP). The AAP covers a period of 2 years and rolls over to the next financial year. The AAP is prepared and prioritised in consonance with the Budget allocation for capital acquisitions.

The Budget Estimates(BE), Revised Estimates(RE) and Actual Expenditure on Modernisation for capital acquisition for the last Four financial years and current year (upto December, 2019) is as below :-

(Rs. in Crore)

Year	BE	RE	Actual
2015-16	77406.69	65400.00	61761.80
2016-17	69898.69	62619.36	69280.17
2017-18	69473.41	68965.24	72732.20
2018-19	74115.99	73882.95	75900.54
2019-20	80959.08	-	72670.04 (upto December, 2019)

During the last four financial years (2015-16 to 2018-19) and the current year 2019-20 (upto December, 2019), 162 contracts have been signed with Indian vendors and 96 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, Navy's Shallow Water Crafts, torpedo, Bullet Proof Jackets, aircrafts, rifles, artillery guns, simulators and ammunition, aircraft refueller, Hydraulic Crane'.

### **Improvement in Perimeter Security**

1.10 In the wake of past attacks on military stations and accommodations, approval of Hon'ble Raksha Mantri had been given to spend Rs. 1,587.27 crore to improve the perimeter security. The Committee would to know about the progress of the work and amount of money spent on it till date. In its reply, the Ministry stated as under:

'As regards security of Military Establishments, approval of Hon'ble Raksha Mantri for invoking Emergency Powers of procurement under Schedule-23 of DFPDS-2016 to be exercised by Vice Chief of Army Staff has been conveyed in February-March, 2018 for undertaking expenditure amounting to Rs.1,587.27 crore on strengthening of the perimeter infrastructure and access control mechanisms covering military bases/ aviation bases of six Army Commands. Further, after the review of Security requirements of all the bases, Indian Air Force has incurred an expenditure of Rs. 907 crore from 2016 to 2019. Similar provisions have also been made by Indian Navy'.

## Ratio for Capital and Revenue outlay

1.11 Statement indicating the ratio for Capital and Revenue outlay from 2014-15 onwards as supplied to the Committee is as under:

Ratio for Revenue and Capital expenditure in respect of Army, Navy and Air Forces as well as total outlay from 2014-15 onwards is given below:

Year	Service	Revenue	Capital
2014-15	Army	84	16
	Navy	38	62
	Air Force	38	62
	<b>Total Outlay</b>	<b>63</b>	<b>37</b>
2015-16	Army	83	17
	Navy	43	57
	Air Force	40	60
	<b>Total Outlay</b>	<b>65</b>	<b>35</b>
2016-17	Army	80	20
	Navy	46	54
	Air Force	43	57
	<b>Total Outlay</b>	<b>66</b>	<b>34</b>
2017-18	Army	82	18
	Navy	48	52
	Air Force	44	56
	<b>Total Outlay</b>	<b>68</b>	<b>32</b>
2018-19	Army	83	17
	Navy	49	51
	Air Force	44	56
	<b>Total Outlay</b>	<b>68</b>	<b>32</b>
2019-20 (RE)	Army	83	17
	Navy	49	51
	Air Force	43	57
	<b>Total Outlay</b>	<b>66</b>	<b>34</b>
2020-21 (BE)	Army	82	18
	Navy	46	54
	Air Force	41	59
	<b>Total Outlay</b>	<b>65</b>	<b>35</b>



1.12 On ideal ratio and related issues the Committee during the oral evidence by Vice Chief of Army were apprised as under:

“Sir, you have raised five issues. First is the ideal ratio between revenue and capital budget. Now, 60:40 is an ideal ratio which is a guideline. As I mentioned in my opening statement, we have unsettled borders; we have a very constrained internal security environment in Jammu and Kashmir and also in the North-Eastern parts of India where you require boots on the ground and therefore, you need to have a large standing army. This is one of the causes that the ratio at the moment is more biased towards revenue expenditure than capital acquisitions. Having said that, we are leveraging technology, where we can reduce the manpower, which is deployed to undertake such missions which are there. We are also having other measures in place where we can reduce the revenue expenditure with respect to better efficiency in spending and getting more value for money. This is an ongoing process and it is being done, but largely because of the kind of tasks which we are required to perform at this juncture, this ratio is what it is. You mentioned about additionalities to the Budget. There will always be a gap between our projections and the allocations. This is applicable not only to MoD but to all Government Departments. Therefore, our expertise lies in marrying that differential between our projections and the allocations. As was brought out in the presentation by the Director General, Financial Planning, we have undertaken a number of measures to bridge this gap. It affects certain domains where you are unable to spend the money. So, some of the schemes will roll over to the next financial year and that is how, we manage that, but the bottom line is that we maintain our operational efficiency and that in case we are required to undertake any operational mission, we should be ready at all times to undertake that.”

### 1.13 **Modernization of Defence Forces**

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

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

2. In May 2001, the Defence Industry sector, which was hitherto reserved for the public sector, was opened up to 100% for Indian private sector

participation, with Foreign Direct Investment (FDI) up to 26% 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 49% and beyond 49% through Government route wherever it is likely to result in access to modern technology or for other reasons to be recorded.

3. 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.

4. 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.

5. 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.

6. Modernisation of Defence Forces is funded through Capital segment of the Defence budget'.

### **Non Lapsable Defence Modernisation Fund – Defence Renewal Fund**

1.14 The Ministry was asked to convey the current status of the Ministry of Defence's proposal for making Capital Budget 'Non-lapsable' and 'Roll-on' in nature and the response received from the Ministry of Finance. On this issue, the Ministry of Defence apprised the Committee 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.

The matter of creation of non-lapsable Defence Modernisation Fund is being taken up again with Ministry of Finance'.

1.16 During the oral evidence, a representative of the Ministry through Power Point Presentation apprised the Committee that for Capital Acquisitions and border infrastructure, there is a need to create Defence Renewal Fund.

### **Committed Liabilities and New Schemes**

1.17 The Ministry informed 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 holds 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.

1.18 When asked about projected and allocated budget for Committed Liabilities and New Schemes in Defence Budget in 2020-21, the Ministry submitted as under:

‘In the Defence Services Estimates (DSE), there is no separate allocation of funds for Committed Liabilities (CL) and New Schemes (NS). The projected and allocated funds for the three Services under Capital Acquisition are as follows:-

(Rs. in crore)

<b>SERVICE</b>	<b>Projection BE 2020-21</b>	<b>Allocation BE 2020-21</b>
Army	41,530.80	26,068.61
Navy (excluding Jt. Staff)	40,927.91	24,598.00
Air Force	60,840.17	39,030.91

The allocated funds are optimally and fully utilised towards operational activities. However, if required, the schemes were re-prioritized to ensure that urgent and critical capabilities are acquired without any compromise to operational preparedness of the Defence Services’.

1.19 When asked whether the Ministry of Defence has requested for additional funds for Committed Liabilities and New Schemes during 2019-20, the Ministry submitted as under:

'In the Defence Services Estimates (DSE), there is no separate allocation of funds for Committed Liabilities (CL) and New Schemes (NS), however, these are catered through Capital Acquisition head. Ministry of Defence had sought an additional fund of Rs. 70,478.38 crore at RE stage 2019-20 under Modernization (Capital Acquisition) head. Based on the allocations received from Ministry of Finance, an additional amount of Rs 8877.08 crore has been provided for in RE 2019-20 increasing the total allocation under this head to Rs 89,836.16 crore in RE 2019-20 compared to BE19-20 allocation of Rs. 80,959.08 crore'.

1.20 The Ministry was asked to provide figures regarding projected requirement and amount finally allocated for the Services (each separately as well as consolidated) for Committed Liability and New Schemes, the shortfall, if any, and its effect on operational preparedness of Forces. The Ministry in this regard, submitted following information:

'Projection for Capital Acquisition made to M/o Finance includes both committed liabilities and new schemes. Details of BE and RE projections for Capital Acquisition, allocations made and the actual expenditure from 2013-14 onwards is as under:

**BE 2016-17**

(Rs. in crore)

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

**BE 2017-18:**

(Rs in crore)

Service	BE Projection	BE Allocation	RE Projection	RE Allocation	Actual Expenditure
Army	34082.20	20178.21	34290.01	20177.21	22,088.02
Navy	26621.49	18004.76	25006.76	17593.55	18,152.99
Jt Staff	421.97	390.54	442.17	294.58	294.84
Air Force	57820.75	30899.90	49424.65	30899.90	32,196.35
<b>Total</b>	<b>118946.4</b>	<b>69473.41</b>	<b>109163.59</b>	<b>68965.24</b>	<b>72,732.20</b>

**BE 2018-19:**

(Rs. in crore)

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

**BE 2019-20:**

(Rs. in crore)

Service	BE Projection	BE Allocation	RE Projection	RE Allocation	Actual Expenditure*
Army	35,581.09	23,000.63	36,979.05	23,517.31	15,798.70
Navy	32,243.37	21,177.00	37,671.67	24,226.00	21,645.39
Jt Staff	803.16	371.56	373.98	635.94	198.89
Air Force	68,612.15	36,409.89	76,412.76	41,799.89	35,027.06
<b>Total</b>	<b>1,37,239.77</b>	<b>80,959.08</b>	<b>1,51,437.46</b>	<b>90,179.14</b>	<b>72,670.04</b>

\*Expenditure is upto December, 2019

On the basis of allocations received from Ministry of Finance, funds are allocated taking into consideration approval stage of various projects/schemes. The allocated funds are optimally and fully utilized towards operational activities. However, as required, the schemes are reprioritized to ensure that urgent and critical capabilities are acquired without any compromise to operational preparedness of the Defence Services. Further, funds are also earmarked for critical projects'.

1.21 The Ministry did not supply information regarding Committed Liabilities and New Schemes separately. Statement indicating the projections, allocations and actual expenditure of each year of twelfth and thirteenth Defence Five year plan for Capital Outlay for the Defence Services:

Data on projections and allocation for Budget Estimates (BE), Revised Estimates (RE) and actual expenditure under Capital Outlay during the each year of Twelfth and Thirteenth Plan is given below:

SERVICE/ DEPTT./ Year	BE		RE		Expenditure
	Projection	Allocation	Projection	Allocation	
<b><u>XII Plan</u></b>					
2012-13	1,01,934.61	79,578.63	88,391.89	69,578.63	70,499.12
2013-14	1,34,070.26	86,740.71	1,21,316.84	78,872.23	79,125.05
2014-15	1,45,091.29	94,587.95	95,704.20	81,965.24	81,886.98
2015-16	1,17,955.42	94,588.00	97,741.62	81,965.24	8,00,81.64
2016-17	1,21,929.80	86,340.00	1,02,085.01	79,370.29	86,370.92
<b><u>XIII Plan</u></b>					
2017-18	1,32,872.27	86,488.01	1,32,212.34	86,488.01	90,438.39
2018-19	1,72,203.30	93,982.13	1,53,643.42	93,982.13	95,229.06
2019-20	1,70,905.66	1,03,394.31	1,79,282.77	1,10,394.31	85,467.31

Data on Budget Estimates (BE) and actual expenditure under Capital Acquisition during the each year of Twelfth and Thirteenth Plan in respect of the Army, Navy (excluding Jt. Staff), and Air Force is given below:

Service/ YEAR	Army		Navy		Air Force	
	Allocation	Expenditure	Allocation	Expenditure	Allocation	Expenditure
<b><u>XII Plan</u></b>						
2012-13	13,724.14	10,871.79	23,252.71	16,301.99	28,533.00	31,053.00
2013-14	13,327.04	10,426.49	22,738.70	19,165.44	37,049.06	36,917.99
2014-15	20,935.41	13,867.40	21,911.99	20,905.54	31,818.39	30,809.39
2015-16	22,054.50	14,488.84	23,360.90	18,414.78	31,510.62	29,045.66
2016-17	21,535.26	22,404.33	20,363.77	18,419.88	27,556.02	28,255.35
<b><u>XIII Plan</u></b>						
2017-18	20,178.21	22,088.02	18,004.76	18,152.99	30,899.90	32,196.35
2018-19	21,338.21	21,879.80	19,083.00	19,769.87	33,099.90	33,822.87
2019-20	23,000.63	15,798.70	21,177.00	21,645.39	36,409.89	35,027.06

For NCC, DGQA and Ordnance Factories, the capital expenditure is given below:

(Rs. in crore)

SERVICE/ DEPTT./ Year	NCC		DGQA		Ordnance Factories	
	Allocation	Expenditure	Allocation	Expenditure	Allocation	Expenditure
<b><u>XII Plan</u></b>						
2012-13	50.00	0.69	20.00	4.94	399.96	349.07
2013-14	5.50	0.68	5.45	11.12	435.96	465.34
2014-15	5.00	0.37	6.19	5.46	1,206.56	746.19
2015-16	5.00	1.17	7.12	10.98	760.07	679.76
2016-17	1.15	7.81	7.27	8.93	735.68	716.70
<b><u>XIII Plan</u></b>						

2017-18	12.40	24.39	7.97	8.01	803.68	797.45
2018-19	22.40	20.39	9.96	12.24	803.68	586.53
2019-20	24.64	19.60	10.96	7.79	884.05	583.83

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 DEFENCE SERVICES

#### Defence Procurement Policy

The Committee found that the policy for procurement of Defence equipment for the Armed Forces aims to ensure timely procurement of military equipment, systems and platforms as required by the Armed Forces in terms of performance capabilities and quality standards, through optimum utilisation of allocated budgetary resources. The 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 When asked about the allocated budget during the last five years of implementation of major objectives of the Defence Procurement Policy, The ministry stated as under:

The allocated budget (Budget Estimates), for capital acquisitions of the three Defence Services (Army, Navy, Air Force) for the last four financial years and current year is as below :-

(Rs. in crore)

<b>Year</b>	<b>BE</b>
2015-16	77406.69
2016-17	69898.51
2017-18	69473.41
2018-19	74115.99
2019-20	80959.08
2020-21	90047.80

#### Capital and Annual Procurement Plan

2.3 When asked about the procurement cases of revenue and capital procurement which are sent to Ministry of Defence, the nodal points given separately for revenue and capital account, the Ministry submitted as under:

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



delegated to Service HQs and cases above Rs.150 crore are processed by Ministry of Defence. The delegation for revenue procurement is as per the “Delegation of Financial Powers to Defence Services, 2016” and as per recent delegation of powers to Services.

During the period 2016-17, the Defence Services progressively delegated higher financial powers for both routine as well as emergency procurements with the aim to reduce time frames and enhance Defence preparedness’.

### **Master General of Ordnance (MGO)**

2.4 When asked the Ministry how many cases are sent by Master General of Ordnance (MGO) and received by nodal officer per month as an average, and time taken of such nodal officer, the Ministry in its written reply stated as under:

‘Deficiencies for revenue procurement arising for various reasons including condemnation are made up through a prioritized by the MGO Branch to the nodal officer in Ministry of Defence either as fresh cases or resubmission with clarification to the observations of Ministry of Defence. Director level officer in Ministry of Defence is the nodal officer for the cases forwarded by MGO’.

‘Procurement is an ongoing process and the time taken varies from case to case due to inherent complexities and uniqueness’.

### **Accountability and Transparency in Defence Procurement**

2.5 The Ministry submitted the following information to the Committee 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 Rs. 20 Crore is being done to ensure corruption free procurement process (binding agreement between parties that their officials will not offer or accept bribes).
- (ii) Guidelines for Handling of Complaints provide for time bound disposal of complaints and are aligned to CVC/ DOP&T guidelines and are also in keeping with Government policy.
- (iii) Instructions have been issued for ascertaining vigilance status of L1 vendor before seeking 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’.

## Increasing Dependence on Foreign Suppliers for Military Hardware

2.6 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 and 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 Rs. 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'.

2.7 In this regard, a senior representative of the Ministry informed the Committee as under:

“सर, इस बारे में जैसा ज्वाइंट सेक्रेटरी ने बताया था कि स्ट्रेटिजिक पार्टनरशिप, इसके तहत उद्देश्य यह है की जो बड़े प्लेटफार्म्स हैं, सबमैरीन, हेलीकॉप्टर और फाइटर एयरक्रॉफ्ट, ये देश में बनाए जाएं जो हमारे देश में अभी नहीं बनते हैं, उसके लिए हमारा प्राइवेट सैक्टर या पब्लिक सैक्टर कोई उससे पार्टनरशिप करे और 51-49 की पार्टनरशिप होगी। इसमें भारतीय साझीदार की पार्टनरशिप ज्यादा होगी। वह भारत में बनेगा। हम बहुत बड़े खरीददार हैं, इसलिए भारत में हम इसको बनवाएं और इस बारे में ऑलरेडी सबमैरीन और हेलीकॉप्टर के क्षेत्र में काफी आगे बढ़ चुके हैं। सबमैरीन के क्षेत्र में हमने दो इंडियन वेंडर्स और 6 फॉरेन वेंडर्स की शार्ट लिस्टिंग ऑलरेडी कर दी है और हेलीकॉप्टर का हम करने वाले हैं और ये केसेज़ हमारे आगे बढ़ रहे हैं।”

2.8 Information on the expenditure on Defence equipments Service-wise, imported from foreign vendors and acquired from indigenous sources over the last ten financial years and the current status of utilisation of these imported Defence equipments was also supplied to the Committee which is as under:

The details of expenditure for the last ten years on foreign and indigenous contracts under Capital Acquisition Budget are as under:

Financial year	Army		Navy		Air Force	
	Foreign	Indigenous	Foreign	Indigenous	Foreign	Indigenous
2010-11	865.79	10859.08	9975.60	6132.41	4370.32	17811.23
2011-12	506.07	10359.86	6532.37	11367.03	15258.11	11905.98
2012-13	991.67	9880.12	5968.80	10333.19	19220.95	11832.05
2013-14	1501.00	8925.49	12577.81	6587.64	20927.54	15990.45

2014-15	3452.61	10414.80	6884	14021.54	14655.75	16153.63
2015-16	3005.35	11483.49	6588.56	11791.17	12568.68	16476.98
2016-17	5838.66	16565.67	6612.32	11807.56	16083.45	12171.90
2017-18	5565.65	16522.37	5161.31	12991.76	19818.14	12378.21
2018-19	4965.56	16896.59	4594.88	15182.49	28203.30	5648.66
2019-20 (upto 31.12.2019)	2187.98	8366.63	7586.47	14118.54	21283.89	13743.17

The equipment so inducted are being optimally exploited for operational purposes by the Defence Services.

2.9 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'.

2.10 During the oral evidence: a representative of the Ministry further apprised the Committee as under:

“सर, हमारा जो डिफेंस प्रोक्योरमेंट प्रोसीजर है, उसमें प्रावधान है की हम सिंगल वेंडर से भी खरीदी कर सकते हैं। डिफेंस एक्वीजिशन काउंसिल की मान्यता हो, अगर शुरुआत से सिंगल वेंडर हो, उसकी शुरुआत से मान्यता लेकर कर सकते हैं। कई बार ऐसा होता है की शुरु में दो-तीन वेंडर्स आए, पर बाद में एक-दो डिसक्वालीफाई हो गए, तो उसको हम सिंगल वेंडर नहीं मानते हैं। उसको हम ऐसा मानते हैं की जो बिड आई, वे हमारी कांपटीटिव सिनारियो में आई और बाद में सिंगल वेंडर रह गया। उसे रिजल्टेड सिंगल वेंडर कहते हैं। बाकी हमारे जो सिंगल वेंडर हैं, जैसे हम फॉरेन से खरीदी करते हैं, कई बार ऐसा होता है की रशिया से जब हम खरीदी करते हैं, तो सिंगल वेंडर हो सकता है या यूएसए से खरीदी करते हैं तो गवर्नमेंट टू गवर्नमेंट कांट्रैक्ट होता है, वह भी सिंगल वेंडर हो जाता है। सर, इसमें लिखा गया है की 2016-17 से एप्रॉक्सिमेटली 60 प्रतिशत कांट्रैक्ट्स इंडियन इंडस्ट्री के साथ साइन हुए हैं। आप बता पाएंगे कि 12<sup>th</sup> प्लान जो 2012 से 2017 तक चला, उसके पहले के जो चार साल हैं, उसमें यह प्रतिशत कितना रहा होगा? इससे यह आइडिया लग सकेगा कि यह जो 60 पर्सेंट पर हम पहुंचे हैं, वह कहां से पहुंचे हैं?”

2.11 When asked about the percentage of budget spent on acquisition of military equipments etc. from the foreign suppliers. The Ministry in its written reply submitted as under:

‘During the year 2019-20 (upto 31.12.2019), total expenditure on foreign contracts under Capital Acquisition budget for the Defence Forces was Rs. 31058.34 crore which is 38.36% of the BE of Rs. 80959.08 crore for the Financial year 2019-20’.

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

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

‘**OFB:** OFB products are classic example of successful implementation of “Make in India” programme initiated by the Government, as almost 90% items of OFB products are indigenously made.

Average import content in respect of Ordnance Factories products has been around 10%. It is further brought out that OFB makes 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 OEMs.

Import content during last three years ig given as under:

Financial year	Value of Issue (VOI) (Rs in crore)	Import Content (Rs in crore)	Indigenization Content (Rs in crore)	% age of import content over Vol
2016-17	14825	1834	12988	12%
2017-18	14127	1474	12653	10%
2018-19	12866	1186	11680	9%

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

Sl. No.	Item	Import content at present (As % of cost)	Roadmap for further indigenization
1	Pinaka Rocket	NIL	Not Applicable
2	Bi-Modular Charge System for 155 mm Ammn	NIL	Not Applicable
3	105mm Artillery Gun	NIL	Not Applicable

4	Infantry Combat Vehicle BMP-II	3.00%	Not Applicable as import of low value items not covered in ToT.
5	High Resolution Binocular	6.94%	Efforts are being made to bring down import content to NIL with the development of Indigenous Engineering Plastic Components, wherein OFB has already achieved breakthrough for 6 components.
6	Naval Gun AK-630	5.41%	Further Import content likely to be reducing to 4.00% by 2020-21. For indigenization of its ordnance AO-18, GSF will take help of OEM i.e M/s ROE, since balance items are not covered in ToT.
7	155mm x 45 Calibre Artillery Gun System "Dhunshush" under User Evaluation	16.00%	Efforts are being made to indigenize major items like Power Pack and Electronic suits. It is expected that Power Pack (Approx 5-6%) will be indigenized by 2020-21. For Electronic Suits, GCF has been authorised to explore the possibility.
8	Tank T-90	26.13%	Further indigenisation will progress only after receipt of new indent (Qty-464 Nos) from Army. However, technologies of Thermal Infrared Detector (Guarded/Prohibited Technology), Optical Glass, very high Speed Miniature Electric Motors (27,000 rotation per minute), Stabilizer (Ex-Bharat Electronics Ltd.), Laser Radiator Used in Missile Information Block of tank T-90 etc. (about 13.54% of the cost) will remain perennial import although Ordnance Factories are pursuing their development through indigenous sources.
9	Tank T-72	Not in regular production presently	Not Applicable
10	All kind of Rifles and Small Arms i.e. INSAS, LMG, Assault Rifle 7.62x39mm GHATAK etc.	NIL	Not Applicable

**HAL:** The major platforms currently under manufacture at HAL are 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 ranges from 40% to 60%. The details are given below:

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

Import Content during the last five years with respect to Value of Production (VoP) is indicated below:

Year	VOP (Rs in crore)	Direct Import (Rs in crore)	Import Content as % of VOP
2014-15	16288	7944	48.8
2015-16	17152	8138	47.4
2016-17	17103	7518	44.0
2017-18	17553	6592	37.6
2018-19	18538	6371	34.4

**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:

Year	Import Content (% by Value)
2014-15	20%
2015-16	24%
2016-17	26%
2017-18	22%
2018-19	27%
2019-20 (upto Q-III) prov.	30%

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

Year	Import Content (Rs in crore)	Net VoP (Rs in crore)	Import content as % of Net VoP
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
2019-20 (upto Dec 19)	453.17	2116.42	21.41

**BDL:** The import content of last 5 years as follow:-

	2014-15	2015-16	2016-17	2017-18	2018-19
<b>Import</b>	495 (17.9%)	570 (13.3%)	388 (7.7%)	362 (7.8%)	413 (12.8%)
<b>Value of Production</b>	2770.05	4297.83	5011.00	4641.30	3235.22

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

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

Project	Import content
P17 Frigates (Completed) – 3 Nos.	48%
P15A Destroyers (Completed) 3 Nos.	41%
P15B Destroyers (in progress) 4 Nos.	28% (Expected Import Content)
P17A Frigates (in progress) - 4 Nos.	25% (Expected Import Content)
P75 Submarines # (2 Nos. delivered and 4 in progress)	70% (Expected Import Content)

**GSL:** Import content of equipment produced and developed by GSL during the last three years and current year is furnished below:

Year	Value of Production (VoP) (Rs in crore)	Import Content (Rs in crore)	% of Import Content to VoP
2016-17	1030	263	26
2017-18	1343	336	25
2018-19	848	215	25
2019-20 (upto Dec 19)	614	96	16

#### Project wise import content of recent Shipbuilding Projects

Project	Duration	Import Content %
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, Doos (Water & Weather tight) and Gemini Boats have been indigenised for ongoing 5 CGOPV project. The indigenous content has increased from 62% in last project to 74% in this project.

**GRSE:** Import content of equipment in respect of GRSE Ltd. is appended below:  
(Rs. in crore)

Financial Year	Value of production (Rs in crore)	Import Material	Import Services	Direct Import	% of Total Direct import to VoP
1	2	3	4	5=3+4	6=(5/2*100)
FY19-20	602.93	41.37	8.46	49.83	8.26
FY18-19	1378.77	73.06	6.98	80.04	5.80
FY17-18	1345.52	122.40	9.66	132.06	9.81
FY16-17	927.08	62.04	12.25	74.29	8.01
FY15-16	1660.75	201.11	12.08	213.19	12.84
FY14-15	1612.66	223.67	13.94	237.61	14.73

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

The yard has a very limited option to develop import substitutes as most of the requirements are met as per the owners' choice as specified in the RFP and Build Specifications. Shipbuilding and repair activities are time bound as per contract and required time frame will not be available to develop import substitutes within the construction/ repair period. However, whenever requirements come up, all out efforts are being put to identify and procure indigenously developed items to the maximum possible extent.

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

Year	VoP (Rs. in crore)	Direct Import (Rs. in crore)	Import content as % of Net VoP
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
2019-20 (Apr 19 to Dec 19)	259.03	31.75	12.26



## **Extreme Cold Weather Clothing System**

2.13 The Ministry supplied following information on the supply of extreme cold weather clothing system to the forces and development of its source in the country.

**ECWCS:** ECWCS is Extreme Cold Weather Clothing System which is a three layer clothing being procured for soldiers deployed in Super High Altitude Areas like Siachen.

### **Quality of Supply Monitored:**

- (i) Procurement is based on effectiveness of the item determined through user trials carried out under actual operational conditions. Procurement is only from user approved sources.
- (ii) Detailed quality assurance is the responsibility of DGQA. DGQA ensures that there is zero deviation between bulk supply and user approved sample determined through the following inspection/ testing measures:-
  - (aa) Technical specifications on which the bidders bid is of their respective user approved sample.
  - (ab) Advance sample testing.
  - (ac) Pre-Dispatch Inspection (for foreign manufacturers).
  - (ad) Joint Receipt Inspection (for Indian manufacturers).
- (iii) In addition, user satisfaction on quality during usage is monitored through suitably feedback processes. In case of any quality issue during usage, the user can raise a defect report as per Army Order 323/166, based on which detailed technical investigation is then carried out by DGQA to verify the claims of the user and ascertain reasons for defect.

**Private Sector Company for Supply:** All the present user approved sources are private manufacturers, whether foreign or Indian. Out of these one is indigenous manufacturer'.

2.14 In this regard, during the oral evidence: Defence Secretary apprised the Committee as under:

“..... What has happened we sign contracts year after year for the clothing that we have to provide. The people who are on the top are always with the clothing. We were maintaining very large quantity of reserves held in our stocks. To balance our Budget, we cut down on reserves. That is the only thing that we did. So, the reserve stocks have been brought down. Otherwise, we would have had casualties because of cold. But we have had nil. We had no injury of snow blindness because of lack of goggles. These are indicators that people are not without clothing and the basic weapons required to stay in that altitude. I am quite sure the hon. Members have visited them and seen the clothing that we are giving to our troops. We would request the hon. Committee to visit anytime and we will show the kind of clothing. Very high quality clothing is being procured”.

## **Offset Clause**

2.15 On being asked, in regard to Defence offset, the Ministry submitted the following written information:

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 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 Rs. 2,000 crore. The threshold level of Rs. 2,000 crore was raised from Rs.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%. 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 years. 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.

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% offset obligation of any given contract.

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 Transfer of Technology	Private Sector/DPSU/OFB	Through JV/non equity route
4	Investment through equipment	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% discharge has to be fulfilled through first four avenues. Moreover, engineering design & testing and software have been capped to 20% of the offset obligation in a contract'.

Brief on offsets is placed at **Annexure "C"**.

2.16 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.

The offset policy mandates foreign OEM's to discharge offset obligations through combination of permissible avenues w.r.t. eligible product & services in all procurements cases where cost of the capital acquisitions is Rs. 2000 crores or more as per DPP 2016 (earlier threshold limit was Rs. 300 crores).

As on date, a total of 54 Defence Offset contracts have been signed in MoD out of which 32 cases pertain to Indian Air Force, 15 cases to Indian Navy and 07 cases to Indian Army. The total offset obligations are estimated at approx US \$ 11.80 billion to be discharged over a period from 2008-2024. Out of the total contracted obligations

US\$ 2.83 billion has been discharged by the vendors, of which US \$ 1.68 billion has been accepted in audit and the balance claims are under clarification/examination.

Offset contracts are under different stages of implementation by the foreign OEMs. Once executed, it is estimated that the respective contract shall cause generation of substantial business to Indian industries thus strengthening the Defence industrial base. It shall also facilitate the Indian domestic industry to be a vital part of the supply chain of the major global Defence industries reaping in more benefits. As a result of offsets, 171 IOPs have been created which has contributed to the strengthening of the Defence eco-system.

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

- (a) Graduating successively from only public enterprises to include both private and public enterprises as offset partners.
- (b) Specifying and enlarging the products and services qualifying as eligible.
- (c) Allowing banking of the offset credits and enhancing the period of utilization.
- (d) Inclusion of civil aerospace and homeland security sectors.
- (e) Equity and non-equity investments.
- (f) Investment in kind in terms of transfer of technology/ equipment to Indian enterprises, Govt. Institutions and establishment including DRDO through incentivising by higher multiple upto 3.
- (g) Incentivizing active envelopment of MSME, by inclusion of multipliers.
- (h) Enabling acquisition of state of art critical technologies by DRDO.
- (i) Allowing Tier I sub-vendors to discharge the obligations; extension of the discharge timeframe; specifying the mandatory offsets; enhancing the reporting cycle to 6 months'.

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

2.17 The Ministry supplied the following information on set up of Defence Offsets Monitoring Wing (DOMW) to monitor and audit of offsets per year, the details of its achievement since inception, its benefits to the Defence Industry.

‘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 vendors.

(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\$ 1683 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 Partners.

The IOPs are chosen as per their core competencies, quality standards and cost effectiveness. The selected IOPs by virtue of being integrated in the global supply chain of these large Defence manufacturers have to necessarily become and remain internationally competitive. Thus, the offset policy in general, aims to encourage the Indian enterprises, both public and private, to become a key player in the highly competitive and cost conscious international Defence market in their respective areas of expertise. Through this avenue, the long term benefits accrued to the Indian Defence industry is estimated to be substantial'.

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

`Offset obligations are cast upon the vendors under capital acquisition wherein the vendor is required to discharge their offset obligations in line with the agreed schedule as provided in the offset contract with the Indian Offset Partners and the transactions are reported 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) 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% of offset discharge has been executed through 15 Indian Offset Partners (IOPs) wherein top 05 IOPs have received 51.76% offsets and top 10 have received 76.11%.
- (ii) More than 90% 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.

2.19 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 years. The period of the main contract includes the period of warranty of the equipment being procured under the main contract. Offset contracts are long term and complex in nature. These contracts are at various stages of implementation. Vendors report the offset discharge undertaken through 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 disincentivise vendors from frequent requests of rephrasing of offset obligations to tide over shortfalls and escape penal provisions, the rephrasing 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 % additional obligation will be imposed on re-phased value of every year. The re-phasing request for second and subsequent attempts will be processed by imposing additional 5% on proposed yearly re-phased offset value irrespective of the spread of re-phasing. This yearly additional 5% offset obligation for processing re-phasing request will be over and above the outright financial penalty on shortfall specified at Para 8.13 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’.

### **Defence Investor Cell**

2.20 The Committee, through a post evidence reply were given to understand that to promote Defence production in the Country, a Defence Investor Cell (DIC) was set up by the Department of Defence Production in Feb - 2018 to provide all necessary information including addressing queries related to investment opportunities, procedures and regulatory requirements for investment in the sector Access to DIC is available through <https://defenceinvestorcell.gov.in>. Investors / companies can raise their queries online in regard to investments in the Defence sector **Contact: 011-23019902, definvestorcell@ddpmod.gov.in**.The details furnished by the Ministry are as under:

**“Export promotion Cell:** The Ministry informed that An Export Promotion Cell has been setup to co-ordinate and follow-up on export related action including enquiries received from various countries and facilitate private sector and public sector companies for export promotion. **Contact: 011-23018976, epc@ddpmod.gov.in.**

- a) Development of a completely end-to-end online portal for receiving and processing authorization permissions has resulted in the time taken for authorization being reduced to less than 50%.
- b) A new Export Portal (**defenceexim.gov.in**) facilitates to disseminate export leads received from various sources to Indian Defence exporters registered on the portal. This facility enables the Indian Defence exporters to quickly respond to export opportunities arising in other countries.
- c) Scheme for Promotion of Defence Exports has been notified to provide an opportunity to the prospective exporters an option to get their product certified by the Govt. with access to the testing infrastructure of MOD for initial validation of the product and its subsequent field trials.

A scheme for Export promotion of Defence Equipment Manufactured in India by Defence Attaches has been launched under which all Defence Attaches are provided with funds to undertake multifarious promotional activities in their respective countries.

### **Make in India Portal**

Department of Defence Production has launched a Make in India Portal **makeinindiadefence.gov.in** where information related to all the major policies initiatives taken by the department to promote indigenous defence manufacturing is made available for easy dissemination to the industry **Contact: 011-23016619, poms-ddp-mod@nic.in.**

### **Policy initiatives taken by Department:**

In pursuance of 'Make in India' initiative of the Government, following policy measures have been taken by Ministry of Defence to promote indigenous Defence manufacturing : -

- i. An innovation ecosystem for Defence titled Innovations for Defence Excellence (iDEX) has been launched in April 2018. iDEX is aimed at creation of an ecosystem to foster innovation and technology development in Defence and Aerospace by engaging Industries including MSMEs, Start-ups, Individual Innovators, R&D institutes and Academia and provide them grants/funding and other support to carry out R&D which has potential for future adoption for Indian Defence and aerospace needs. **Contact: idexdio@ddpmod.gov.in.**
- ii. Defence Procurement Procedure (DPP) has been revised in 2016 wherein specific provisions have been introduced for stimulating growth of the domestic Defence industry.
- iii. A new category of procurement 'Buy {Indian-IDDM (Indigenously Designed, Developed and Manufactured)}' has been introduced in DPP-2016 to promote indigenous design and development of Defence equipment. It has been accorded top most priority for procurement of capital equipment.



Besides this, preference has been accorded to 'Buy (Indian)', 'Buy and Make (Indian)' & 'Make' categories of capital acquisition over 'Buy (Global)' & 'Buy & Make (Global)' categories.

- iv. The 'Make' Procedure has been simplified with provisions for funding of 90% of development cost by the Government to Indian industry and reserving Government funded Make-I projects not exceeding development cost of Rs.10 crore & procurement cost Rs. 50 Cr per year for MSMEs. The industry funded Make-II Projects not exceeding development cost of Rs.3 crore & procurement cost Rs. 50 Cr per year have also been reserved for MSMEs.
- v. Separate procedure for 'Make-II' category has been notified under DPP to encourage indigenous development and manufacture of Defence equipment. Number of industry friendly provisions such as relaxation of eligibility criterion, minimal documentation, provision for considering proposals suggested by industry/individual etc. have been introduced in this procedure. Till date, 44 proposals have been accorded Acceptance in Principle.
- vi. 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.
- vii. FDI Policy has been revised and under the revised policy, FDI is allowed under automatic route upto 49% and beyond 49% through Government route wherever it is likely to result in access to modern technology or for other reasons to be recorded.
- viii. Offset guidelines have 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 allowed to provide the details of IOPs and products after signing of contracts. In order to bring more transparency and efficiency into the Offset discharge process, "Offset portal" has been created in May 2019.
- ix. Defence Products list requiring Industrial Licences has been rationalised and manufacture of most of parts or components does not require Industrial License. The initial validity of the Industrial Licence granted under the IDR Act has been increased from 03 years to 15 years with a provision to further extend it by 03 years on a case-to-case basis.
- x. 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.
- xi. Department of Defence Production has notified 127 items under Public Procurement Order 2017 notified by Department for Promotion of Industry and Internal Trade (DPIIT). The Defence PSUs and OFB are thereby

required to give preference to domestic manufacturers while procuring these items in accordance with the said policy.

- xii. Government has decided to establish two Defence Industrial Corridors to serve as an engine of economic development and growth of Defence industrial base in the country. They span across Chennai, Hosur, Coimbatore, Salem and Tiruchirappalli in Tamil Nadu and spanning across Aligarh, Agra, Jhansi, Kanpur, Chitrakoot and Lucknow in Uttar Pradesh (UP).

### **Foreign Direct Investment (FDI)**

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

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

2.22 On the impact, if the FDI limit is increased to 100%, on production of Defence equipment as well as on R&D, the Ministry stated as under:

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

2.23 The details of FDI/JV proposals which have been approved in the Defence sector in the past five years, the Ministry submitted as under:

‘The details of FDI/JV proposals which have been approved in the Defence sector in the past five calendar years is enclosed as per **Annexure-L**.

## PROPOSALS APPROVED IN PERIOD 2015-2019

<b>2015</b>		<b>Activity</b>
1	M/s Dynamatic Technologies Ltd	Manufacturing of aircrafts including UAVs, Spacecrafts and related machinery in its existing business of the approval granted to them
2	M/s Mahindra Defense systems Ltd.	To develop, manufacture and provide service support for radar systems and various kinds of Defence electronic systems and various kinds of Defence electronic systems.
3	M/s BF Elbit Advanced Systems Pvt. Ltd.	Manufacture of Artillery Guns/Howitzers, Mortars, Ammunition, manufacture of Tactically protected vehicles
4	M/s Safran Engineering Services India Pvt. Ltd	Providing engineering services (involving design, development, deployment and maintenance of software, systems and equipment) to civil sector customers in different industries like aerospace, transport, security, energy, heavy engineering equipment, MRO, in-service support etc in and outside India.
5	M/s Indian Rotorcraft Limited	To engage in the business of undertaking final assembly of both military and civil versions of Agusta Wesland's A W119 Kx Helicopters
<b>2016</b>		<b>Activity</b>
1	M/s. Tata Sikorsky Aerospace Limited	Existing: Manufacture of parts for civilian aircrafts Proposed: Design, development, engineering, manufacturing, integration, assembly, testing and inspection and fixed-wing aircrafts), including products such as aerospace and aero structures components, kits and accessories in the Defence sector
2	M/s. Quantum Simulators Pvt. Ltd.	Set up a simulator manufacturing company in India for various applications including military and commercial use
<b>2017</b>		<b>Activity</b>
1	M/s Ideaforge Technology Pvt Ltd	Manufacture of unmanned aerial systems used in Defence sector.
2	M/s Alpha-Elsec Defence and Aerospace Systems Pvt Ltd	Manufacture of optical goods and equipment and optical instruments.
<b>2018</b>		<b>Activity</b>
1	Indo Russian Helicopters Ltd	To manufacture, supply, maintain and service Helicopters to the Indian Defence Forces.
<b>2019</b>		<b>Activity</b>
1	M/s Indo Russian Rifles Pvt Ltd	Manufacture of unmanned aerial systems used in Defence sector.

2.24 In this regard, during the oral evidence: a representative apprised the Committee as under:

“सर, आज की तारीख में 49 पर्सेंट एफडीआई आटोमैटिक रूट पर एलाउड है। उसके ऊपर केवल गवर्नमेंट की परमीशन से ही एफडीआई को लाया जा सकता है। अगर गवर्नमेंट ऐसे किसी भी प्रोजेक्ट को उचित नहीं समझती है, तो हंड्रेड पर्सेंट एफडीआई के लिए अनुमति नहीं देती है। जहां तक मुझे मालूम है, अभी तक किसी भी प्रोजेक्ट के लिए हंड्रेड पर्सेंट एफडीआई के लिए अनुमति नहीं दी गई है।”

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 Rs. 2,000 crore. The threshold level of Rs. 2,000 crore was raised from Rs.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%. Offset contracts are co-terminus with the main procurement contract and signed along with the main procurement contract after approval of Competent Financial Authority. The period of offset discharge can be extended on exceptional ground by a maximum period of 02 years. 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% 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% discharge has to be fulfilled through first four avenues. Moreover, engineering design & testing and software have been capped to 20% 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. As on date, a total of 54 Defence offset contracts have been signed in MoD out of which 32 cases pertain to Indian Air Force, 15 cases to Indian Navy and 07 to Indian Army. The total offset obligations are estimated at approx 11.80 BUSD over a period from 2008-2024. Verification of offset claims upto 2017 was US\$ 88.0 million only which has now increased to US\$ 1683 million. Out of the total contracted obligations, US\$ 2883 million has been discharged by the vendors, of which US \$ 1683 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 sectors. This has resulted in the enlargement of the available avenues for discharge of offsets together with amplification of the products and services and specifying other measures making them more users friendly notably-

- a. Graduating successively from only public enterprises to include both private and public enterprises as offset partners.
- b. Specifying and enlarging the products and services qualifying as eligible.
- c. Allowing banking of the offset credits and enhancing the period of utilization.
- d. Inclusion of civil aerospace and homeland security sectors.
- e. Equity and non-equity investments.
- f. Investment in kind in terms of transfer of technology/equipment to Indian enterprises, Govt. Institutions and establishment including DRDO.
- g. Incentivizing active envelopment of MSME, by inclusion of multipliers.
- h. Enabling acquisition of state of art critical technologies by DRDO.
- i. Allowing Tier I sub-vendors to discharge the obligations; extension of the discharge timeframe; specifying the mandatory offsets; enhancing the reporting cycle to 6 months'.

## CHAPTER III

### DEFENCE PLANNING

#### FIVE YEAR DEFENCE PLANS

The Committee have learnt that 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 On the achievement of the Defence Five Year Plans the Ministry has stated;

`Expenditure incurred under Defence Services Estimates during the last 5 Defence Five Year Plan periods, as against Budget Estimates/ Revised Estimates, is as follows:-

(Rs. in crore)

<b>Plan</b>	<b>Budget Estimates</b>	<b>Revised Estimates</b>	<b>Expenditure</b>
<b>8<sup>th</sup> (1992-97)</b>	1,12,978.47	1,18,921.47	1,19,033.12
<b>9<sup>th</sup> (1997-2002)</b>	2,43,101.00	2,37,263.91	2,26,133.97
<b>10<sup>th</sup> (2002-07)</b>	3,79,300.00	3,61,000.00	3,57,627.17
<b>11<sup>th</sup> (2007-12)</b>	6,55,062.49	6,65,882.50	6,72,714.63
<b>12<sup>th</sup> (2012-17)</b>	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 therefor, 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, therefore the Ministry was asked about the steps have been taken by the Ministry of Defence thereon. 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 years.

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

3.5 The Ministry was asked to state the projections, allocations, and actual expenditure of each year thirteenth Defence Five Year Plan including the projections and allocations during the year 2020-21. The Ministry in its reply stated:

‘Year-wise figures of projection, allocation and actual expenditure of thirteenth Defence Five Year Plan including the projections and allocation in FY 2020-21:-

(Rs. In crore)

Year	Projection	Allocation	Expenditure
2017-18	3,23,217.10	2,59,261.90	2,72,559.81
2018-19	3,95,851.34	2,79,305.32	2,87,688.65
2019-20	4,05,784.84	3,05,296.07	2,47,573.32*
2020-21	4,30,130.70	3,23,053.00	-

\*Expenditure is upto December, 2019

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

3.6 The Ministry was asked to elaborate on LTIPPs, their achievements, the procurement of weapon system ammunition etc. as per the plan and steps taken till date

‘The Headquarters Integrated Defence Staff (HQIDS), in consultation with the Service Headquarters (SHQs), had evolved the 15 year Long Term Integrated Perspective Plan (LTIPP). Presently, LTIPP 2012-2027 is in vogue and has been approved by the Defence Acquisition Council. Proposals for acquisition of capital Assets flow out from the Defence Procurement Planning process which covers the 15 year LTIPP, 5 year Services Capital Acquisition Plan (SCAP) and Annual Acquisition Plan (AAP).

The LTIPP is translated into the SCAP, covering a five year period. The AAP of each service is a two year roll on plan for capital acquisition and consists of the schemes from the approved five year SCAP. Thus, the long term plan (LTIPP) gets finally translated to short term plan (AAP) and the cases included in the AAP are progressed for acquisition as per the Defence Procurement Procedure. Progress of procurement cases is regularly reviewed in SHQ and MoD. Amendments are made to the DPP, as and when required, to streamline the acquisition process. Extant DPP focuses on institutionalising, streamlining and simplifying Defence Procurement Procedure and 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'.

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

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

'The long term capital acquisition requirements of services are reflected in the Long Term Integrated Perspective Plan (LTIPP), which is for 15 years. The present LTIPP covers the period 2012-27. Deriving from 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 and 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 deficiency of two lakh dwelling units have been slated for construction in four phases.

**Budgetary Provisions**

4.2 The details regarding the projections and allocations made to MAP by the Ministry of Defence and the expenditure incurred during the last five years along with the details of the projected and allocated budget for the year 2020-21 are as under: -

<u>Year</u>	<u>Service</u>	<u>Projection</u>	<u>Allotment</u>	<u>Expenditure</u>
2015-16	Army	1,500	2,374	2,366
	Navy	200	190	191
	Air Force	250	180	180
	<b>Total</b>	<b>1,950</b>	<b>2,744</b>	<b>2,737</b>
2016-17	Army	2,400	1,675	1,676
	Navy	180	110	102
	Air Force	250	180	180
	<b>Total</b>	<b>2,830</b>	<b>1,965</b>	<b>1,958</b>
2017-18	Army	1,672	1,120	1,100
	Navy	108	68	67
	Air Force	197	175	177
	<b>Total</b>	<b>1,977</b>	<b>1,363</b>	<b>1,344</b>
2018-19	Army	1,200	757	762
	Navy	57	28	28
	Air Force	200	90	89
	<b>Total</b>	<b>1,457</b>	<b>875</b>	<b>879</b>
2019-20 (Till Jan 2020)	Army	2,500	319	301
	Navy	60	50	21
	Air Force	110	60	46
	<b>Total</b>	<b>2,670</b>	<b>429</b>	<b>368</b>

<u>PHASE</u>	<u>FUND REQUIREMENT (CR)</u>
<b>MAP PHASE II</b>	<b>532</b>
<b>MAP PHASE III</b>	<b>725</b>
<b>TOTAL</b>	<b>1,257</b>

4.3 In this regard, during the oral evidence; Chief of Defence Staff apprised the Committee as under:

“सर, ऐसा है कि हम लोग यह कोशिश कर रहे हैं, जैसे एनबीसीसी ने एक मॉडल दिल्ली में तैयार किया है और जिस तरह सिविल सर्वेयर्स के लिए न्यू मोती बाग में मकान बने हैं, हम इसी मॉडल को एडॉप्ट करने की कोशिश कर रहे हैं। हमारी कुछ जमीनें हैं, जिन्हें नेशनल हाइवेज के लिए दिया जाता है, मेट्रो कंस्ट्रक्शन के लिए दिया जाता है, स्टेट गवर्नमेंट या सेन्ट्रल गवर्नमेंट अन्य कुछ कारणों से हमारी जमीन को लेना चाहती है, क्योंकि कुछ नेशनल प्रोजेक्ट्स बनने होते हैं। हमारी यह रिकमंडेशन है, जो हमने अभी सरकार को आगे भेजी है कि इसके बदले हमारे को जो इक्वल वैल्यू लैंड मिलती है, इक्वल वैल्यू लैंड मिलने के बदले क्या हमारे को इक्वल वैल्यू इंफ्रास्ट्रक्चर मिल सकता है। उसी लैंड की कॉस्टिंग करके हम मकान बना सकते हैं, जिससे कि इसका बोझ डिफेंस बजट के ऊपर न पड़े, पर लैंड की जो मोनेटाइजेशन होगी और इसके जरिए जो पैसा मिलेगा, वह बजट के बाहर हो। इससे यह होगा कि डिफेंस के बजट के ऊपर प्रेशर नहीं आएगा। यह कोशिश की जा रही है।”

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

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:

- `Low satisfaction level
- Delay in commencement of MAP Phase III
- Delay in execution of MAP Phase III
- Indefinite delay in completion of Map
- Cost escalation of MAP Phase III
- After completion of DPR for 8 packages of MAP Phase III, work cannot commence

<u>Service</u>	<u>DUs</u>		<u>Satisfaction in 2002</u>	<u>DUs</u>		<u>Satisfaction Jan 2020</u>
	<u>Auth in 2002</u>	<u>Held in 2002</u>		<u>Constr By MAP Till Date</u>	<u>Held in Jan 2020</u>	
Army	4,40,111	1,97,506	45%	94,920	2,92,426	66%
NAVY	31,252	18,800	60%	5,829	24,629	79%
AIR FORCE	75,775	31,776	42%	13,630	45,406	60%

<u>Service</u>	<u>Satisfaction</u>				
	<u>2002</u>	<u>2019</u>	<u>On Completion of Ph II</u>	<u>On Completion of Ph III</u>	<u>Including Addl Dus</u>
ARMY	45%	66%	69%	85%	85%
NAVY	60%	79%	82%	82%	100%
AIR FORCE	42%	60%	63%	64%	73%

4.5 The details of additional allocation sought by the MAP in 2019-20 and allocations made by the Ministry of Finance thereon.

<u>PHASE</u>	<u>DEMANDED</u>	<u>ALLOTTED</u>	<u>DIFFERENCE</u>
MAP PHASE II	630	450	180
MAP PHASE III	2,000	-	2,000
TOTAL	2,630	450	2,180

4.6 The Capital and Revenue ratio of the budget allocated for the MAP for the last five years, the Ministry in its written reply stated as under:

<u>S NO</u>	<u>YEARS</u>	<u>CAPITAL</u>		<u>REVENUE</u>		<u>CAPITAL : REVENUE</u>
		<u>DEMAND</u>	<u>ALLOTMENT</u>	<u>DEMAND</u>	<u>ALLOTMENT</u>	
1	2015-16	2790.00	2744.19	1.90	1.90	99.93 : 0.07
2	2016-17	2095.00	1965.00	2.23	2.25	99.89 : 0.11
3	2017-18	1368.00	1363.00	2.75	2.75	99.80 : 0.20
4	2018-19	916.39	874.96	3.35	3.35	99.62 : 0.38
5	2019-20	505.00	430.00	3.35	3.13	99.28 : 0.72

### **Progress: MAP Phases**

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

<u>Phase</u>	<u>Stations</u>	<u>No of DUs</u>	<u>Cost (In Cr)</u>	<u>Overall Progress</u>	<u>DUs Completed</u>
II	157	69,904	13,681.90	94%	80.83% (56,504 Dus)
III	A	13	24,592	7,259.38	DPR for eight packages 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
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4.8 During the oral evidence: Defence Secretary further elaborated as under:

“Sir, presently we are running the phase II of the Married Accommodation Project. It is about to get completed. As I mentioned during my presentation that phase III is not yet sanctioned. Phase II was for about 47,000 dwelling units, which were to be created. So, this year, their demand was Rs. 348 crore, which we have given. As I have mentioned in my presentation, development of infrastructure in peace stations is as important as development in the field areas. So, we have given whatever is their demand. If they are able to utilise this and they need more, then we get it in RE. I am just being prompted that there will be a separate presentation by the DG Married Accommodation Project as part of the deliberations of the Standing Committee. In summary, you have given that you require funds for pay and allowances. Pay and allowances has to be paid 100 per cent. At the BE stage, we have been allotted Rs. 1,12,525 crore. It is a shortfall of Rs. 3,451 crore. I fully share your concern that pay and allowance is the first charge. It will be paid, but this shortfall will come into play somewhere towards the later part of the year.”

4.9 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 launch of MAP Phase III, evaluation of Phase I & Phase II done by HLC
- Recommendations of HLC incorporated in MAP Phase III
- Institutionalised Mechanism in place for quality assurance
- Feedback routinely obtained from user & have been encouraging
- Comprehensive documents have been forwarded to MoD in this regard
- Accountability fixed on case to case basis’

### Current Deficiency of Dwelling units under MAP

4.10 The current deficiency of dwelling units as intimated to the under MAP is 670 Dwelling Units and the distribution is shown below:-

<u>Service</u>	<u>Dwelling Units</u>					<u>Deficiency</u>
	<u>Auth in 2002</u>	<u>Held in 2002</u>	<u>Mandate of MAP</u>	<u>Constr by MAP till date</u>	<u>Under progress</u>	
ARMY	4,40,111	1,97,506	1,76,065	94,920	10,713	70,432
NAVY	31,252	18,800	6,681	5,829	852	-
AIR FORCE	75,775	31,776	16,135	13,630	1,835	670

## **OBSERVATIONS/RECOMMENDATIONS**

### **CAPITAL OUTLAY ON DEFENCE SERVICES**

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

The Committee note from the information submitted by the Ministry that Capital Outlay provides allocation for Land & Construction Works of the three Services and other departments. In other words, it 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 Project, National Defence Academy and Rashtryia Rifles etc.

2. The Committee further note that during the year 2020-21, the Ministry allocated Rs. 1,13,734.00 crore in the Capital Budget head against the projection of Rs. 1,75,702.06 crore, which amounts to the shortage of Rs.61,968.06 crore. Out of this head for the Services only Rs. 1,02,432 crore was allocated against the projection of Rs. 1,61,849.20 crore, leaving a gap of Rs. 59,416.63 crore. Similarly, the Capital (Acquisition including DGOF Supplies) is allocated Rs. 90,047.80 crore, Land & Works of three Services (including Married Accommodation Projects) Rs. 12,384.77 crore, DRDO, DGOF and other Defence Departments Rs. 11,301.43 crore.

3. The Committee are of the view that the considerable shortage in the allocation of the budget in the Capital Head, which is 35 per cent less the



projection, would affect acquisition of latest weaponry, aircraft, ships, tanks and capital intensive projects including land, building and other infrastructure. The Committee feel and desire that to develop, and acquire the most modern state-of-the art fighting platforms, which can match Northern and Western neighbours, the requisite allocation to the Capital Head is very essential. While approving the allocations for the Defence Budget, the Ministry of Defence should take up the matter with the Ministry of Finance explaining them the importance of capital works which become made done to maintain the ideal ratio of 60:40 between the Revenue and Capital Heads. At this stage, the Committee can only recommend that the requisite funds under the Capital Head be allocated to the Ministry at the Supplementary Grants stage.

#### Projections and Allocations in respect of three services

4. From the information submitted by the Ministry, the Committee note that since 2015-16, none of the three Services have been given the matching allocation as per the projection. The gap which was there in 2015-16 for Army Rs. 4,596 crore has increased to Rs. 17,911.22 crore in 2020-21 (from 14 per cent to 36 per cent). In case of Navy, the difference was Rs. 1,264.89 crore in 2014-15, which has increased to Rs. 18,580 crore in 2020-21 (5 per cent to 41 per cent) and for Air Force, the gap which was Rs. 12,505.21 crore in 2015-16 has increased to Rs. 22,925.38 crore in 2020-21 (27 per cent to 35 per cent). The Committee opine that such situation is not conducive for preparation of country to modern day warfare, where possession of capital intensive modern machines are pre requisite for not only tilting the result of war in our favour but also having a credible deterrence capabilities. The Committee observe that Navy's fighting capabilities depends on the high value platforms like Aircraft Carrier, Submarines, destroyers and frigates

but the allocation of Capital Budget for Navy (percentage) wise has the sharpest decline. The Committee, therefore, recommend the Ministry not to make any cut while allocating Budget for Capital Head for any of the Services in the Demands to be made in the coming years.

#### Additional Allocation

5. The Committee highlighted in their 3<sup>rd</sup> Report (17<sup>th</sup> Lok Sabha) that against projections of Rs. 1,70,936.07 crore under Capital Head, only Rs. 1,03,394.31 crore were allocated. In this context, the Ministry was asked to state the steps taken in overcoming the shortfall. The Committee note from the reply submitted by the Ministry that Ministry of Finance had not allocated requirements projected by this Ministry under Capital Budget for FY 2019-20, nevertheless, Capital Expenditure of the Ministry had gone up in absolute terms. It may be relevant to point out here 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 FY 2017-18 and 2018-19 due to extensive delegation of financial powers. The allocated Capital Budget has been fully utilised since 2016-17, reversing the previous trends of surrender of funds. In the current financial year, based on pace of expenditure Ministry of Finance has allocated additional amount of Rs. 7,000 crore under Capital Head in RE 2019-20.

6. The Committee are surprised over the fact that during the year 2019-20, the short fall in the projection to allocated amount was Rs. 67,541.76 crore, however, the Ministry of Defence is convinced with additional allocation of meagre Rs. 7,000 crore. The Committee, therefore, in unequivocal terms recommend that all-out efforts should be done to give first and foremost priority to the preparedness of

the Defence Forces. It should be ensured that critical requirements of Services do not suffer due to want of funds. The Committee also hope that the Ministry of Defence will take measures for timely expenditure of the allocated fund so additional fund can be sought from the Ministry of Finance at Supplementary Grants stage.

#### **Improvement in Perimeter Security**

7. The Committee note with satisfaction that in the wake of past attacks on military stations and accommodations, approval of Hon'ble Raksha Mantri for invoking Emergency Powers of procurement under Schedule-23 of DFPDS-2016 to be exercised by Vice Chief of Army Staff has been conveyed in February-March, 2018 for undertaking expenditure amounting to Rs.1,587.27 crore on strengthening of the perimeter infrastructure and access control mechanisms covering military bases/ aviation bases of six Army Commands. Further, after the review of Security requirements of all the bases, Indian Air Force has incurred an expenditure of Rs. 907 crore from 2016 to 2019. Similar provisions have also been made by Indian Navy. Considering that very high value assets are kept in the Defence establishment, the Committee desire that continuous flow of funds for the improvement and upgradation of the perimeter infrastructure and also for access control mechanisms for all the Defence establishment should be provided.

#### **Ratio for Capital and Revenue Outlay**

8. The Ministry submitted the information about the ratio for Capital and Revenue outlay from 2014-15 onwards, which reflected a sharp increase in favour of Revenue budget in case of Army, which had a ratio of 84:16 in 2014-15 to 82:18 in 2020-21. This ratio is way short of the ideal ratio of 60:40 (Revenue: Capital) as

mentioned by the representatives of Army during deliberations before the Committee. The trend in respect of the other seems to be up to the mark but the allocation in monetary term is not supporting it. The Committee are of the view that measures should be taken to bridge the gap and the Ministry should try to achieve ideal ratio in respect of Army and other services.

### **Modernization of Defence Forces**

9. From the replies submitted by the Ministry, the Committee note that the modernisation involves the acquisition of new state-of-the-art platforms, technologies and weapon systems to upgrade and augment Defence capabilities and it 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. As per the assertion of the Ministry, 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.

10. The Committee appreciate the various measures taken by the Government to modernize our forces i.e. opening up of the Defence Industry sector for Indian private sector participation, with Foreign Direct Investment (FDI), notification of the Strategic Partnership (SP)' Model which envisages establishment of long term

**Strategic Partnership with Indian entities wherein they would tie up with global Original Equipment Manufacturers (OEMs) to seek technology transfers to set up domestic manufacturing infrastructure and supply chain etc. However, the Committee feel that it is in fitness of things that first of all adequate allocation be made in the Capital Budget so that procurement of new equipment and upgrading of existing equipment and systems can take place in a seamless manner. The Committee accordingly recommend that the more impetus should be given 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, so that with modernization, capacity development of the Defence sector also take place.**

#### **Non Lapsable Defence Modernisation Fund – Defence Renewal Fund**

11. The Committee in their various previous reports have recommended making Capital Budget 'Non-lapsable' and 'Roll-on' in nature. The Ministry was consequently asked to convey the current status of the same. The Ministry of Defence apprised the Committee that 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. The Committee note that the matter of creation of non-lapsable Defence Modernisation Fund is being taken up again with Ministry of Finance. However, the Committee were apprised during the oral evidence, that for Capital Acquisitions and border infrastructure, there is a need to create Defence Renewal Fund. Therefore, the

**Committee recommend the Ministry to take up the matter at higher levels for creation of Defence Modernisation Fund – Defence Renewal Fund so that procurement can be done unhampered without pursuing for funds to receive at Supplementary or Additional Grants stages.**

### **Committed Liabilities and New Schemes**

**12. The Committee note 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 holds first charge on the budget allocation. Inadequate allocation for committed liabilities would definitely lead to ‘default situation’ 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.**

**13. The Committee learn that at present, the Ministry has removed separate allocation to Committed Liabilities and New Schemes in the Defence Services Estimates (DSE) and now it is covered under Capital Acquisition. The allocation for it in the year 2020-21 for Army is Rs. 26,068.61 crore against the projection of Rs. 41,530.80 crore. In case of Navy, allocation is Rs. 24,598.00 crore against the projection of Rs. 40,927.91 crore and similarly, in case of Air Force, allocation is Rs. 39,030.91 crore against the projection of Rs. 60,840.17 crore. The Committee also take note of the fact that the Ministry has assured that the allocated funds are optimally and fully utilised towards operational activities and if**

required, the schemes would be re-prioritized to ensure that urgent and critical capabilities are acquired without any compromise to operational preparedness of the Defence Services. The Ministry of Defence had sought an additional fund of Rs. 70,478.38 crore at RE stage 2019-20 under Modernization (Capital Acquisition) head but based on the allocations received from Ministry of Finance, an additional amount of only Rs. 8877.08 crore has been provided for in RE 2019-20. Considering such apathy towards allocation in Capital Acquisition fund, the Committee are wary of the fact that without sufficient allocation for Committed Liabilities, there would be difficulty in matching deadlines in the payments towards already committed purchases. Similarly, if there is no budget available for New Schemes, there would be no procurement for latest weaponry and modernization would take a back seat. Therefore, the Committee has no option but to recommend that a dedicated fund should be earmarked for Committed Liabilities and New Schemes, invariably from next Budget onwards.

## PROCUREMENT POLICY

### Defence Procurement Policy

14. The Committee find 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). During the oral evidence, the Committee were apprised that the

Procedure has been revised in 2002, 2005 and six times during 2005 to 2016.

During oral evidence, the Committee came to know that the Acquisition process includes Approval of Annual Acquisition Plan (AAP), Acceptance of Necessity (AoN), issue of Request for Proposal (RFP), Technical Evaluation & Approval Trials, General Staff Evaluation & Approval, Contract Negotiation Committee (CNC), Competent Financial Authority (CFA) Approval, Contract Conclusion and Post Contract Management. The Committee are hopeful that new Defence Procurement Procedure, which is going to be implemented soon, will make the procedure fast track and the Services will get assured supply of arms, equipment and ammunition in time.

#### **Capital and Annual Procurement Plan**

15. The Committee note that Capital and Revenue procurement cases under this policy are taken up by Ministry of Defence based on Annual Acquisition Plans for Capital and Annual Procurement Plan for Revenue and are processed as per delegation of financial powers. Navy, Air and Army Wings are the nodal points in Ministry of Defence for revenue procurements and three Joint Secretary cum Acquisition Managers are the nodal points for capital procurements for each service respectively. Capital procurement cases upto Rs. 150 crore are delegated to Service HQs and cases above Rs.150 crore are processed by Ministry of Defence. During the period 2016-17, the Defence Services progressively delegated higher financial powers for both routine as well as emergency procurements with the aim to reduce time frames and enhance Defence preparedness. The Committee welcome this move by the Ministry of Defence, such financial delegation of power would not only instill sense of responsibility in the delegated authorities but also help in quick decision making, avoiding unnecessary delays.



## **Accountability and Transparency in Defence Procurement**

16. From the information submitted by the Ministry, for ensuring accountability and transparency in Defence Procurement cases, the Committee note that measures for promoting Probity, Public Accountability and Transparency in Defence capital procurements, include execution of Pre-Contract Integrity Pact (PCIP) for all cases above Rs. 20 crore, to ensure corruption free procurement process (binding agreement between parties that their officials will not offer or accept bribes), guidelines for handling of complaints provide for time bound disposal of complaints which are aligned to CVC/ DOP&T guidelines, instructions issued for ascertaining vigilance status of L1 vendor before seeking approval of the Competent Financial Authority (CFA) and guidelines for penalties in business dealings with entities and capacity assessment for shipbuilding entities notified.

The Committee recommend that the above measures be strictly followed and firm monitoring mechanism be in place for early procurement of weapon systems. At this juncture, the Committee would also like to recommend that after these measures are ensured, the Ministry should not pay heed to uncalled for interventions from unreliable sources and go for the procurements as planned.

## **Increasing Dependence on Foreign Suppliers for Military Hardware**

17. The Committee observe that the burgeoning import in Arms and Equipment is the cause of worry, on being largest importer in the World, the Ministry apprised the Committee that 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.

18. The Committee understand 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 and to keep the Armed Forces in a state of readiness to meet the entire spectrum of security challenges. The Committee note that during the last four financial years (2015-16 to 2018-19), Out of total 210 contracts, 75 contracts worth about Rs. 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.

19. The Committee also note that during the year 2019-20 (upto 31.12.2019), total expenditure on foreign contracts under Capital Acquisition budget for the Defence Forces was Rs. 31058.34 crore which is 38.36% of the BE of Rs. 80959.08 crore for the Financial year 2019-20. The Committee are of the view that Ordnance Factories, DPSUs, DRDO and Private Industries should work in coordination to produce not only import substitute products but also expand their export potential so that the country become an exporter of defence equipment.

## **Extreme Cold Weather Clothing System**

20. Regarding Extreme Cold Weather Clothing System (ECWCS) which is a three layer clothing being procured for soldiers deployed in Super High Altitude Areas like Siachen, the Committee were apprised that for it quality of supply is monitored and the procurement is based on effectiveness of the item determined through user trials carried out under actual operational conditions. It is also ensured that procurement is done only from user approved sources and DGQA make certain that there is zero deviation between bulk supply and user approved sample determined. In addition, user satisfaction on quality during usage is monitored through suitably feedback processes. In case of any quality issue during usage, the user can raise a defect report as per Army Order 323/166, based on which detailed technical investigation is then carried out by DGQA to verify the claims of the user and ascertain reasons for defect.

21. During deliberations also the issue of quality of supply was raised. The representatives of the Ministry assured the Committee that very high quality clothing is being procured but due to budgetary constraints reserves has been cut down. The Committee are of the view that proper clothing and ammunition, both are essential to fight a war and reserve of both are needed, if the war escalates. Therefore, the Committee recommend that no cut should be made in either case and appropriate budgetary resources should be provided to the forces to replenish reserves of clothing as well as ammunition.

## **Offset Clause**

22. The Committee note that Offsets under Defence Capital Acquisition were introduced in the Defence Procurement Procedure (DPP) in 2005 based on the

recommendation of the Kelkar Committee. The Offset guidelines in DPP have been amended 5 times thereafter. As per Defence Procurement Procedure (DPP 2016) there are 05 categories of capital procurement for Defence equipment's i.e. (i) Buy (Indian-IDD), (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 of more than Rs. 2,000 crore. The threshold level of Rs. 2,000 crore was raised from Rs.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%. 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 years. 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. 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% offset obligation of any given contract.

23. The Committee have been apprised that as on date, a total of 54 Defence offset contracts have been signed in MoD out of which 32 cases pertain to Indian Air Force and 15 cases of Indian Navy and 07 of Indian Army. The total offset obligations are estimated at approximately US \$ 11.80 billion to be discharged over a period from 2008-2024.

24. While appreciating that the Defence Offset Monitoring Wing is effectively discharging its duties, the Committee recommend the Ministry to follow the best international practices as the scope of Offset has been increased from Rs. 300 crore to Rs. 2,000 crore. The Ministry should also try to establish some import substitute products industry while discharging the 30 per cent offset obligation.

#### Import Contents in OFB and DPSUs

25. The Committee find that in spite of the Make in India Policy executed by the Government, there exist imports in terms of value and percentage in the Defence Production Units. In OFB as already brought out, the average import rests around 10%. In HAL, which is currently manufacturing platforms for various aircrafts, the import content in value terms ranges from 40 to 60 per cent. In BEL, the import content upto 3<sup>rd</sup> quarter of 2019-20 is around 30 per cent which was merely 20% in the year 2014-15. Likewise, in BEML, the import content upto December, 2019 was 21.41% in terms of net value of production. In BDL, during 2018-19, it

registered 12.8% in comparison to 7.8% during 20-17-18. MDL has intimated that their import content for the warships and submarines under construction ranges between 28 to 70%. The import content of GSL upto December, 2019 was 16% which has come down from the average of about 25% from 2016-17 till 2018-19. GRSE has also supplied its figures which have also come down to 8.26% upto 2<sup>nd</sup> quarter of 2019-20 from that of 14.73 % during the year 2014-15. HSL has also maintained almost the same figures in terms of import content which is around 12.26% between April to December, 2019 in comparison to 15.47% during the year 2018-19.

26. While taking note of the above figures in regard to import contents, the Committee at this stage would not like to recommend anything which would adversely affect the pace and quality of the production of various assets. Nevertheless, they would like to be apprised of the concrete steps taken to reduce the import contents in future. They would also like to recommend that all-out concerted efforts be undertaken not only within the Defence Production Units but from private manufacturers also by sharing their co-expertise developed in terms of research and development. The detailed note may be supplied to the Committee for their perusal at the time of furnishing the Action Taken Replies.

#### Defence Investor Cell

27. The Committee were apprised about the new initiatives taken by the Ministry of Defence to promote Defence production in the country where in a Defence Investor Cell (DIC) was set up by the Department of Defence Production in January 2018 to provide all necessary information including addressing queries related to investment opportunities, procedures and regulatory requirements for

investment in the sector. One more positive initiative by the Ministry is the Export Promotion Cell which has been setup to co-ordinate and follow-up on export related action including enquiries received from various countries and facilitate private sector and public sector companies for export promotion. The Ministry has also apprised that Department of Defence Production has launched a 'Make in India' Portal '[makeinindiadefence.gov.in](http://makeinindiadefence.gov.in)' where information related to all the major policies initiatives taken by the department to promote indigenous defence manufacturing is made available for easy dissemination to the industry. The Committee also welcome the move of the Government to establish two 'Defence Industrial Corridors' to serve as an engine of economic development and growth of Defence industrial base in the country. They span across Chennai, Hosur, Coimbatore, Salem and Tiruchirappalli in Tamil Nadu and spanning across Aligarh, Agra, Jhansi, Kanpur, Chitrakoot and Lucknow in Uttar Pradesh (UP). The details of the same have been enumerated in the narration portion- Part I of the report.

## DEFENCE PLANNING

### FIVE YEAR DEFENCE PLANS

28. The Committee note that 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. The Ministry also stated that under these Five year Plans operational activities are done within the available budget allocations and while allocated funds are optimally and fully utilized, the schemes are reprioritized to ensure that urgent and critical capabilities are acquired without any compromise to operational preparedness of the Defence Forces.

29. The Committee in their earlier Reports have been recommending the Ministry to adopt measures for foolproof budgetary planning and implementation. The Committee are surprised to know that the 12<sup>th</sup> Plan was approved by the RM but the Ministry of Finance, 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 years. The Committee also note from the replies submitted that on 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 and the Defence Plan serves only as a guide for formulating annual budgetary projections even without the formal approval of the Ministry of Finance.

30. In the 12<sup>th</sup> (2012-17) plan, the Ministry was able to spend Rs. 10,55,763.75 crore out of Rs. 10,95,262.55 allocated. However, in the annual plans, during the plan period of the 13<sup>th</sup> Plan, the allocated amount is always less than the projection. In the year 2017-18, against the projection of Rs. 3,23,217.10 crore, only Rs. 2,59,261.90 crore was allocated. In year 2018-19, against the projection of Rs. 3,95,851.34 crore, only Rs. 2,79,305.32 crore was allocated. In the year 2019-20, against the projection of Rs. 4,05,784.84 crore, only Rs. 3,05,296.07 crore was allocated. Similarly, in the year 2020-21, against the projection of Rs. 4,30,130.70 crore, only Rs. 3,23,053.00 crore was allocated. While gleaning through the data supplied, the Committee note that the Ministry was able to spend allocated amount in full. Therefore, the Committee desire that the Ministry of Finance should desist from any cut in the financial allocations in annual plans, especially when the



Ministry of Defence is able to absorb allocated amount. The Committee are of the view and accordingly recommend that the Ministry of Defence should also formally get their plans approved by the Ministry of Finance since they have an obligation to fulfill.

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

31. The Committee note that the Headquarters Integrated Defence Staff (HQIDS), in consultation with the Service Headquarters (SHQs), had evolved the 15 year Long Term Integrated Perspective Plan (LTIPP). Presently, LTIPP 2012-2027 is in vogue and has been approved by the Defence Acquisition Council. Proposals for acquisition of capital Assets flow out from the Defence Procurement Planning process which covers the 15 year LTIPP, 5 year Services Capital Acquisition Plan (SCAP) and Annual Acquisition Plan (AAP). The LTIPP is translated into the SCAP, covering a five year period. The AAP of each service is a two year roll on plan for capital acquisition and consists of the schemes from the approved five year SCAP. Thus, the long term plan (LTIPP) gets finally translated to short term plan (AAP) and the cases included in the AAP are progressed for acquisition as per the Defence Procurement Procedure. Progress of procurement cases is regularly reviewed in SHQ and MoD. Amendments are made to the DPP, as and when required, to streamline the acquisition process. Extant DPP focuses on institutionalising, streamlining and simplifying Defence Procurement Procedure and to give a boost to 'Make in India' initiative of the Government of India, by promoting indigenous design, development and manufacturing of Defence equipment, platforms, systems and sub-systems. The Committee, therefore, recommend that more impetus should be given with adequate budgetary support for successful and efficient completion of LTIPP, SCAP and AAP.

## **Advance Planning for the Force**

32. The Committee understand 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 and 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. The Committee, at this stage, can only recommend that the Ministry should make all out efforts for fructification of contracts signed and necessary allocations should be made for it.

## **MARRIED ACCOMMODATION PROJECT**

33. The Committee note that Directorate General of Married Accommodation Project (DG MAP) was raised by Government of India under the aegis of Engineer in Chief to construct married accommodation for the three Services, with the aim of eradicating the deficiency of married accommodation for service personnel. The MAP was setup to fullfill the promise made to the Armed Forces by the Government of India. The total deficiency of two lakh dwelling units have been slated for construction in four phases. After construction of dwelling units over the time period, at present, there is a deficiency of 70,432 dwelling units in respect of Army and 670 in respect of Air Force.

34. As the budget constraints are always there in Capital intensive projects like MAP, therefore, a suggestion was floated during deliberations while examining Demands for Grants that a model may be developed by the MAP on the lines of NBCC in Delhi. In this model, land of the MAP may be utilised by housing construction organizations for equal value so that there would be no burden on the budget of Ministry of Defence. This suggestion as brought before the Committee is evidently in its nascent stage. However, this model is successful in Delhi but due care and caution has to be taken before implementing it in sensitive areas like Defence Establishment where safety and security of the officers and their families are of paramount importance than the savings in terms of money. Therefore, the Ministry, after weighing all pros and cons, may develop this proposal any further.

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

35. The Committee note that due to reduced budgetary allocation many constraints are being faced by the MAP i.e. Low satisfaction level, delay in commencement of MAP Phase III, delay in execution of MAP Phase III, cost escalation of MAP Phase III. Even after completion of DPR for 8 packages of MAP Phase III, work could not commence. In 2002, against the authorisation of 4,40,111 dwelling units, held units were 1,97,506 in respect of Army. For Navy, out of authorisation of 31,252 dwelling units, held strength were 18,800. For Air Force out of authorisation of 75,775 DUs, held strength was 31,776 units. MAP constructed 94,920 units for Army till date, 5,829 units for Navy and 13,630 units for Air Force but the satisfaction level remained quite low at 66%, 79% and 60% in respect of Army, Navy and Air Force respectively by 2019. The Ministry are hopeful that after construction of additional units it would reach at 85%, 100 % and 73 % for Army, Navy and Air Force respectively. The Committee, therefore, recommend that till the

time new 'Equal Value Infrastructure Policy' finalized, is additional allocation sought by the MAP should be provided as it is devoid of Rs. 2,180 crore in 2019-20, which would affect the pace of construction of dwelling units.

**Priority allocation of Dwelling Units for Combat Forces**

36. During the oral evidence, when the deliberations on the deficiency of dwelling units was taking place, it was informed that the *ranks* and officers who are in the combat wing of the Armed Forces, suffer the most as they spend larger part of their service in the field or difficult areas. The Committee after contemplating over the issue, view that for such *ranks* and Officers, dwelling units should be constructed near the Regimental Centers or other Military Establishments, so these centers can look after the families of soldiers in their absences and ranks and officers can be free from any worry about well being of their families. At other places priority allocation of Dwelling Units for Combat Forces should be made. The Committee welcome this idea and accordingly recommend that as a consequentialment of such arrangement, our Armed Forces Officers would be in a far better position mentally and physically to serve their nation.

New Delhi  
12 March, 2020  
22 Phalguna, 1941(Saka)

JUAL ORAM  
Chairperson  
Standing Committee on Defence

**STANDING COMMITTEE ON DEFENCE**

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

The Committee sat on Monday, the 17 February, 2020 from 1400 hrs. to 1800 hrs. in Committee Room No. 62, Parliament House, New Delhi.

**PRESENT**

**SHRI JUAL ORAM**

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**CHAIRPERSON**

**Lok Sabha**

2. Shri Ajay Bhatt
3. Shri Kapil Moreshwar Patil
4. Shri Jugal Kishore Sharma
5. Shri Brijendra Singh
6. Shri Kotagiri Sridhar
7. Dr. Kalanidhi Veeraswamy

**Rajya Sabha**

8. Dr. Ashok Bajpai
9. Shri Prem Chand Gupta
10. Shri V. Lakshmikantha Rao
11. Lt. Gen. Dr. D. P. Vats
12. Dr. Sudhanshu Trivedi

## SECRETARIAT

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

## LIST OF WITNESSES

### MINISTRY OF DEFENCE

<b>Sl. No.</b>	<b>Name &amp; Designation</b>
1.	Gen. Bipin Rawat, CDS & Secy. DMA
2.	Dr Ajay Kumar, Defence Secretary
3.	Smt. Gargi Kaul, Secy. Def. Fin.
4.	Smt. Sanjeevane Kuty, Secy. (ESW)
5.	Shri Raj Kumar, Secy. DDP
6.	Shri Jiwesh Nandan, Additional Secretary
7.	Smt. Deepa Bajwa, DGDE
8.	DG K Natarajan, DGICG
9.	Ms. Mala Dutt, AS & FA
10.	Dr. Chitra Rajagopal, DG(R&M) & DS
11.	Lt. Gen SK Saini, VCOAS
12.	Lt. Gen Gopal R, QMG
13.	Lt Gen SS Hasabnis, DCOAS(P&S)
14.	Lt. Gen SK Upadhya, MGO
15.	Lt. Gen Raj Shukla, DG PP
16.	Lt. Gen TK Chawla, DG FP
17.	Lt. Gen Sanjay Verma, DGWE
18.	Lt. Gen RK Anand, DG LW&E
19.	Lt. Gen Arvind Dutta, Adjutant General
20.	Lt. Gen Manoj C Pande, DG (DC&W)
21.	Shri Pudi Hari Prasad, JS(ESW)

22.	Smt. Nazli J. Shayin, JS(L&W)
23.	Shri Subir Mallick, Addl. FA & JS
24.	Shri Alok Gupta, Sr. Addl. DG
25.	Shri Ravi Shankar, Addl. DG
26.	Smt. Sonam Yangdol, Addl. DG (Cantt.)
27.	Shri Rakesh Mittal, Addl, DG (Adm/Coord/ IT)
28.	Shri Rajesh Sharma, Addl. FA & JS
29.	Shri AN Das, Addl FA & JS
30.	Shri RK Karna, Addl. FA & JS
31.	Shri Ashwini Kumar, Addl FA & JS
32.	Shri Vedveer Arya, FM(MS)
33.	Shri Ghayas Uddin Ahmed, FM(LS)
34.	Shri Puneet Agarwal, FM(Air)
35.	Maj Gen H Dharmarajan, ADG FP
36.	Maj Gen AK Channan, ADG PP 'B'
37.	Maj Gen JV Prasad, MD ECHS
38.	Maj Gen MK Sagoch, DG(Res.)
39.	IG KR Suresh, DDG (Ops & CS)
40.	Cmde SK Chauhan, PD DGR
41.	Air Cmde Sreeji, Director (Trg)
42.	Brig Mrigendra Kumar, Secy., KSB
43.	Brig SBK Singh, Dy MD ECHS
44.	DIG SC Gupta, PD(P&B)
45.	DIG Yoginder Dhaka, D(Plans)
46.	Shri Purusottam Bej, Director, Budget, Finance & Material Management
47.	Shri K.C. Gupta, DDG
48.	Shri Harendra Singh, DDG
49.	Shri Madhukar Naik, DDG(Lands-I)
50.	Smt. Shalini Pandey, DDG(Cantt)
51.	Smt. Sharmistha Maitra, DDG(Adm/Coord)
52.	Dr. Ravindra Singh, Director
53.	Shri Pankaj Srivastava, Director (Lands)
54.	Gp Capt Regi Sukumaran, Director (P&FC) ECHS
55.	Shri Ambarish Barman, Director (Budget)

56.	Shri Pankaj Srivastava, Director (Lands)
57.	Dr. PP Sharma OSD(Res.II)
58.	Brig UK Ojha, Brig FP(B)
59.	Brig Tarun Agrawal, Brig FP(A)
60.	Brig Hardev Singh Sohi, Brig DIAV
61.	Brig Vikramjit Singh Gill, MA to VCOAS
62.	Brig Sukriti S Dahiya, Brig Budget
63.	Brig SB Singh, Brig P&M
64.	Brig Yogesh Chaudhary, Brig P&M
65.	Brig Gurpreet Singh, Brig PP (Plans)

2. At the outset, the Chairperson welcomed the Members of the Committee and informed them of the agenda for the Sitting i.e. oral evidence of the representatives of Ministry of Defence in connection with examination of Demands for Grants for the year 2020-21 on the subjects 'General Defence Budget, Ministry of Defence (Civil), Directorate General Defence Estates (DGDE), Ex-Servicemen Welfare, Ex-Servicemen Contributory Health Scheme (ECHS) and Coast Guard Organization'. He also welcomed Dr. Sudhanshu Trivedi, a new Member to the Committee. The Committee then invited the representatives of the Ministry of Defence and the Services/Organisations. The Chairperson welcomed the representatives to the Sitting of the Standing Committee on Defence and drew their attention to Direction 55(1) of the Directions by the Speaker, Lok Sabha regarding confidentiality of the proceedings. He further emphasized that the Ministry should vet the draft Reports from security view-point within the prescribed timeline, i.e., two days.

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 touching upon Defence Services Estimates and other Demands for Grants of the Ministry of Defence.

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

- i. Difference between projection and allocation of funds;
- ii. Reforms initiated by the Ministry of Defence to streamline expenditure and mobilize additional resources;



- iii. Challenges faced due to increasing Defence pension liabilities and steps taken/contemplated to address it;
- iv. Responsibilities of the Chief of Defence Staff;
- v. Bringing about jointness and integration amongst the three Services;
- vi. Initiatives to promote Research and Development in Defence sector;
- vii. Modernization of the Forces;
- viii. Revenue generation by commercialization of suitable Defence lands;
- ix. Steps taken to promote Defence exports
- x. Technology used for countering infiltration;
- xi. Safe storage of arms and ammunition in Ammunition Depots;
- xii. Rescue of jawans hit/trapped by avalanches; and
- xiii. Mechanisms to eliminate suicide cases amongst the Forces .

5. Thereafter, a Power Point Presentation by the representatives of the Directorate General Defence Estates (DGDE) was made. This was followed by extensive discussion on the following points:

- i. Need for amendment of Cantonment Board Act, 2006;
- ii. Proposal to convert civil areas of Cantonments into municipalities;
- iii. Commercial use of leased properties in Cantonment areas;
- iv. Feasibility of extension of lease period for residential purposes in Cantonment Areas and steps being taken for a permanent lease policy;
- v. Commercial use of suitable Defence Lands; and
- vi. Issues related to convenience of the civilian population residing in the Cantonment areas.

6. Next, a Power Point Presentation was made by the representatives of the Department of Ex-Servicemen Welfare. This was followed by detailed deliberations on following issues:

- i. Difference between projection and allocation of funds;
- ii. Issues related to welfare of Ex-Servicemen such as toll tax exemption, construction of Sainik Rest Houses, payment of ex-gratia to the dependents of martyrs;
- iii. Anomalies in allowance to personnel posted in North-Eastern parts;

- iv. Rationalization of manpower in Army; and
- v. Modernisation.

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

- i. Issue of pendency of payments of bills of hospitals empanelled under ECHS;
- ii. Authorised and actual manpower for ECHS Polyclinics;
- iii. Merger of Military hospitals with existing ECHS Polyclinics; and
- iv. Major achievements of ECHS.

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

- i. Budgetary provisions for Indian Coast Guard; and
- ii. Steps taken to address challenges and constraints faced by the Indian Coast Guard.

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

**The Committee then adjourned.**

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

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

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

The Committee sat on Tuesday, the 18 February, 2020 from 1400 hrs. to 1800 hrs. in Committee Room No. 62, Parliament House, New Delhi.

**PRESENT**

**SHRI JUAL ORAM**

-

**CHAIRPERSON**

**MEMBERS**

**LOK SABHA**

2. Shri Ajay Bhatt
3. Shri Nitesh Ganga Deb
4. Shri Annasaheb Shankar Jolle
5. Shri Kapil Moreshwar Patil
6. Shri Anumula Revanth Reddy
7. Dr. Shrikant Eknath Shinde,
8. Shri Brijendra Singh
9. Shri Mahabali Singh
10. Shri Kotagiri Sridhar
11. Dr. Kalanidhi Veeraswamy

**RAJYA SABHA**

12. Dr. Ashok Bajpai
13. Shri Prem Chand Gupta
14. Shri V. Lakshmikantha Rao
15. Dr. T. Subbarami Reddy
16. Lt. Gen. Dr. D.P. Vats
17. Dr. Sudhanshu Trivedi

## **SECRETARIAT**

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

### **LIST OF WITNESSES**

#### **MINISTRY OF DEFENCE**

<b>Sl. No.</b>	<b>Name &amp; Designation</b>
1.	Gen. Bipin Rawat, CDS & Secy. DMA
2.	Dr Ajay Kumar, Defence Secretary
3.	Smt. Gargi Kaul, Secy. Def. Fin.
4.	Ms. Mala Dutt, AS & FA
5.	Shri Jiwesh Nandan, Additional Secretary
6.	Shri VL Kantha Rao, Addl. Secy. (DP)
7.	Lt. Gen TK Chawla, DG FP
8.	Lt. Gen SK Upadhya, MGO
9.	Lt. Gen Sanjay Chauhan, DGQA
10.	Lt. Gen Paramjit Singh, DGMO
11.	Lt. Gen SK Shrivastava, E-in-C
12.	Lt. Gen Sanjay Verma, DGWE
13.	Lt. Gen SK Saini, VCOAS
14.	Lt Gen SS Hasabnis, DCOAS(P&S)
15.	Lt. Gen Raj Shukla, DG PP
16.	Lt Gen Rajeev Chopra, DGNCC
17.	Lt. Gen Harpal Singh, DGBR
18.	Ms. Nazli Shayin, Joint Secy. (Trg.)
19.	Shri Rajeev Singh Thakur, JS(E,L&V)
20.	Shri Shantanu, JS(Works & PA)
21.	Ms. Richa Misra, JS(BR)
22.	Shri AN Das, Addl FA & JS
23.	Shri RK Karna, Addl. FA & JS
24.	Shri Ashwini Kumar, Addl FA & JS
25.	Shri Subir Mallick, Addl. FA & JS

26.	Shri Rajesh Sharma, Addl. FA & JS
27.	Shri Vedveer Arya, FM(MS)
28.	Shri Ghayas Uddin Ahmed, FM(LS)
29.	Shri Puneet Agarwal, FM(Air)
30.	Maj Gen H Dharmarajan, ADG FP
31.	Maj Gen RK Malhotra, ADGQA(A)
32.	Maj Gen SK Khanna, DG Works
33.	Maj Gen Virendra Singh
34.	Maj Gen AK Channan, ADG PP 'B'
35.	Shri Rajeev Ranjan, ADG(Adm)
36.	Shri AK Agarwal, DDG(West)
37.	Brig J James
38.	Brig UK Ojha, Brig FP(B)
39.	Brig Tarun Agarwal, Brig FP(A)
40.	Brig Mohit Nautiyal, DDGW(PPC&Est)
41.	Brig Vinayak Saini
42.	Brig Vikramjit Singh Gill, MA to VCOAS
43.	Brig Sukriti S Dahiya, Brig Budget
44.	Brig SB Singh, Brig P&M
45.	Brig Yogesh Chaudhary, Brig P&M
46.	Brig Gurpreet Singh, Brig PP (Plans)
47.	Cmde G. Rambabu
48.	Shri AK Jain, SE(Civil)

2. At the outset, the Chairperson welcomed the Members of the Committee and informed them of the agenda for the Sitting i.e. deliberation on the subjects 'Army, Border Roads Organization (BRO), Military Engineer Services (MES), Directorate General of Quality Assurance (DGQA), National Cadet Corps (NCC) and Sainik Schools' in connection with examination of Demands for Grants 2020-21. The Committee then invited the representatives of the Ministry of Defence and the Services/Organisations.

3. 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. Budgetary allocation to Army;
- ii. Maintaining ideal ratio between Revenue and Capital Budget;
- iii. Modernization of Army;
- iv. Indigenization efforts of Army;
- v. Clothing in difficult areas;
- vi. Optimization of manpower;
- vii. Protection of troops from Corona virus; and
- viii. Exhibitions in various constituencies.

4. Thereafter, a Power Point presentation on Border Roads Organization (BRO) was made. This was followed by extensive discussion on the following points:

- i. Manpower strength;
- ii. Feasibility of levying toll tax on commercial vehicles to generate revenue;  
and
- iii. Environmental/forest clearances to BRO.

5. Thereafter, a Power Point presentation was made by the representatives of Military Engineer Services (MES) covering following issues:

- i. Budgetary provisions for MES; and
- ii. Initiatives in MES.

6. 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. Complete utilisation of budget;
- ii. Manpower strength;
- iii. Quality check of imports; and
- iv. Testing of ammunition.

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

- i. Intake of NCC students in the Armed Forces;
- ii. Percentage of selection of 'C' certificate holders in SSB;
- iii. Reservation for NCC students in higher education or employment in State and Centre;
- iv. CSR funds from the PSUs; and
- v. Employment opportunities for NCC trained youth in Defence Production corridors.

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

- i. Defence Scholarships;
- ii. Role of the State Government;
- iii. Intake of Sainik School students in NDA and Naval Academy;
- iv. Difference between projection and allocation in budget;
- v. Exploration of CSR funding;
- vi. Earmarking separate head of 'Grant-in-aid' for Sainik Schools;
- vii. Budgetary provisions for Sainik Schools;

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

**The Committee then adjourned.**

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

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

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

The Committee sat on Wednesday, the 19 February, 2020 from 1400 hrs. to 1700 hrs. in Committee Room No. 53, Parliament House, New Delhi.

**PRESENT**

**SHRI JUAL ORAM**

–

**CHAIRPERSON**

**MEMBERS**

**LOK SABHA**

2. Shri Ajay Bhatt
3. Shri Annasaheb Shankar Jolle
4. Shri Kapil Moreshwar Patil
5. Shri Anumula Revanth Reddy
6. Shri Jugal Kishore Sharma
7. Shri Brijendra Singh
8. Shri Kotagiri Sridhar
9. Dr. Kalanidhi Veeraswamy

**RAJYA SABHA**

10. Dr. Ashok Bajpai
11. Shri Prem Chand Gupta
12. Shri V. Lakshmikantha Rao
13. Lt. Gen. Dr. D.P. Vats
14. Dr. Sudhanshu Trivedi



## **SECRETARIAT**

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

### **LIST OF WITNESSES**

#### **MINISTRY OF DEFENCE**

<b>Sl. No.</b>	<b>Name &amp; Designation</b>
1.	Gen. Bipin Rawat, CDS & Secy. DMA
2.	Dr Ajay Kumar, Defence Secretary
3.	Smt. Gargi Kaul, Secy. Def. Fin.
4.	Ms. Mala Dutt, AS & FA
5.	Shri Jiweesh Nandan, Additional Secretary
6.	Shri VL Kantha Rao, Addl. Secy. (DP)
7.	Air Mshl HS Arora, VCAS
8.	Air Mshl Sandeep Singh, DCAS
9.	Air Mshl BR Krishna, DG Air (Ops)
10.	Air Mshl Rajeev Sachdeva, DCIDS(PP&FD)
11.	VAdm G Ashok Kumar, VCNS
12.	VAdm R Hari Kumar, CISC
13.	Lt. Gen Gopal R, QMG
14.	Lt. Gen SK Upadhya, MGO
15.	Lt. Gen TK Chawla, DG FP
16.	Lt. Gen Sanjay Verma, DGWE
17.	Lt. Gen SK Saini, VCOAS
18.	Lt Gen SS Hasabnis, DCOAS(P&S)
19.	Lt. Gen Raj Shukla, DG PP
20.	Shri Vishal Gagan, Joint Secretary (Coord)
21.	Shri AN Das, Addl FA & JS
22.	Shri RK Karna, Addl. FA & JS

23.	Shri Ashwini Kumar, Addl FA & JS
24.	Shri Subir Mallick, Addl. FA & JS
25.	Shri Rajesh Sharma, Addl. FA & JS
26.	Shri Vedveer Arya, FM(MS)
27.	Shri Ghayas Uddin Ahmed, FM(LS)
28.	Shri Puneet Agarwal, FM(Air)
29.	Maj Gen H Dharmarajan, ADG FP
30.	Maj Gen RV Singh, ACIDS(FP)
31.	Maj Gen AK Channan, ADG PP 'B'
32.	RAdm Sameer Saxena, ACNS(P&P)
33.	RAdm Kapil Mohan Dhir, JS(Navy)
34.	AVM J Mishra, ACAS (Proj)
35.	AVM SK Jha, JS(Air)
36.	Air Cmde VN Srinivas, Fin P
37.	Brig UK Ojha, Brig FP(B)
38.	Brig Tarun Agarwal, Brig FP(A)
39.	Brig Vikramjit Singh Gill, MA to VCOAS
40.	Brig Sukriti S Dahiya, Brig Budget
41.	Brig SB Singh, Brig P&M
42.	Brig Yogesh Chaudhary, Brig P&M
43.	Brig Gurpreet Singh, Brig PP (Plans)
44.	Cmde Joginder Chandna, Cmde (Budget)
45.	Shri Ambarish Barman, Dir. (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 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 Navy. This was followed by detailed deliberations on the following issues:

- (i) shortfall in demand and allocation of budget,
- (ii) planning projects on self financing model,
- (iii) manpower and training,
- (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) implementation of safety measures,
- (x) challenges in Indian Ocean Region and preparedness of Navy, etc.

4. Thereafter, a presentation on Joint Staff was made which was followed by discussion on following points:

- (i) role and responsibilities of Joint Staff,
- (ii) intelligence gathering and dissemination, etc.

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

- i. aircraft maintenance issues by Hindustan Aeronautics Limited (HAL);
- ii. squadron strength and geo-political challenges in the region;
- iii. proposal for IAF pilots travelling to space;
- iv. shortfall in budget;
- v. decline in percentage of budget;
- vi. increasing use of Unmanned Air Vehicles and drones;
- vii. use of missiles in air defence ;
- viii. Difference between projection and allocation of funds and effect on Air defence preparedness, etc.

6. Thereafter, a presentation was given by Canteen Stores Department and followed by discussion on following points:

- (i) Commencement of online shopping facilities,
- (ii) Manpower Strength,

- (iii) Budgetary Provisions,
- (iv) Qualitative requirements of opening Unit Run Canteens in an area,
- (v) Use of Technology in Central Warehousing System in CSD, etc.

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

**The Committee then adjourned.**

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

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

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

The Committee sat on Thursday, the 20 February, 2020 from 1400 hrs. to 1630 hrs. in Committee Room 'C', Parliament House Annexe, New Delhi.

**PRESENT**

**SHRI JUAL ORAM**

-

**CHAIRPERSON**

**MEMBERS**

**LOK SABHA**

2. Shri Ajay Bhatt
3. Shri Annasaheb Shankar Jolle
4. Shri Pashupati Kumar Paras
5. Shri Kapil Moreshwar Patil
6. Shri Anumula Revanth Reddy
7. Shri Jugal Kishore Sharma
8. Shri Brijendra Singh
9. Shri Kotagiri Sridhar

**RAJYA SABHA**

10. Dr. Ashok Bajpai
11. Shri Prem Chand Gupta
12. Shri V. Lakshmikantha Rao
13. Shri Sanjay Raut
14. Lt. Gen. Dr. D.P. Vats

## **SECRETARIAT**

1. Smt. Kalpana Sharma - Additional Secretary
2. Shri Rahul Singh - Deputy Secretary

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

<b><u>Sl. No.</u></b>	<b><u>Name</u></b>		<b><u>Designation</u></b>
1.	Gen. Bipin Rawat	-	CDS & Secy. DMA
2.	Dr Ajay Kumar	-	Defence Secretary
3.	Smt. Sanjeevane Kuty	-	Secy. (ESW)
4.	Smt. Gargi Kaul	-	Secy. Def. Fin.
5.	Shri Sanjiv Mittal	-	CGDA
6.	Mrs. Mala Dutt	-	Addl. Secy. & FA (Acq)
7.	Shri Jiweh Nandan	-	Additional Secretary
8.	Shri VL Kantha Rao	-	Addl. Secy. (DP)
9.	Shri Apurva Chandra	-	DG(Acq)
10.	VAdm G Ashok Kumar	-	VCNS
11.	Lt. Gen TK Chawla	-	DG FP
12.	Lt. Gen SK Upadhya	-	MGO
13.	Lt. Gen RK Anand	-	DG LW&E
14.	Lt. Gen Sanjay Verma	-	DGWE
15.	Lt. Gen SK Shrivastava	-	E-in-C
16.	Lt. Gen Arvind Dutta	-	Adjutant General
17.	Lt. Gen Manoj C Pande	-	DG (DC&W)
18.	Lt. Gen SK Saini	-	VCOAS
19.	Lt Gen SS Hasabnis	-	DCOAS(P&S)
20.	Lt. Gen Raj Shukla	-	DG PP
21.	Lt. Gen Gopal R	-	QMG
22.	Air Mshl HS Arora	-	VCAS
23.	Air Mshl Sandeep Singh	-	DCAS
24.	Air Mshl Rajeev Sachdeva	-	DCIDS(PP&FD)
25.	Air Mshl BR Krishna,	-	DG Air (Ops)
26.	Dr. Md Nazumuddin	-	Eco Adv & JS (DOMW)
27.	Shri Vishal Gagan	-	Joint Secretary (Coord)
28.	Shri Pudi Hari Prasad	-	JS(ESW)
29.	Shri Sanjai Singh	-	JS&AM(MS)
30.	Shri Shantanu	-	JS(Works & PA)
31.	Smt. Dipti Mohil Chawla	-	JS&AM(LS)
32.	Shri Sanjai Singh	-	JS&AM(Air)
33.	Shri AN Das	-	Addl FA & JS
34.	Shri RK Karna	-	Addl. FA & JS
35.	Shri Ashwini Kumar	-	Addl FA & JS
36.	Shri Subir Mallick	-	Addl. FA & JS

37.	Shri Rajesh Sharma	-	Addl. FA & JS
38.	Shri Vedveer Arya	-	FM(MS)
39.	Shri Ghayas Uddin Ahmed	-	FM(LS)
40.	Shri Puneet Agarwal	-	FM(Air)
41.	Ms. Anuradha Mitra	-	Addl. CGDA
42.	Shri Vishvajit Sahay	-	PCDA(Pension)
43.	RAdm Sameer Saxena	-	ACNS(P&P)
44.	RAdm Kapil Mohan Dhir	-	JS(Navy)
45.	Maj Gen H Dharmarajan	-	ADG FP
46.	Maj Gen Jagdeep Singh Ishar	-	DG MAP
47.	Maj Gen AK Channan	-	ADG PP 'B'
48.	AVM J Mishra	-	ACAS (Proj)
49.	IG TP Sadanandan	-	DDG(M&M)
50.	Shri Kanwaldeep Singh	-	Jt CGDA (Pen &PD)
51.	Smt. Vinakshi Gupta	-	Jt. CGDA
52.	Shri Virender Kumar Adhana	-	Dir. (Acq)
53.	Brig Paritosh Shah	-	
54.	Brig UK Ojha	-	Brig FP(B)
55.	Brig Tarun Agrawal	-	Brig FP(A)
56.	Brig Vikramjit Singh Gill	-	MA to VCOAS
57.	Brig Sukriti S Dahiya	-	Brig Budget
58.	Brig SB Singh	-	Brig P&M
59.	Brig Yogesh Chaudhary	-	Brig P&M
60.	Brig Gurpreet Singh	-	Brig PP (Plans)
61.	Dr. PP Sharma	-	OSD(Res.II)
62.	Shri Jitender Kumar	-	DS(Res.I)
63.	Shri Ajay Kumar Agarwal	-	DS(Pen/P)
64.	Air Cmde VN Srinivas	-	Fin P
65.	Shri T.D. Diwivedi	-	Director (Air-II)
66.	Shri Ambarish Barman	-	Dir. (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. The Chairperson welcomed the representatives to the 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 representative of the Ministry then gave power point presentation on Married Accommodation Project. This was followed by detailed discussions on the subjects and Members asked questions on the following issues:

- (i) Budgetary allocations for MAP,

- (ii) NBCC model for MAP,
- (ii) requirement of equal value infrastructure,
- (ii) review of satisfaction level of the Forces,
- (iii) early completion of MAP,
- (iv) use of latest technologies in construction of MAP.

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

- i. Ensuring quality of products manufactured 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. Value of contracts in terms of amount being awarded to foreign vendors; and
- v. Steps taken to achieve timely, effective and efficient procurement;

5. Thereafter, a Power Point presentation on Ministry of Defence (Pension) was made by representative of Ministry of Defence. This was followed by extensive discussion on the following points:

- (i) Review of financial implications of Defence Pensions,
- (ii) Broad banding of soldiers and officers.
- (iii) Issues related to One Rank One Pension (OROP)
- (iv) Income Tax provisions for battle casualties i.e. service personnel who were invalidated from active services

6. 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 TENTH SITTING OF THE STANDING COMMITTEE ON  
DEFENCE (2019-20)**

The Committee sat on Friday, the 21 February, 2020 from 1100 hrs. to 1700 hrs. in Committee Room 'C', Parliament House Annexe, New Delhi.

**PRESENT**

**SHRI JUAL ORAM**

–

**CHAIRPERSON**

**MEMBERS**

**LOK SABHA**

2. Shri Ajay Bhatt
3. Shri Nitesh Ganga Deb
4. Shri Annasaheb Shankar Jolle
5. Shri Pashupati Kumar Paras
6. Shri Jugal Kishore Sharma
7. Shri Brijendra Singh
8. Shri Mahabali Singh

**RAJYA SABHA**

9. Dr. Ashok Bajpai
10. Shri Prem Chand Gupta
11. Shri V. Lakshmikantha Rao
12. Shri Sanjay Raut
13. Lt. Gen. Dr. D.P. Vats
14. Dr. Sudhanshu Trivedi

## **SECRETARIAT**

1. Smt. Kalpana Sharma - Additional Secretary
2. Shri Rahul Singh - Deputy Secretary

### **LIST OF WITNESSES**

#### **MINISTRY OF DEFENCE**

<b>Sl. No.</b>	<b>Name &amp; Designation</b>
1.	Shri Raj Kumar, Secretary(DP)
2.	Dr. G Satheesh Reddy, Secy. DR&D
3.	Smt. Gargi Kaul, Secy. Def. Fin.
4.	Shri Hari Mohan, DGOF & Chairman/OFB
5.	Shri Jiwesh Nandan, Additional Secretary
6.	Shri CS Vishwakarma, AV (OFB)
7.	Ms. Mala Dutt, AS & FA
8.	Dr. MSR Prasad, DS&DG(MSS)
9.	Dr. Sudhir Kumar Mishra, DS&DG(BrahMos)
10.	Ms. J. Manjula, DS&DG(ECS)
11.	Dr. Guru Prasad, DS&DG (PC&SI)
12.	Dr. Chitra Rajagopal, DS&DG(R&M)
13.	Dr. Samir V Kamat, DS&DG(NS&M)
14.	Dr. Tessy Thomas, DS&DG(Aero)
15.	Shri Pravin K Mehta, DS&DG(ACE)
16.	Shri Sudhir Gupta, OS&DG(TM)
17.	Shri KS Varaprasad, DS&DG(HR)
18.	Dr. AK Singh, DS&DG(LS)
19.	Dr. Sudhir Kamath, OS&DG(MED & CoS)
20.	Ms. Nabanita R Krishnan, OS&DG(SAM)
21.	Lt. Gen SK Saini, VCOAS
22.	Shri Vishal Gagan, Joint Secretary (Coord)
23.	Dr. Amit Sahai, JS(P&C)
24.	Shri Puneet Agarwal, JS(LS)
25.	Dr. Md. Nazmuddin, Eco Advisor
26.	Shri RK Karna, Addl. FA & JS
27.	Shri Ashwini Kumar, Addl FA & JS
28.	Shri Subir Mallick, Addl. FA & JS
29.	Shri Rajesh Sharma, Addl. FA & JS
30.	Shri Vedveer Arya, FM(MS)
31.	Shri Ghayas Uddin Ahmed, FM(LS)
32.	Shri Puneet Agarwal, FM(Air)
33.	Shri Prateek Kishore, OS & Dir., P&C
34.	Shri Atul D Rane, OS & Dir, DIC
35.	Shri Purusottam Bej, OS & Dir, Budget, Finance & Material

	Management
36.	Dr. Chandrika Kaushik, OS& Dir, DISB
37.	Dr. Ravindra Singh, Dir., Parl. Affairs
38.	Shri VM Rao, DDG/Coord, OFBND0
39.	Shri Vijay Mittal, DDG/OFBND0
40.	Shri Vivek C Verma, Secretary, OFB
41.	Shri PK Dash, DDG/P&P, OFB
42.	Shri N.I. Laskar, DDG/Bud, OFB
43.	Shri B Krishnamoorthy, Director/OFBND0
44.	Ms. Mala Dutt, AS & FA
45.	Shri VL Kantha Rao, Addl. Secy. (DP)
46.	Lt. Gen SK Upadhya, MGO
47.	Lt. Gen Sanjay Verma, DGWE
48.	Lt. Gen TK Chawla, DG FP
49.	Lt Gen SS Hasabnis, DCOAS(P&S)
50.	Lt. Gen Raj Shukla, DG PP
51.	Lt. Gen Gopal R, QMG
52.	Cmde Siddharth Mishra (Retd), CMD BDL
53.	Shri R. Madhavan, CMD HAL
54.	Shri D.K Hota, CMD BEML
55.	Cmde B. B Nagpal, NM, CMD GSL
56.	Dr. D.K Likhil, CMD MIDHANI
57.	RAdm V K Saxena (Retd), CMD GRSE
58.	VAdm Narayan Prasad, IN(Retd), CMD MDL
59.	Shri Chandraker Bharti, JS(Aero)
60.	Shri Sanjay Jaju, JS(DIP)
61.	Shri Shrish kumar, OSD(SK)
62.	Maj Gen H Dharmarajan, ADG FP
63.	Maj Gen AK Channan, ADG PP 'B'
64.	Maj Gen Surender Pavamani, ADG EM
65.	Mrs. Anandi Ramalingam, Dir. (Marketing) BEL
66.	Cdr JP Gupta, Dir (CP&P), HSL
67.	Brig UK Ojha, Brig FP(B)
68.	Brig Tarun Agrawal, Brig FP(A)
69.	Brig Vikramjit Singh Gill, MA to VCOAS
70.	Brig Sukriti S Dahiya, Brig Budget
71.	Brig SB Singh, Brig P&M
72.	Brig Yogesh Chaudhary, Brig P&M
73.	Brig Gurpreet Singh, Brig PP (Plans)
74.	Shri Ambarish Barman, Dir. (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. The Chairperson welcomed the representatives to the sitting of the Standing Committee on Defence and requested them to brief the Committee on various issues included in the agenda for the day. 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) Use of CSR funds of DPSUs for Sainik Schools.
- 2) To make efforts to achieve 90% of Indian made technique, knowledge and skill in Defence Production by DPSUs.
- 3) Inadequate capacity utilization due to low order book of DPSUs which leads to higher cost of production.
- 4) Efforts being made by Department of Defence Production to minimize the imported items.
- 5) Modification of Defence Procurement Procedure, 2016 and giving preference to 'Buy Indian' which means Indian designing, developing and manufacturing.
- 6) Efforts of Defence PSUs to indigenise, import substitution, patent filing etc.
- 7) Overhauling of imported Aircraft engines in the country.
- 8) Limitation of exports due to sensitive nature of items
- 9) Issue of Orders from Middle-East for guns and tanks etc.
- 10) Need to release money and improve reserve position of HAL.
- 11) Quality of Radars manufactures by BEL.
- 12) Development of long-range radars by DRDO and BEL.
- 13) Decline in production of DPSUs.
- 14) Measures to be taken to increase Defence Exports by DPSUs.

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

- 1) Use of ammunition for practice by Armed Forces
- 2) Present status of MBT Arjun
- 3) Exporting of Ordnance Factories' products to other countries
- 4) Upgradation of technology used by Ordnance Factories
- 5) Shortage of manpower
- 6) Supply of products on 'No profit No loss' to Armed Forces

- 7) Procurement of ammunition by Army through Ordnance Factories
- 8) Ordnance factories interaction with Army for development of products
- 9) Late receipt of indents from Army
- 10) Lack of orders from Army
- 11) Export of High caliber ammunition
- 12) Socks, shoes and Uniform to be declared non-core items.

5. Thereafter, a Power Point presentation was given on Defence Research and Development which was followed by discussion on the following points:

- 1) Requirement of additional funds to take up futuristic projects,
- 2) Development of new technologies
- 3) Manpower requirement in DRDO
- 4) Role of DRDO in selection process of officers
- 5) Coordination in Research and Development with private Sector
- 6) Basic Research in Academia
- 7) Coordination between DRDO and Service Users
- 8) Opening of eight centres of excellence in advanced areas
- 9) Self-reliance in technology
- 10) Free of cost Technology transfer to private industries
- 11) Skill development and training by DRDO to local youths of two Defence Industrial Corridors-Tamil Nadu and Uttar Pradesh.

6. 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.**

**STANDING COMMITTEE ON DEFENCE**

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

The Committee sat on Thursday, the 12 March 2020 from 1000 hrs. to 1030 hrs. in Committee Room 'C', Parliament House Annexe, New Delhi.

**PRESENT**

**SHRI JUAL ORAM**

-

**CHAIRPERSON**

**LOK SABHA**

- |    |                                 |
|----|---------------------------------|
| 2  | Shri Hanuman Beniwal            |
| 3  | Shri Ajay Bhatt                 |
| 4  | Shri Devusinh J. Chauhan        |
| 5  | Shri Annasaheb Shankar Jolle    |
| 6  | Prof (Dr.) Ram Shankar Katheria |
| 7  | Shri Kapil Moreshwar Patil      |
| 8  | Shri Jugal Kishore Sharma       |
| 9  | Dr. Shrikant Eknath Shinde      |
| 10 | Shri Brijendra Singh            |
| 11 | Shri Kotagiri Sridhar           |
| 12 | Dr. Kalanidhi Veeraswamy        |

**RAJYA SABHA**

- |    |                           |
|----|---------------------------|
| 13 | Dr. Ashok Bajpai          |
| 14 | Shri V. Lakshmikantha Rao |
| 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. Shri Rahul Singh - Deputy Secretary

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

1. Fifth Report of the Standing Committee on Defence (17th Lok Sabha) on 'Demands for Grants of the Ministry of Defence for the year 2020-21 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, 19, 20 and 21)';
2. Sixth Report of the Standing Committee on Defence (17th Lok Sabha) on 'Demands for Grants of the Ministry of Defence for the year 2020-21 on Army, Navy, Air Force and Joint Staff (Demand Nos. 19 and 20)';
3. Seventh Report of the Standing Committee on Defence (17th Lok Sabha) on 'Demands for Grants of the Ministry of Defence for the year 2020-21 on Capital Outlay on Defence Services, Procurement Policy, Defence Planning and Married Accommodations Project (Demand No. 19 and 20)'; and
4. Eighth Report of the Standing Committee on Defence (17th Lok Sabha) on 'Demands for Grants of the Ministry of Defence for the year 2020-21 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.

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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