22

STANDING COMMITTEE ON DEFENCE

(2015-2016)

(SIXTEENTH LOK SABHA)

MINISTRY OF DEFENCE

DEMANDS FOR GRANTS (2016-17)

CAPITAL OUTLAY ON DEFENCE SERVICES, PROCUREMENT POLICY AND DEFENCE PLANNING

(DEMAND NO. 23)

TWENTY-SECOND REPORT

LOK SABHA SECRETARIAT

NEW DELHI

May, 2016/ Vaisakha, 1938 (Saka)

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(DEMAND NO. 23)

Presented to Lok Sabha on 03.05.2016

Laid in Rajya Sabha on 03.05.2016

LOK SABHA SECRETARIAT

NEW DELHI

May, 2016/ Vaisakha, 1938 (Saka)

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COMPOSITION OF THE STANDING COMMITTEE ON DEFENCE (2015-16)

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

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2. Shri Suresh C. Angadi
3. Shri Shrirang Appa Barne
4. Shri Dharambir
5. Shri Thupstan Chhewang
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21. Smt. Pratyusha Rajeshwari Singh

Rajya Sabha

22. Shri K. R. Arjunan
23. *****Shri Anand Sharma
24. Shri Rajeev Chandrasekhar
25. Shri A.U. Singh Deo
26. Shri Harivansh
27. Shri Vinay Katiyar
28. Shri Hishey Lachungpa
29. Shri Madhusudan Mistry
30. Smt. Ambika Soni
31. Shri Tarun Vijay

*** Shri Anand Sharma resigned *vide* Notification No. RS 10/2016 - T dt. 07.03.2016.**

SECRETARIAT

1.	Smt. Kalpana Sharma	-	Joint Secretary
2.	Shri T.G. Chandrasekhar	-	Director
3.	Smt. Jyochanmayi Sinha	-	Additional Director
4.	Shri Rahul Singh	-	Under Secretary

INTRODUCTION

I, the Chairperson of the Standing Committee on Defence (2015-16), having been authorised by the Committee to submit the report on their behalf, present this Twenty-second Report on 'Demands for Grants of the Ministry of Defence for the year 2016-17 on Capital Outlay on Defence Services (Demand No. 23)'.

2. The Demands for Grants of the Ministry of Defence were laid on 16 March 2016 in Lok Sabha. The Committee took evidence of the representatives of the Ministry of Defence on 4, 5 & 6 April 2016. The draft Report was considered and adopted by the Committee at their Sitting held on 29 April 2016.

3. The Committee wish to express their thanks to the officers of the Ministry of Defence and representatives of the three Services 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;
29 April, 2016
09 Vaisakha, 1938 (Saka)

Maj Gen B C Khanduri, AVSM (Retd),
Chairperson,
Standing Committee on Defence

REPORT

Part I

CHAPTER I

CAPITAL OUTLAY FOR DEFENCE SERVICES

DEMAND NO. 23

Demand No. 23 pertains to Capital Outlay on Defence Services, i.e., Army, Navy, Air Force, Joint Staff, Ordnance Factories, Defence Research & Development Organisation and Director General Quality Assurance(DGQA). The Capital Outlay for Army includes land, aircraft & aero engines, heavy and medium vehicles, other equipment, military farms, rolling stock, Ex-Servicemen Contributory Health Scheme, Rashtriya Rifles, National Cadet Corps, construction works, National Defence Academy and Married Accommodation Project. Capital Outlay for Navy includes Land, Aircraft and Aero Engines, heavy and medium vehicles, other equipment, construction works, Married Accommodation Project, Naval Fleet and Naval Dockyards/Projects.

Capital Outlay for Air Force includes land, aircraft & aero engines, heavy and medium vehicles, other equipment, construction works, Married Accommodation Project and North Eastern Projects and special projects. Capital Outlay for Ordnance Factories includes machinery and equipment, work and suspense. Capital Outlay for Research & Development Organization includes machinery and equipment and works. The Capital Outlay is also being provided for DGQA.

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

1.2 The projections made by the three Services, allocations made at BE and RE stage and the expenditure incurred during the last two years of the Eleventh Plan, the four years of the Twelfth Plan, and the projected outlay and BE allocation for the year 2016-17, separately for Capital and Revenue Heads, are as follows:-

REVENUE

(Rs. in Crore)

Year	Service	BE		RE		Expenditure
		Projected	Allocated	Projected	Allocated	
2010-11	Army	62,234.60	56,769.11	63,917.31	59,941.83	62,383.60
	Navy	10,723.76	9,329.67	11,147.73	9,833.52	9,979.02
	Air Force	17,483.60	15,210.73	15,249.01	15,003.55	14,551.07
2011-12	Army	77,350.49	63,609.80	74,252.98	70,810.98	69,133.47
	Navy	13,658.47	10,589.06	14,450.48	12,146.93	11,903.80
	Air Force	20,015.46	15,927.95	16,123.16	16,137.38	16,772.83
2012-13	Army	83,861.62	77,327.03	83,120.33	75,520.20	76,689.82
	Navy	15,835.71	12,548.02	15,765.78	11,401.91	11,833.65
	Air Force	19,887.73	17,705.81	20,942.36	17,103.72	17,529.02
2013-14	Army	93,355.38	81,119.20	91,294.13	85,516.45	85,030.92
	Navy	19,164.69	12,194.43	15,059.73	13,163.94	13,034.36
	Air Force	25,922.64	18,295.10	22,505.98	19,283.27	19,093.70
2014-15	Army	1,04,837.88	91,844.02	99,420.15	97,501.40	95,973.22
	Navy	19,570.57	13,975.79	15,753.51	13,935.79	13,678.87
	Air Force	27,073.41	20,506.84	22,368.56	20,185.86	19,741.06
2015-16	Army	1,09,758.22	1,03,315.91	1,04,408.45	1,00,106.78	85,458.16*
	Navy	18,546.58	15,525.64	15,838.30	14,635.18	12,035.49*
	Air Force	29,632.28	23,000.09	23,000.09	20,377.09	16,546.43*
2016-17 (BE)	Army	1,15,561.78 #	1,12,764.62 #			
	Navy	18,502.56	17,424.79			
	Air Force	25,728.60	23,655.83			

** Expenditure upto end of January 2016*

(# Includes BE of NCC, Military Farms, Rashtriya Rifles and ECHS which are shifted to modified Grant No. 20-MoD(Miscellaneous) from FY 2016-17)

CAPITAL

(Rs. in Crore)

Year	Service	BE		RE		Expenditure
		Projected	Allocated	Projected	Allocated	
2010-11	Army	21,633.04	17,250.84	19,177.55	15,641.16	15,856.08
	Navy	15,221.78	12,137.85	17,890.87	15,323.77	17,140.18
	Air Force	31,667.56	25,251.72	25,271.72	24,266.79	23,625.42
2011-12	Army	25,611.68	19,210.69	20,641.69	16,005.69	14,947.82
	Navy	26,882.60	14,657.83	21,482.18	17,459.08	19,211.52
	Air Force	36,186.10	30,282.03	30,282.03	27,734.78	28,841.18
2012-13	Army	28,234.60	19,237.80	18,971.09	15,749.30	14,760.69
	Navy	28,643.19	24,766.42	25,002.85	18,266.42	17,759.88
	Air Force	36,950.52	30,514.45	36,999.62	30,517.95	32,980.11
2013-14	Army	25,528.08	17,883.83	19,271.59	14,967.25	14,433.29
	Navy	33,775.53	24,149.03	27,290.06	20,418.98	20,358.85
	Air Force	64,607.84	39,208.84	65,825.22	37,750.44	38,614.93
2014-15	Army	41,936.15	26,533.60	23,832.67	21,933.54	18,586.73
	Navy	28,253.21	23,832.67	22,903.31	18,507.07	22,269.66
	Air Force	62,408.33	33,710.68	38,948.19	33,710.68	32,796.42
2015-16	Army	31,938.67	27,342.42	27,845.33	24,230.47	14,693.82*
	Navy	26,268.13	25,003.24	25,152.20	19,740.06	15,275.55*
	Air Force	46,191.96	33,686.75	35,780.78	30,442.15	26,363.84*
2016-17	Army	37,960.18	26,935.81			
	Navy	#	#			
	Air Force	30,223.31	22,000.09			
		41,266.41	29,795.42			

** Expenditure upto end of January 2016*

(# Includes BE of NCC, Military Farms, Rashtriya Rifles and ECHS which are shifted to modified Grant No. 20-MoD(Miscellaneous) from FY 2016-17)

Details of Capital Budget BE & RE during the year 2015-16 and at BE 2016-17.

	BE 2015-16	RE 2015-16	BE 2016-17
Capital (Acquisition including DGOF Supplies)	77,406.69	65,400.00	70,000.00
Capital(other than Acquisition)			
Land & Works of 3 Services (including Married Accommodation Projects)	7,587.05	8,368.34	7,923.25
DRDO, DGOF and Other Defence Departments	9,594.26	7,631.66	8,416.75
Total Capital	**94,588.00**	**81,400.00**	**86,340.00**

1.3 The Ministry of Defence supplied the following data regarding allocation to the various Services in respect of Capital Grant for the year 2016-17

(Rs. in crores)

Service/Deptt.	Allocation
Army	26,935.81#
Navy	21,041.22
Jt. Staff	958.87
Air Force	29,795.42
DGOF	735.68
R&D	6,865.73
DGQA	7.27
Total	**86,340.00**

(# Includes BE of NCC, Military Farms, Rashtriya Rifles and ECHS which are shifted to modified Grant No. 20 - MoD(Miscellaneous) from FY 2016-17)

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

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

Services Capital Acquisition Plan (SCAP), covering a five year period.

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

(Rs. in crores)

Capital Acquisition: Army (Rs. in Crore)

	2015-16 (BE)	**2015-16 (RE)**	**2016-17 (BE)**	**% Increase in 2016-17 (BE) over 2015-16 (BE)**
Aircraft & Aero-Engine	2365.4	2015.5	1565.9	-33.8
Heavy and Medium Vehicle	1783.8	1900.9	3411.7	91.3
Other Equipment	17335.2	13863.4	16173.4	-6.7
Rolling Stock	364.0	122.8	282.8	-22.3
Rashtriya Rifles	91.0	95.0	101.5	11.6
Total Acquisition	**21939.4**	**17997.6**	**21535.3**	**-1.8**

Capital Acquisition: Navy (Rs. in Crore)

	2015-16 (BE)	**2015-16 (RE)**	**2016-17 (BE)**	**% Increase in 2016-17 (BE) over 2015-16 (BE)**
Aircraft & Aero-Engine	**3466.08**	**4100**	**3805**	**9.8**
Heavy and Medium Vehicle	**11**	**35**	**35**	**218.2**
Other Equipment	**2558.64**	**2400**	**2600**	**1.6**
Joint Staff	**922.34**	**707.81**	**958.87**	**4.0**
Naval Fleet	**16049.87**	**10681**	**12467**	**-22.3**

Naval Dockyard	**1275.31**	**1177.38**	**1456.77**	**14.2**
Total Acquisition	**24283.24**	**19101.19**	**21322.64**	**-12.2**

Capital Acquisition: Air Force (Rs. in Crore)

	2015-16 (BE)	**2015-16 (RE)**	**2016-17 (BE)**	**% Increase in 2016-17 (BE) over 2015-16 (BE)**
Aircraft & Aero-Engine	**18866.01**	**18392.1**	**17833.45**	**-5.5**
Heavy and Medium Vehicle	**233.42**	**89.45**	**127.35**	**-45.4**
Other Equipment	**12382.09**	**10161.55**	**9595.22**	**-22.5**
Total Acquisition	**31481.52**	**28643.1**	**27556.02**	**-12.5**

1.4 The above tables depict the budgetary provision for Capital acquisition for the three Forces during the year 2015-16 at BE and RE and 2016-17 at BE. The budgetary allocations for Capital acquisition has declined for the three Services not only at the RE stage of 2015-16 in comparison to BE 2015-16 but also for the BE during the year 2016-17 in comparison to BE 2015-16. This decline in the allocation for Capital acquisition will definitely affect several procurement contracts including the one for the Rafale fighters which is to be finalised. The budgetary cut at BE 2016-17 indicate that all the pending procurement projects would not go through unless the Government increases the allocations at the Revised Estimate stage. The Ministry has stated that the modernisation of the Forces will proceed as planned. In case the pace of utilisation of available funds and the approval of new schemes surpasses available resources, additional funds will be sought. A close examination of the past defence budget has revealed that the Government's ability to spend has come under repeated pressure. In the past four years, the MoD has surrendered over Rs. 35,000 crore from its Capital allocations.

Ratio for Capital and Revenue outlay

1.5 The Capital and revenue ratio allocated of the Budget for the three Services for the last five years is given below:

Year	Service	Revenue	Capital
2011-12	Army	77	23
	Navy	42	58
	Air Force	34	66
2012-13	Army	80	20
	Navy	34	66
	Air Force	37	63
2013-14	Army	82	18
	Navy	34	66
	Air Force	32	68
2014-15	Army	78	22
	Navy	37	63
	Air Force	38	62
2015-16 (RE)	Army	81	19
	Navy	43	57
	Air Force	40	60
2016-17 (BE)	**Army**	**81**	**19**
	Navy	**44**	**56**
	Air Force	**44**	**56**

1.6 From the information furnished by the Ministry it is seen that the 'Revenue' to 'Capital Ratio' of the budgetary allocation in case of the Army has changed from 77:23 (77 – Revenue and 23 - Capital) in 2011-12 to 81:19 in 2015-16 and 2016-17 (BE). Similarly, in the case of the Air Force the allocation on Revenue Account has risen from 34 per cent in 2011-12 to 44 per cent in 2016-17 (BE) with commensurate fall in the allocation under the Capital Account.

1.7 During examination of Demands for Grants for the year 2015-16, the Committee were apprised that Capital Outlay is in the ratio of 30:40:30 all over the world which means that out of the total Capital Outlay, 30 per cent has to be for the category of state-of-the-art technology, 40 per cent current and 30 per cent for obsolescence. The Ministry of Defence is endeavoring to follow this standard pattern. The Committee felt that in order to achieve this standard ratio, we would have to not only enhance our

Capital outlay but also make it "Non-Lapsable and Roll-on" as an urgent change in our Financial Policy. The major reason cited by the Defence Secretary for not adhering to this standard ratio was insufficient Capital Budget. Therefore, the Committee desired that the Defence Ministry officials to make sincere efforts and ensure that the funds allocated are fully and efficiently utilized under the respective heads.

1.8 Year-on-year budgetary data shows that the actual expenditure each year in case of all the three Services is much less than the projections initially made, revised estimates and the allocation actually made. This has been the case both on revenue and Capital accounts (in the case of the Army the expenditure on Revenue account has been Rs. 85,030.92 crore in 2013-14 as compared to BE of Rs. 93,355.38 crore; Rs. 95,973.22 crore in 2014-15 as compared to the BE of 1,04,837.88 for the year. On the Capital Account, the expenditure in case of the Army for 2014-15 has been Rs. 18,586.73 crore as compared to the BE of Rs. 41,936.15 crore and allocated amount of Rs. 21,933.54 crore at the RE stage for the year). When asked to state the areas where compromises have been made or likely to be made due to reduced budgetary allocation against the projections made by the three Services and other organisations/heads, the Ministry in its written reply has submitted as under:

> 'Under the revenue segment, provision is first made for salary and other obligatory expenses. The balance allocation available is distributed to meet the requirement of stores (including ordnance), transportation (of personnel and stores), revenue works and maintenance, etc. Allocations are reviewed at Revised Estimates stage to cater for requirements which cannot be met by BE allocations.
>
> In so far as the Capital segment is concerned, funds are first set aside to meet the projected Committed Liabilities likely to materialise during the year. The remaining allocation is distributed to meet the projected requirement for other items. The procurement plan for Capital modernization schemes may have to be reviewed and re-prioritized, based on available funds.'

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

1.9 The Committee had recommended in their various reports to have Capital Budget as 'Non Lapsable' and 'Roll on'. They desired to have information whether the

Ministry has taken any steps to make the Capital Budget as ‘Non Lapsable’ and ‘Roll on’. In this regard, the Ministry submitted the following information:

> 'It may not be desirable to make the Capital Budget ‘Non-Lapsable’ and ‘Roll on’, in view of the fact that on no occasion during the last five years were any substantial amount of surplus funds available for rolling over. This can be seen from the position of utilisation of the Capital budget for the last five years, which is tabulated below:

(in Rs. crore)

Year	BE	RE	Actuals	%age utilisation
2010-11	60,000.00	60,833.26	62,056.00	102.01
2011-12	69,198.81	66,143.81	67,902.38	102.65
2012-13	79,578.63	69,578.63	70,499.12	101.32
2013-14	86,740.71	78,872.23	79,125.05	100.32
2014-15	94,587.95	81,965.24	81,887.42	99.91

1.10 On not spending the Capital funds in full, during oral evidence, the Financial Advisor to the Ministry of Defence admitted before the Committee as under:

> " Sir, I will respond what I know. I mean, whatever I know about the Non-Lapsable or Roll on funds. So far as the Capital funds are concerned, we have not been able to expend full amount even when it has been given or reduced in the RE stage. The question of Non-Lapsable or Roll on funds obviously come into the picture provided we expect to spend more and the Ministry of Finance is not able to give us. I will give you a small example to clarify this. The Capital budget for this year was Rs. 77,000 crore. That is a modernisation budget. During the RE they reduced it because of different constraints that the Ministry of Finance knows best. They reduced it to Rs. 65,400 crore. In the Capital component we have got two issues. One of them is the committed liability that is the different milestone payments that we have to make from time to time to the vendors. Then, there are new schemes and these are all for the respective Services. We got it reduced from Rs. 77,000 crore to Rs. 65400 crore. I said: “If we are in a position to spend much more than Rs. 65400 crore, what are you able to give us?” They said: “That is not an issue. We can even go up to Rs. 77,000 crore because that is your BE.” On the final analysis, there are differences. As the hon. Member mentioned, there are a lot of issues which comes about during the Capital acquisition, the contracts signed which takes about five to seven or to ten years also to materialise. There are also lapses from time to time on the part of the vendors. So, when the milestones are not achieved, we are not in a position to release the payment. Coming back to the numbers that I gave as an example, at Rs. 65,400 crore, I think, we have been able to spend only about Rs. 61000 crore."

1.11 During oral evidence, the Defence Secretary candidly admitted that the planning needs a change:

> "As you rightly said, it calls for drastic change. I do admit but the problem here is that we have a clear perspective on modernization. The long term perspective plan that we have, they lay down very clearly how the modernization is to be carried out. Out of the long term perspective plan which are role one plan with the 15 year perspective, we prepare annual acquisition plans. In fact, there are two year acquisition plans which are the Roll on of the annual acquisition plan and then, based on that, the AONs and others thins are floated because AONs are the first step procedure in any procurement. But if you look at the money that is spent on procurement, almost 90 per cent of money that is spent on procurement is based on the committed liabilities and remaining ten per cent or small amount is actually what we call the new schemes. In the other Departments, what happens is that when you have the Budget, you have clear spending programme for the year and when the Budget is given at the end of the year, you spend the Budget. Here, there is lot of uncertainty. You have an on-going procurement programme and procurement cycle is quite long. You can take anything from two years to 10 years. So, depending upon what you have contracted in the beginning and depending upon how much outflow is there, from that whatever contract has been signed, the annual outflow will be determined. So, we do not have a clear say on how much money is going to be spent in a particular year against the Budget. This is some kind of projection that we are having. This is unfortunately a case because our procurement cycles are very long. If today we want to procure something, actual procurement is going to materialize in three years or six years or seven years later. So, the initial payment that we make for anything that is finalized for the current year, for instance the contract which was finalized this year, probably must have been a contract which was initiated seven years before because of the long processes involved in procurement. Unless we break the cycle and have a system of procurement, this is bound to continue. I must admit that . .....: Sir, we have plans to change it."

Under spending

1.12 On being asked to provide details of the heads/Services under which there was under-spending during the year 2013-14 and 2014-15, with reference to final grant, the Ministry supplied the following data:

2013-14

(Rs. in crores)

Service / Department	Final Grant (Net)	Expenditure	Under-spending
Army	100562.12	99464.21	1097.91
Air Force	57991.69	57708.63	283.06
R&D	10934.17	10868.89	65.28
DGQA	771.15	766.02	5.13

2014-15

(Rs. in crores)

Service / Department	Final Grant (Net)	Expenditure	Under-spending
Army	122873.68	114559.95	8313.73
DGOF	2322.83	1577.05	745.78
R&D	13716.14	13257.98	458.16

Details of under spending for 2015-16, if any, will be available only at the end of the year after the accounts of the year are closed.

1.13 The following data contains details of the heads/Services under which there was under-spending in the Capital Budget, during the year 2014-15, with reference to final grant:

(Rs. in crores)

Service / Department	Final Grant (Net)	Expenditure	Under-spending
Army	25,361.42	18,586.73	6,774.69
DGOF	774.00	746.19	27.81

Underspending of Capital Acquisition Budget

	BE (Rs. in Crore)	Actual (Rs. in Crore)	Underspending (Rs. in Crore)	Underspending (%)
2012-13	**66032**	**58769**	**7263**	**11**
2013-14	**73445**	**66850**	**6594**	**9**
2014-15	**75148**	**65582**	**9566**	**13**
2015-16	**77407**	**65742***	**11665***	**15***

1.14 Details of under spending for 2015-16 were to be made available only at the end of the year after the accounts of the year are closed.

1.15 The Committee while examining Demands for Grants 2015-16 had observed that Capital expenditure had never remained under control. It was felt that Capital head invariably ends off with unutilised funds. During the year 2010-11, against the RE allocations of Rs.24266.79 crore, Army spent Rs. 23,625.42 crore. Similarly in the year 2011-12 and 2012-13, Army could utilize Rs. 14,947.82 crore and Rs. 14760 crore against RE of Rs. 16005.69 crore and 15749 crore. In case of Navy, Rs. 17759.88 crore and Rs. 20338.85 crore could be utilized during the year 2012-13 and 2013-14 against RE of Rs. 18266.42 crore and Rs. 20418.98 crore respectively. Air Force too could utilize Rs. 23,625.42 crore out of RE allocation of Rs. 24266.79 crore in the year 2010-2011. During the preceding financial year 2014-15, the position of expenditure up to the end of February 2015, in respect of Army, Navy and Air Force was Rs. 14843.37 crore, Rs. 18439.02 crore and Rs. 29682.14 crore respectively against their RE of Rs. 21933.54 crore, Rs. 18507.07 crore and Rs. 33710.68 crore respectively. Such underspending led to a situation where the preparation of Defence Forces were nowhere near the target which were fixed and it became a fait accompli. The Committee were of the opinion that Capital investment required a certain period of time to materialize. A Capital investment could not be completed in a financial year. A lot of studies were to be carried out which required the clearance from a number of agencies. The Committee, therefore, strongly recommended that Capital Allocation and Expenditure should be "Non-Lapsable and Roll-on" allocation. It should be a part of plan expenditure and the progress should be monitored by a specialist/expert Committee to ensure that the time schedule is set and followed on various stages till the delivery of Capital goods.

1.16 In response to the above observations, the Ministry in its Action Taken Reply has stated as under:-

'The utilisation of the Defence Capital budget must be viewed in its entirety. Focusing only on a particular Service, or year, of under spending gives a distorted picture. It is more appropriate to focus on under-spending, if any, under the Capital budget as a whole rather than any one Service. Under-spending by one Service is usually counter balanced by excess spending by another Service. Thus, from the position of utilisation of the Capital budget tabulated below, it may be seen that funds available have been fully utilised:

(in Rs.crores)

Year	**BE**	**RE**	**Actuals**	**%age utilisation**
2010-11	60,000.00	60,833.26	62,056.00	102.01
2011-12	69,198.81	66,143.81	67,902.38	102.65
2012-13	79,578.63	69,578.63	70,499.12	101.32
2013-14	86,740.71	78,872.23	79,125.05	100.32
2014-15	94,587.95	81,965.24	81,887.42	99.91

In view of the above, it is felt that no purpose is served by delineating the Capital budget as “Non-Lapsable and roll-on” as on no occasion during the last five years were any surplus funds available for rolling over.

It is also felt that designation of Defence Capital expenditure as plan expenditure would yield no benefit, especially since the distribution between `Plan’ and `Non-Plan’ expenditure even in the civil side has been called into question with the winding-up of the Planning Commission.

It may also be noted that the progress of Capital acquisition expenditure is monitored by the Acquisition Wing which is tasked with the responsibility of defence Capital procurement, as well as by the Defence Acquisition Council headed by the Raksha Mantri.'

Committed Liabilities and New Schemes

1.17 Committed Liability refers to payments anticipated during a financial year in respect of contracts concluded in previous years. Under the DSE, Committed Liabilities constitute a significant element in respect of the Capital acquisition segment, since one project may span several financial years. As such, it is important to track the element of Committed Liabilities which hold first charge on the budget allocation. Inadequate allocation for committed liabilities could lead to default on contractual obligations.

BE allocations for 2014-15 for new schemes and committed liabilities are as given below:

(Rs. in crores)

SERVICE	**Capital Acquisition (BE 2014-15)**		
	Committed Liabilities	**New Schemes**	**Total**
Army	18,851.26	2,084.15	20,935.41
Navy	21,248.07	663.92	21,911.99
Joint Staff	473.07	9.17	482.24
Air Force	29,173.40	2,644.99	31,818.39
Total	69,745.80	5,402.23	75,148.03

Revised Allocations under RE 2014-15 are as under:

(Rs. in crores)

SERVICE	**Capital Acquisition (RE 2014-15)**		
	Committed Liabilities	**New Schemes**	**Total**
Army	15,251.20	2,084.15	17,335.35
Navy	16,411.32	663.92	17,075.24
Joint Staff	321.58	9.17	330.75
Air Force	29,173.40	2,644.99	31,818.39
Total	61,157.50	5,402.23	66,559.73

1.18 BE allocations for 2014-15 for new schemes and committed liabilities are as given below:

(Rs. in crores)

	Projected requirement for Capital Modernisation Budget 2015-16		
	Committed Liabilities	New Schemes	Total
Army	20,513.44	5,665.48	26,178.92
Navy	22,248.12	4,091.00	26,339.12
Joint Staff	328.04	561.14	889.18
Air Force	28,246.53	12,000.00	40,246.53
Total	71,336.13	22,317.62	93,653.75
Coast Guard	1020.32	679.68	1700.00

However, based on the allocation of funds by the Ministry of Finance, the position of actual allocation is as under-

(Rs. in crores)

	Capital Acquisition (BE 2015-16)		
	Committed Liabilities	New Schemes	Total
Army	20,513.44	1,541.06	22,054.50
Navy	22,248.12	1,112.78	23,360.90
Joint Staff	328.04	152.63	480.67
Air Force	28,246.53	3,264.09	31,510.62
Total	71,336.13	6,070.56	77,406.69
Coast Guard	900.00	0.00	900.00

1.19 The Ministry was asked about the allocations made in the present defence budget for Committed Liability and New Schemes and how the shortcomings will affect the preparation of Forces. The Ministry submitted the following:

'In so far as the three Services are concerned, the projected requirement for new schemes and committed liabilities was as under –

(Rs. in crores)

SERVICE	**Projected requirement for Capital Modernisation Budget 2016-17**		
	Committed Liabilities	**New Schemes**	**Total**
Army	21,921.38	7,748.91	29,670.29
Navy	23,276.00	4,781.00	28,057.00
Joint Staff	325.55	425.28	750.83
Air Force	28,029.58	9,936.83	37,966.41
Total	**73,552.51**	**22,892.02**	**96,444.53**
Coast Guard	1,396.00	1,994.00	3,390.00

1.20 However, based on the allocation of funds by the Ministry of Finance, the position of actual allocation is as under-

(Rs. in crores)

SERVICE	**Capital Acquisition (BE 2016-17)**		
	Committed Liabilities	**New Schemes**	**Total**
Army	19449.26	2086.00	21,535.26
Navy	18763.77	1600.00	20,363.77
Joint Staff	325.55	219.40	544.95
Air Force	22871.05	4684.97	27,556.02
Total	**61,409.63**	**8,590.37**	**70,000.00**
Coast Guard	1,200.00	0.00	1,200.00

1.21 On the basis of allocations received from Ministry of Finance, funds are allocated for Committed Liabilities on the basis of approval stage of various projects. Requirement of additional funds for new schemes will be projected, as required, based on utilisation of available funds and progress in approval of new schemes.

1.22 Data on Capital expenditure during the last two years of the Eleventh Plan and the first two years of the Twelfth Plan on committed liabilities and new schemes in respect of the Army is given below:

(Rs. in crores)

YEAR	Capital Modernisation		Other Capital Expenditure	Total Capital Expenditure
	Committed Liabilities	New Scheme		
2010-11	3,478.62	3,739.17	8,635.16	15,852.95
2011-12	4,800.94	507.08	9,639.80	14,947.82
2012-13	10,107.38	764.41	3,888.90	14,760.69
2013-14	8,783.02	1,643.47	4,006.80	14,433.29

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

(Rs. in crores)

SERVICE/DEPTT.	2010-11	2011-12	2012-13	2013-14
NCC	3.13	3.15	0.69	0.68
DGQA	15.01	7.10	4.94	11.12
Ordnance Factories	454.22	278.48	349.07	465.34

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.

1.23 It may be seen from the data supplied by the Ministry that total Capital Expenditure for the last 3 years is hovering around Rs 14000 to 15000 crore coming down from Rs 15852.95 crore in 2011-12 and every year very little is left for New Scheme in respect of Army and other Services.

Deals which may be affected due to lower Capital Outlay

1.24 Lower Capital Budget allocation may affect major Aircraft or Armament deals from foreign sources. The Ministry was asked about the status of processing the case of procuring 126 aircraft from Rafale Company of France, it submitted:

> 'The RFP for 126 MMRC was issued on 28th August 2007. The Contract negotiations in the procurement case could not be concluded because M/s Dassault Aviation did not confirm compliance to certain terms of the RFP and its bid. The RFP for procurement of 126 MMRCA was formally withdrawn on 24th June 2015.'

1.25 On the amount earmarked for the purchase of the aircraft in the budget of the year 2015-16 and 2016-17, the Ministry submitted:

> 'A separate proposal will be moved for additional funds in FY 2016-17 to procure the 36 Rafale aircraft after details regarding cost and delivery timelines are finalized.'

1.26 On the impact on the defence of the country if the deal is delayed or does not fructify and alternative that has been considered by the Ministry, it submitted:

> 'Government constantly reviews the security environment and ensures that IAF is fully equipped to meet the security challenges. Government continuously monitors progress of schemes to ensure that Defence preparedness is maintained at all time.
>
> To counter systemic and institutional delays, procedures are also continuously reviewed and refined on the basis of the experience gained from the environment during the procurement process. Periodic reviews are carried out at all levels in Air Hqrs, as well as at MoD to ensure that the procurement schemes progress as per the laid down time lines and the final product is operationally capable while being technologically relevant.
>
> The induction of new fighters is being planned through the delivery of remaining Su-30 aircraft, delivery of LCA Mk-1 and Mk-1A aircraft, Rafale aircraft and other suitable fighters. Government is preparing the road map for induction of fighter aircraft in the IAF and all future induction will be as per this road map. IAF is likely to build up its fighter aircraft fleet to the required strength by the end of 15th Plan Period.'

<u>Capital allocation sought and expenditure incurred</u>

1.27 Details of allocation sought/received and over-spending/under-spending in respect of Capital Budget for the last three years is as under:

(Rs. in crore)

Financial Year	Capital allocation sought		Capital allocation given		Expenditure incurred	Over-spending (+) / Under spending (-)
	BE	RE	BE	RE		
2012-13	101934.61	88391.89	79578.63	69578.63	70499.12	920.49 (+)
2013-14	139948.53	121316.84	86740.71	78872.23	79125.05	252.82(+)
2014-15	145091.29	95704.20	94587.95	81965.24	81886.98	78.26(-)

It may be seen from above that only in the year 2014-15 there has been under-spending, which is merely 0.1 per cent of final grant.

1.28 During the examination of Demands for Grants (2015-16), the Committee had observed that the budgetary allocation that is under spent has been diverted to non-priority or non-essential heads of account and shown as not lapse. On the remedial measures which have been taken by the Ministry in this regard, it submitted:-

'The amount not likely to be spent by one service, in a financial year, due to various reasons, is provided to other Services, in requirement of funds, by means of re-allocating funds. This practice is followed to avoid surrendering of funds which are scarce and can be utilized to address priority and essential requirements under other heads.'

Chapter II

Procurement Policy for the Defence Services

<u>Defence Procurement Policy</u>

2.2 The Ministry was asked to supply information on the objectives achieved so far under the new Defence Procurement Policy. In its reply, the Ministry has stated as under:

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

(b) In pursuance of the Policy, the Government has taken several initiatives to build strong defence industrial base which are enumerated as below:

- Preference has been accorded to 'Buy (Indian)', 'Buy and Make (Indian)' and 'Make' categories over 'Buy (Global)' and 'Buy& Make (Global)' category of Capital acquisition in Defence Procurement Procedure.
- DIPP vide Press Note No. 12 of 2015 Series dated 24/11/2015 has notified review of Foreign Direct Investment (FDI) Policy under which Foreign Investment up to 49 per cent is allowed through automatic route and above 49 per cent under Government route on case-to-case basis, wherever it is likely to result in access to modern and 'state-of-art' technology in the country.
- The 'Make' procedure which provides for sharing of cost of development of prototype between Government and selected agency, with assurance of orders on successful development of prototype, has been revised and approved by Defence Acquisition Council (DAC) in Jan16.
- To establish a level-playing field between Indian private sector and the public sector, the anomalies in excise duty/ custom duty have been removed. As per the revised policy, all Indian industries (public and private) are subjected to the same kind of excise and custom duty levies.
- To promote the participation of private sector, particularly SMEs for defence manufacturing, Outsourcing and Vendor Development Guidelines for DPSUs and OFB have been formulated and circulated to them. The guidelines mandate each DPSU and OFB to have a short-term and long-term outsourcing and vendor development plan to gradually increase the outsourcing from private sector including SMEs.

- Exchange Rate variation has been made applicable for Rupee contracts with Indian Vendors all categories of Capital acquisitions.
- ‘Services’ held in abeyance w.e.f. 23 May13 have been reinstated as an avenue for offset discharge.
- Standard Operating Procedure (SOP) for processing contract amendment proposals introduced (for DPP- 2006, 2008 & 2011) wherein, it is now possible for vendors to change IOP/offset component during contract execution period.
- The initial validity of the Industrial Licence granted under the IDR Act has been increased from 07 years to 15 years with a provision to further extend it by 03 years on a case-to-case basis.
- The list of military stores has been finalised and has been put in the public domain to make the process transparent and unambiguous.'

2.3 On the allocated budget for the implementation of major objectives of the policy, the Ministry has stated:

> 'The key objective of the policy i.e., “to achieve substantive self-reliance in the design, development, production of equipment/ weapon systems/ platforms” is being realised through various policy initiatives such as liberalization of FDI policy & Industrial Licensing policy, simplification of export procedures, creating level playing field for Indian private and public sector companies, according preference to ‘Buy (Indian)’, ‘Buy and Make (Indian)’ and ‘Make’ categories of Capital acquisition over ‘Buy (Global)’ category in Defence Procurement Procedure-2013. However, budget allocation for a financial year is made for total acquisition of defence equipment requirements of the Services including procurement from both domestic & foreign sources'

2.4 When asked for, the Ministry has supplied information on the last 10 purchases made for the Services in recent years with and without adequate service package as under:

> 'Capital and Revenue procurement cases are taken up by MoD based on Annual Acquisition plans for Capital and Annual Procurement Plan for Revenue and are processed as per delegation of financial powers. JS(G/Air) and JS(O/N) 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 to Rs 150 Crores are delegated to Services HQs and cases above Rs. 150 crores are processed by MoD. Other delegations are guided by the “Delegation of

Financial Powers to Defence Services, 2015.'

2.5 On the number of cases which are sent by MGO and received by nodal officer per month as an average, the Ministry submitted the following information:

'Deficiencies for Revenue procurements arising for various reasons including condemnations are made up through a prioritized Annual Procurement Plan. On an average, 5-7 Revenue procurement cases are forwarded by the MGO Branch to the nodal officer in Ministry of Defence either as fresh cases or resubmissions with clarification to the observations of MoD.'

2.6 In reply to a question about time taken for procurement of a item, the Ministry submitted:

'Procurement is an ongoing process and the time taken varies from case to case due to inherent complexities and uniqueness. The DPP provides for a broad timeframe of 80-137 Weeks for Capital procurement cases.'

2.7 During oral evidence, the Defence Secretary apprised the Committee on new procurement procedure as under:

"We also have brought about some changes in the Defence Procurement Procedure, 2016 (DPP) and the innovations and the major changes are as follows. The main preferred category in the Defence Procurement Procedure is now ‘Buy Indian-IDDM’ which is a new category. ‘Buy Indian-IDDM’ means Indigenously Designed, Developed and Manufactured with minimum 40 per cent indigenous content or the product should have at least 60 per cent indigenous content. The indigenous content in different categories have been specified, but are subject to variations on case-to-case basis in Categorisation Committee as approving authorities. The make procedure has been further made more attractive with Government bearing 90 per cent of the financial burden. Further, if RFP is not issued within the specified time, the total development cost will be paid to the developing agency. The preference to MSME in make procedure has been stipulated. Single vendor situation resulting because of submission of single bid has been rationalised without compromising transparency and only the Defence Acquisition Council is empowered to accept such situations. New categories of SQR like Essential Parameter A, Essential Parameter B and Enhanced Performance Parameter have been introduced to make it more realistic, industry friendly and without compromising the requirement of the Services or of transparency and without compromising Government interests and funds.

The new changes which have been brought about in the Defence Procurement Procedure are expected to streamline the defence acquisition procedure drastically.

I would also like to inform you that in the recent past we have also been able to streamline some of the payments relating to the foreign military sales programme where Government funds were unnecessarily locked up because of certain rigidities and these rigidities have been removed now and because of the flexibility, the outgo of funds and the funds which get locked up has been substantially reduced and this has also an impact on the total acquisition expenditure because we are producing better outcomes for the money that is now being provided under the FMS Programme."

Procurements of defence equipment

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

(Rs. in crore)

Financial year	Expenditure		
	Air Force	Navy	Army
2008-09	4270.24	4054.49	1832.84
2009-10	4226.28	4576.83	1659.36
2010-11	4364.82	4746.88	800.39
2011-12	15258.11	6532.37	424.82
2012-13	19220.95	5968.80	884.84
2013-14	20927.55	12577.81	1365.71
2014-15	14655.75	6884.00	3452.61

Acquisition from Indian and foreign sources

2.9 The Ministry apprised the Committee that modernisation involves the acquisition of new state-of-the-art platforms, technologies and weapon systems to upgrade and augment defence capabilities. The budget for the same is taken from the Capital segment of the defence budget.

2.10 In response to a question, the Ministry submitted details of Capital acquisition during the four years of XIIth Plan broken up into acquisition from indigenous and imported sources:

Service	Year	Indigenous	Imported	Total
Army	2012-13	9,880.12	991.67	10,871.79
	2013-14	8,925.49	1,501.00	10,426.49
	2014-15	10,414.80	3,452.61	13,867.41
	2015-16	7,618.71	2,554.11	10,172.82
Navy	2012-13	10,333.19	5,968.80	16,301.99
	2013-14	6,587.64	12,577.81	19,165.45
	2014-15	14,021.54	6,884.00	20,905.54
	2015-16	8,534.65	6,110.31	14,644.96
Air Force	2012-13	11,832.05	19,220.95	31,053.00
	2013-14	15,990.45	20,927.54	36,917.99
	2014-15	16,153.63	14,655.75	30,809.39
	2015-16	14,578.47	10,156.47	24,734.94

Value of import

2.11 The details of procurements from foreign sources (both Capital & Revenue items) in the last five years separately for the three Services is appended below:-

(Rs in Crore)

Services	2010-11	2011-12	2012-13	2013-14	2014-15
Indian Army	1657.96	1500.50	1597.54	1747.42	3804.49
Indian Navy	6767.44	9276.46	7465.27	13362.85	8333.86
Indian Air Force	5700.05	17374.46	21307.99	23092.39	17083.95
TOTAL	**14125.45**	**28151.42**	**30370.80**	**38202.66**	**29222.30**

Increasing dependence on foreign suppliers for military hardware

2.12 The Committee find that dependence on foreign suppliers for military hardware is increasing. Therefore, details of the defence equipment/items being imported was sought. The Ministry supplied the following information:

> 'Capital procurement of Defence equipment from Indian and foreign vendors is carried out as per provisions of the DPP. Defence equipment is being imported from various countries as per the operational requirements of Armed Forces. The 89 contracts with total value of Rs. 88786.73 Crore signed during 2013-14 and 2014-15 include 50 contracts signed with Indian vendors with total value of Rs. 64462.67 crore and 39 with foreign vendors with total value of Rs. 24324.06 crore.

Country-wise details of contracts signed are given below:

Name of Country	**2013-14**		**2014-15**	
	No. of Contracts	Value	No. of contract	Value
Russia	2	1341.72	7	6117.22
Israel	5	3751.00	1	875.49
USA	7	6787.02	2	57.64
France	2	298.96	3	1316.04
Others	5	1072.15	5	2706.82
Total	**21**	**13250.85**	**18**	**11073.21**
Indian vendors	**21**	**10676.36**	**29**	**53786.31**
Grand total	**42**	**23927.21**	**47**	**64859.52**

The major Defence equipment imported during last two years include rockets and component level repair facility for Tanks from Russia, Unmanned Aerial Vehicles, fire control system for tanks and missiles from Israel, aircraft and simulators from USA and BMCS high Zone Modules of Artillery Guns from France.'

2.13 The Ministry also stated that promotion of indigenization and self-reliance in the defence sector is being pursued under the 'Make in India' initiatives of Government. A number of measures have already been taken to harness the potential in the public and private sector to meet the defence requirement of the country and boost indigenous capabilities in the defence sector and facilitate progressive reduction in imports. These measures include according of priority and preference to procurement from Indian vendors, liberalization of the licensing regime and enabling of access to modern and state-of-the-art technology to Indian industry by raising the cap on FDI in the defence sector.

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

'(1) **HAL**: The major products currently being manufactured at HAL are SU-30 MKI, Hawk, Light Combat Aircraft (LCA), Advanced Light Helicopter(ALH) and Dornier Do-228.

Platform	% Import by number	% Import by value
SU-30 MKI	25%	44%
Hawk	28%	58%
ALH	25%	50%
LCA	25%	40%
D0-228	27%	60%

(2) **BEL**: BEL does not import fully finished Defence equipment. However, for the design, manufacture and supply of Defence products/Services, the company resorts to import for some of the special Components/Raw materials, proprietary items etc., (input material) that are not being manufactured in the country.

Percentage of Import content on input material during the last three years is given below:

Year	% Import Content input material
2012-13	49%
2013-14	41%
2014-15	41%

(3) **BEML**: The details are given below:

Year	2010-11	2011-12	2012-13	2013-14	2014-15
Import content (Rs. in crore)	624.28	587.63	728.17	553.66	412.56
Net VoP((Rs.in crore)	2800.24	3155.31	2878.83	2814.45	2599.93
Import content as % of Net VoP	22.29	18.62	25.29	19.67	15.87

(4) **BDL**: The details are given below:

Year	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16 (upto Sept,15
Import content as %age of Value of Sales of BDL manufactured Products (ATGM, SAM& Under Water Weapons)	47.92	41.01	35.20	20.06	18.25	18.55

(5) **GRSE**: The details regarding Import Content as per cent of VOP is as under:

Year	VOP (Rs. in crore)	Import Content	% of import
2012-13	1529	380	24.85
2013-14	1612	311	19.29
2014-15	1613	223	13.83
2015-16 (Till Dec 15) Prvn.	1355	87	6.42

(6) **GSL**: Data on Import contents on Ships produced/delivered during last three years is as follows:

Type of Ship produced/delivered during last three years	**Import content as percentage of Ship cost (%)**
NOPVs (4 Ships)	14.51
CGOPV (1 Ship)	30.13

(7) **HSL**: The import content of ships built in HSL is 30 per cent of VoP approximately. Most of the equipment fitted on the ships and submarines are mainly dictated by the needs of the owners as specified in the RFP & Build specifications. These cannot be changed by the yard as it would tantamount to deviation from a legal contract.

(8) **MDL**: The import content in MDL constructed ships is given below:

Project	Import content
P15	42%
P17	54%
P15A	57%
P15B	68%
P17A	72%

(9) **MIDHANI**: Not applicable.

(10) **OFB**: OFB has not imported any fully formed defence products during past few years. OFB is importing only those items as a part of product support for which either the technology has not been transferred by the OEM or it has not been economically viable to enter into the transfer of technology agreements or sufficient capacity of indigenous production is not available. In some cases, the import of product support is resorted to meet the surge demand of user also. Import content of input material is around 5-15 per cent of the total cost of production. However, OFB's Import content during the last three years is as under:

Year	Value of supply	Value of Import	Import %
2012-13	11,975	1,462,	12.21%
2013-14	11,123	1,685	15.15%
2014-15	11,364	1,017	8.9%

Procedural Delays in Procurements

2.15 The Committee desired to know the time taken for Capital Acquisition of weapon system etc. The Defence Secretary apprised the Committee as under:

"Let me just make it clear and this is in continuation of what I said earlier. No procurement is going to take place in one year's time. So, if you have contracted something five years earlier, maybe, that money that is required for making the initial payment will be required this year. For instance, if we have a contract, we pay 15 per cent upfront. So, that 15 per cent is to be made available at the appropriate time when the contract is signed or as soon as the contract is signed. That is actually the normal outflow every year. What is happening is, you have a committed liability which is being spent as per the contractual obligations.

Secondly, whatever outgo upfront payment that we make on new contracts which are signed during the current year. These are the two items of expenditure. So, there is nothing that we do. There is no such situation where somebody comes with the demand and we say that no money is available. We take a long-term view. If you want to have aircraft, we say all right aircraft will be procured. The procurement cycle is going to be at least five years or seven years and within those seven years, annual payments will be made. So, we know how much annual payments are to be made. So, it is not a very simple process of money is available or not. Money will be available depending upon the cash outflow that we plan for the future procurement years."

Make-in-India policy

2.16 'Make in India' initiative of the Government of India aims to facilitate investment, foster innovation, protect intellectual property, build best-in-class manufacturing infrastructure; whereas Defence Production Policy aims at '*achieving substantive self-reliance in the design, development and production of equipment, weapon systems, platforms required for defence in as early a time frame possible; creating conditions conducive for the private industry to take an active role in this endeavour; enhancing potential of SMEs in indigenisation and broadening the defence R&D base of the country*'

The 'Make in India' initiative provides further fillip in realising the objectives of Defence Production Policy in achieving the substantive self- reliance in defence requirements of the country. In order to *evolve a policy framework to implement Make in India in defence manufacturing,* a 'Committee of Experts' was constituted in the Ministry. The recommendations of the Committee have been suitably incorporated in revised DPP approved by DAC in Jan 2016

Apart from this, several policy changes have been initiated by the Government to build a robust Defence Industrial base in India. These include liberalisation of FDI policy, liberalisation of industrial licensing policy level playing field between public & private sector etc.

These initiatives would help in more active participation of Indian private sector, especially Micro, Small & Medium Enterprises (MSMEs) in defence Research, development and manufacturing of defence equipment in the country; higher indigenisation levels in defence equipment; enhancement of technical capabilities; creation employment opportunities; thereby reduction in dependence on imports .

On the allocation of budget, the Ministry stated as under:

'The allocation of budget is made for the total acquisition of defence equipment requirements of the Services. The proposals for Capital acquisitions are categorised as 'Buy (Indian)', 'Buy & Make (Indian)', 'Make', 'Buy & Make (Global)' or 'Buy (Global)' after deliberations in various Committees such as

SCAPCC/SCAPCHC/DPB/DAC. There is no ‘Make in India Project’ category for procurement of Capital equipment. However, the objectives of ‘Make in India’ initiative of the Government are pursued by according preference to, ‘Buy (Indian)’, ‘Buy and Make (Indian)’ categories and other policy initiatives such as liberalization of FDI policy & Industrial Licensing policy, simplification of export procedures, creating level playing field for Indian private and public sector companies.'

2.17 During oral evidence, Defence Secretary elaborated on Make in India policy under the procurement process as under:

" Sir, there are two things. First of all, in the procurement process itself, suppose you are buying a platform, we categorize those products as either ‘buy Indian’ or ‘buy and making Indian’, which are loaded towards indigenous production and supply.

The other part is, of course, the larger issue of ‘make in India’ where the indigenization of the defence industry is involved. This is another matter for which a policy is yet to be made, but we, generally, go by the procurement procedure in which the ‘buy Indian’ and ‘buy and making Indian’ and other categories like the new system of IDDM, which is a very important category has been introduced now. This is the number one category so as to ensure that the Indian producers are encouraged and procurement is basically from the domestic market."

2.18 During oral evidence, a representative of Ministry of Defence further stated:

"Sir, I will explain the issue just now. The overall process starts with the long-term 15 year Plan. This is prepared by the Head Quarters Integrated Defence Staff (HQ-IDS) in consultation with all the three Services. HQ-IDS coordinates the tri-Service matters. It is headed by the CISC. This is entirely Service-driven based on their requirements. After the 15 year Plan, there is a five-year Plan and from the five-year Plan comes the Annual Acquisition Plan (AAP), which is a two-year Roll on Plan.

This entire process is driven by the Service Head Quarters and coordinated by the HQ-IDS depending on their requirements. The AAP is the one, which is approved by the Defence Procurement Board (DPB) every year and this is what is actually handed over to the Acquisition Wing for implementation. The duty of the Acquisition Wing is to ensure that the projects, which are included in the AAP, are progressed through various stages. This is the overall planning process."

2.19 During oral evidence, another representative of Ministry of Defence clarified on Make in India policy as under:

> "The Annual Acquisition Plan has now been divided into priority categories – priority one, priority two and priority three. The priority is decided by each of the Services. Since it is coordinated by the HQIDS, they take the inputs from each of the Services and categorise the Annual Acquisition Plan into the highest priority, second highest and so on. This priority is decided by the Services. Thereafter, in the Annual Acquisition Plan, there are certain cases which are ongoing, they are carried forward. For the new cases which have to come up which have been included newly in the Annual Acquisition Plan, the process starts with a request for information, which is done by the Services. They send it out on the internet asking for responses from the vendors. Based on those responses, the service headquarters initiate a case for procurement. Based on the responses on the RFI where vendors from India and abroad respond saying that this is the kind of equipment or capability that they have for giving this product which the Services have sought. Based on that, the categorisation is decided. Now the categorisation as per the DPP has got a priority, the priority being higher priority for Indian products and much lower priority for foreign products. Also the DPP 2013 and 2016 mandates that in order to go to a lower priority category, that is, moving towards foreign companies, you have to justify why you are not taking the higher category. So, it is a process of elimination. If you cannot go in for an Indian product, if it is impossible, only then you are allowed to go in for an imported product. This is, in short, the process followed. The short answer to the question is that the RFI gathers the information from all the vendors and this information is used for various purposes. I will come to that slide. But one of the purposes is to decide on the categorisation. Through this categorisation, it is ensured that we go in for more and more indigenous products."
>
> We may distinguish between two categories. One is the completed product which is being contracted by the MOD. Usually these are, in large number of cases, very big systems where there is an integrator like the BDL or some other public sector or it could also be private sectors. Each of these public sectors and other big integrators who get the order from the MOD, who respond to the RFP and who finally sign the contract, they are sub-contracting from a lot of manufacturers who could be Indian or foreign. There could be foreign components; there could be Indian components. When we have MSMEs who have an independently developed indigenous product, in all likelihood, the integrator would be entering into separate agreements with these sub-vendors to get those products to integrate into the big product which we have contracted. That is a part in which MOD does not come into. It is a direct contract between my supplier and his sub-suppliers. In such cases, these issues may arise.
>
> Each of the categories under which we classify the procurement category, there are five categories. There is also a compulsion for a minimum indigenous content. What happens is that as far as overall Capital procurement from the MOD side is concerned, we are trying to regulate it through the indigenous content.

2.20 He further clarified as under:

"Sir, the Buy IDDM category which has been introduced is now the highest priority which means that any case which is initiated after this 2016, the first category will be Buy IDDM. That means, you either have to go in for an IDDM category or you have to justify why you are not going for it before you can go on to a lower category. So, the Buy IDDM category, it is there in subsequent slides, is that it mandates that the design, development and manufacturing is all Indian. That means it is an Indian design and the Indian firm can develop and manufacture the product. And in such a situation it has to have in addition to having the design, development and manufacturing capability, a 40 per cent indigenous content. This is the highest category. But there is also a secondary aspect to it that in case someone does not have the IDDM, even then he can come into this highest category if he has indigenous content of 60 per cent or above. So, this is pro indigenization and pro indigenous design and development. So, that is now the highest category. This is the major change which has been made in the direction of promoting indigenization and indigenous design. I do not know if that answers your question, Sir."

2.21 On essential parameters of DPP 2016, in case the vendor fails to deliver an equipment, a representative of Ministry of Defence stated as under:

"No, Sir. The contract would have to be closed. Even today, if a vendor is unable to deliver on some issue, we do not go back to L-2 and the contract is closed. Even in these cases if somebody fails, having already signed the contract and at the failure of the contract, we do not go back to L-2."

2.22 On further clarification on timely requirement criteria of DPP 2016 as well as sphere of competitors, a representative of Ministry of Defence stated:

"You had given the example of tank and sight. So, let us suppose today none of the tanks have that integration of sights. Today, the vendor may be confident that he can provide the sight. What happened earlier was that he would have to do the integration, do all his internal tests and thereafter bring the product for the trials because it would be tried for all the parameters including the sights. So, the time taken by him to develop the product and bring it to trial is much longer. Here, under the new dispensation, all the vendors will come with the readymade products and the trial would start much faster and get over much faster. At the end of it all, he has to demonstrate it within six months or eight months or whatever time is given to him depending upon the complexity. But, we also have to believe that by and large such cases won't happen that they will not be able to deliver it. They could be one or two instances. This was also debated extensively within the Ministry on exactly the same point which you have raised. Finally, the policy decision has been taken to go ahead with it."

Offset Clause

2.23 The Ministry of Defence (MoD) has mandated discharge of offset obligations by vendors under different categories of defence acquisitions with the primary objective of leveraging its Capital acquisitions to develop the Indian defence Industry by: (i) fostering development of internationally competitive enterprise; (ii) augmenting capacity for research, design and development related to defence products and Services; and (iii) encouraging development of synergistic sectors like civil aerospace and internal security. The offset provisions apply to all Capital Acquisitions categorized as 'Buy (Global)', i.e. outright purchase from foreign/Indian vendor, or 'Buy and Make with Transfer of Technology', i.e. purchase from foreign vendor followed by Licensed Production where the estimated cost of the acquisition proposal is Rs. 300 crore or more. They apply to Indian firms or their Joint Ventures under 'Buy (Global)' procurements. 30 percent of the estimated cost of the acquisition in 'Buy (Global)' category acquisitions and 30 percent of the foreign exchange component in 'Buy and Make with ToT' category acquisitions will be the required value of the offset obligations. Further, foreign vendors could consider creation of offset programmes in anticipation of future obligations through offset banking. The offset policy was introduced in 2005 and thereafter, has successively evolved to put emphasis on the capacity augmentation for Research, Design and Development related to Defence products and Services by making it as a key policy objective. The policy further enlarged the scope of the avenues for discharge of offsets and included the option of provision of investment in kind in Indian enterprises in the form of equipment and /or TOT.

On gains of the offset provisions and changes made by the new Defence Procurement Procedure (DPP) in the existing provisions, the Ministry submitted as under:

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

- Fostering development of internationally competitive enterprises
- Augmenting capacity for Research, Design and Development related to defence Products and Services and
- 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 procurement cases where cost of the Capital acquisition is Rs. 300 crores or more.

As on date, a total of 28 Defence offset contracts have been signed in MoD out of which 19 cases pertain to Indian Air Force and 06 cases of Indian Navy and 03 of Indian Army. The total offset obligations are estimated at an approx. value of BUSD 6.01 over a period from 2008-2022.

These offset contracts are under different stages of implementation by the foreign OEMs. Once executed, it is estimated that the respective contract shall cause, on account of offset provisions, generation of substantial business to Indian industries thus strengthening the defence industrial base. It shall also facilitate the Indian domestic industry to be a vital part of the supply chain of the major global defence industries reaping in more benefits.

Further, due to liberalised banking provisions, the OEMs are expected to invest more in Indian Industries which shall spur growth in the related areas independent of the existence or otherwise of any immediate main acquisition proposal the effect of which shall be visible in near future and the commensurate gains shall be visible in coming years.

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 user friendly, notably-

(a) Graduating successively from only public enterprises to include both private and public enterprises as offset partners.
(b) Specifying and enlarging the products and Services qualifying as eligible.
(c) 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, Government. 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.'

Defence Offsets Management Wing (DOMW)

2.24 The Ministry has set up Defence Offsets Management Wing (DOMW) to monitor and audit of offset per year. The Committee desired to know the achievements of DOMW and how it has benefitted the Defence industry. The Ministry submitted the following:

'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:-

- Formulation of Defence Offset Guidelines;
- Monitoring the discharge of offset obligations, including audit and review of progress reports received from vendor;
- Participation in Technical and Commercial evaluation of offset proposals as members of TOEC and CNC;
- Implementation of Offset banking guidelines;
- Administration of penalties under offset contracts in consultation with Acquisition Wing;
- Assisting vendors in interacting with Indian Industry; and
- 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 is illustrated below:

- 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.
- The office of CGDA has been approved as the nominated audit agency to audit the offset discharge claims.
- 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.
- DOMW has also been constantly engaging with the vendors and other stake

holders and responding to their queries in a regular manner through meetings and interactions. A facilitation mechanism has been evolved in the SCOPE complex to assist the vendors on various issues under the offset policy.

DOMW has been involved in the monitoring of the offset discharge claims received from the vendors during the discharge of the contracted offset obligations. As on 31st December 2015, 28 offset contracts (19-IAF, 6-IN and 3-IA) have been signed. The total offset obligations work out to BUSD 6.01 approx. (contracts with different denominations converted to USD). The obligations to be discharged till 31st Mar 2015 amounts to BUSD 1.90 approx. against which the vendors have reported discharge claims worth BUSD 1.15 approx. through their quarterly reports. These discharge claims after preliminary examination at DOMW and interim penalty wherever applicable, amounting to 34 MUSD approx. have been processed against shortfalls reported upfront by the vendors. The discharge claims thereafter have been forwarded to O/o CGDA for audit. In addition, DOMW has been regularly participating in the different TOECs and the CNCs of on-going cases (44 in nos.) resulting in the conclusion of 09 more offset contracts till date.

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 are estimated to be substantial. '

On the instances where offsets as promised could not materialized, number of such cases and action which has been taken by the Ministry in this regard, it was submitted before the Committee:

'Offset contracts are long term and are at various stages of implementation. Vendors report the offset discharge undertaken through quarterly status reports which is monitored. The offset guidelines provide for imposition of penalty in case of shortfalls in annual offset discharge by the vendor. In eleven offset contracts, penalty/interim penalty have been processed. The total penalty that has been imposed works out to 38 MUSD approx.'

2.25 On the salient features of the new Offset Policy to encourage development of Indian Private and Public Defence Sector, the Ministry submitted the following information:

'The new draft offset guidelines envisage targeted offsets, wherein, the desired outcome will be stated upfront in the RFP and the vendors have full flexibility on process to realise the outcome. Targeted offsets shall include Transfer of Technology, development of ecosystem in defence manufacturing and creation of infrastructure for skill creation and development.

The OEMs, according to the existing offset guidelines, choose Indian Partners from amongst the private and public enterprises in defence as per their core competencies, quality standards and cost effectiveness. The OEMs in general are large international Defence manufacturers/ conglomerates/ part of big consortiums having their respective global supply chains, wherein the selected IOPs get integrated and through such exposures are expected to scale up their operations in order to become and remain internationally competitive. The offset guidelines thus in general, aims to encourage the Indian enterprises, both public and private, to become a key player in the highly competitive, quality and cost conscious, international defence market in their respective areas of expertise.'

2.26 The Ministry further submitted the following information on the increase of the indigenous content in defence products through new Offset Policy:

'The new draft offset policy envisages development of an ecosystem for facilitating manufacture of critical components and spare parts to be mandatorily sourced for the acquisition platform. This, apart from enhancing the indigenous content in the platform, would also enable indigenously sourced life cycle support and maintenance of the equipment. The proviso of min 30 per cent indigenisation in the acquisition platform is anticipated to further encourage indigenisation efforts being undertaken in the private and public industrial domain, which is estimated to yield desired results in near future.'

2.27 <u>Action plan by the Government to make the country self-reliant in defence production</u>

- The Government plan to make the country self-reliant in defence production through policy initiatives, such as liberalization of FDI policy & Industrial Licensing policy, simplification of export procedures, creating level playing field for Indian private and public sector companies, providing preference to ‘Buy (Indian)’, ‘Buy and Make (Indian)’ and ‘Make’ categories of Capital acquisition over ‘Buy (Global)’ & ‘Buy & Make (Global)’ category in Defence Procurement Procedure.
- In pursuance of the above, the Government has taken several initiatives to build a strong defence industrial base as below:-
- DIPP vide Press Note No. 12 of 2015 Series dated 24/11/2015 has notified review of Foreign Direct Investment (FDI) Policy under which Foreign Investment Cap up to 49 per cent is allowed through automatic route and above 49 per cent under

Government route on case-to-case basis, wherever it is likely to result in access to modern and 'state-of-art' technology in the country. The foreign investment in defence sector is further subject to industrial license under the Industries (Development & Regulation) Act, 1951.

- To establish a level-playing field between Indian private sector and the public sector, the anomalies in excise duty/ custom duty have been removed. As per the revised policy, all Indian industries (public and private) are subject to the same kind of excise and custom duty levies.
- Exchange Rate variation has been made applicable for Rupee contracts with Indian Vendors for all categories of Capital acquisitions.
- To promote the participation of private sector, particularly SMEs for defence manufacturing, Outsourcing and Vendor Development Guidelines for DPSUs and OFB have been formulated and circulated to them. The guidelines mandate each DPSU and OFB to have a short-term and long-term outsourcing and vendor development plan to gradually increase the outsourcing from private sector including SMEs.
- The Standard Operating Procedure (SOP) for the issue of No Objection Certificate (NOC) for export of military stores has been revised and put on the website. Under the revised SOP, the requirement of End User Certificate (EUC) to be countersigned/ stamped by the Government authorities has been done away with, for the export of parts, components, sub-systems etc.
- Suitable process flexibility has been incorporated in offset guidelines by providing options to the vendor wherein comprehensive plan can be submitted ab-initio, or Details of IOPs & products can be submitted 1 year prior to offset discharge, or Undertake offset activity & submit claims thereafter.
- 'Services' held in abeyance w.e.f 23 May13 have been reinstated as an avenue for offset discharge.
- Standard Operating Procedure (SOP) for processing contract amendment proposals introduced (for DPP-2006, 2008 & 2011) wherein, it is now possible for vendors to change IOP/offset component during contract execution period.
- Level playing field has been ensured for Indian Vendors participating in Buy (Global) cases through amendments in DPP as per which Indian Vendors in Buy (Global) cases will now be required to achieve minimum 30 per cent indigenous content in lieu of offsets instead of 50 per cent in previous provisions.
- The list of military stores has been finalised and has been put in the public domain to make the process transparent and unambiguous.
- The initial validity of the Industrial Licence granted under the IDR Act has been increased from 07 years to 15 years with a provision to further extend it by 03 years on a case-to-case basis.
- The process of receiving applications for NOC for export of military stores and for issuing NOC has been made online to reduce the delay and to remove human interface in the process.

- Make in India Portal for Defence Production has been launched on 21st Dec 2015. The portal provides information related to all policy and procedural issues relevant for defence manufacturing industry. It provides link to industrial promotion policies and programmes of various states and UTs. The portal also gives an opportunity to an individual company to seek clarifications or ask questions related to Defence Production.
- The 'Make' procedure which provides for sharing of cost of development of prototype between Government and selected agency, with assurance of orders on successful development of prototype, has been revised and approved by Defence Acquisition Council (DAC) in Jan16.

Foreign Direct Investment (FDI)

2.28 The Government have reviewed the Foreign Direct Investment (FDI) Policy in Defence sector in November 2015 thereby allowing FDI under automatic route upto 49 per cent and above 49 per cent on case to case basis wherever it is likely to result in access to modern and 'state of the art' technology in the country.

Presently, our Defence Capital acquisition requirements are met through imports as well as procurement from indigenous sources. Increasing FDI in the Defence sector will encourage the global companies having high-end technologies to setup their manufacturing base in India in collaboration with Indian companies, thereby resulting in creation of employment opportunities, saving of foreign exchange and increasing indigenisation. However, the defence sector being sensitive, carefully calibrated approach for foreign investment is being adopted.

CHAPTER III

DEFENCE PLANNING

Five Year Defence Plans

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

3.2 On the achievements of 10th and 11th Plan, the Ministry has stated:

'Expenditure incurred during the 10th and 11th Plan periods, as against initial projections is as follows:

(Rs.in crores)

PLAN	Projections	Expenditure
10th Plan (2002-07)	4,18,101.00	3,57,627.17
11th Plan (2007-12)	6,48,750.16	6,72,714.63

3.3 When asked, the following information regarding 10th, 11th and 12th Plan and their period supplied by the Ministry:

Xth Plan	2002-07
XIth Plan	2007-12
XIIth Plan	2012-17

However, these Plans did not receive Government approval. Nevertheless, activities included in the Plans proceeded during the Plan period within the available budget allocations. Projections in respect of annual budgets were made in line with Five Year Plans and available allocations prioritised accordingly.'

The reason of non-implementation of 10th, 11th and 12th Plan probable losses as an outcome of the same, the Ministry submitted:

'As already mentioned, plan activities proceeded within the available annual budget allocations. As such, planned projects were implemented to the extent possible within the available allocations. Thus, the Plans served as a guide for formulating annual budgetary projections even though formal approvals for the Plans could not be obtained.'

Long Term Integrated Perspective Plan (LTIPP)

3.4 On LTIPPs, their achievements, the procurement of weapon system ammunition etc. and steps taken till date so acquisition can take place as per the plan, the Ministry submitted the following information:

> 'The Headquarters Integrated Defence Staff (HQIDS), in consultation with the Service Headquarters (SHQs), had evolved the 15 year Long Term Integrated Perspective Plan (LTIPP). Presently, LTIPP 2012-2027 is in vogue and has been approved by the Defence Acquisition Council. Proposals for acquisition of Capital Assets flow out from the defence procurement planning process which covers the 15 year LTIPP, 5 year Services Capital Acquisition Plan (SCAP) and Annual Acquisition Plan (AAP).
>
> The LTIPP is translated into the SCAP, covering a five year period. The AAP of each service is a two year Roll on plan for Capital acquisition and consists of the schemes from the approved five year SCAP. Thus, the long term plan (LTIPP) gets finally translated to short term plan (AAP) and the cases included in the AAP are progressed for acquisition as per the Defence Procurement Procedure. Progress of procurement cases is regularly reviewed in SHQ and MoD. Amendments are made to the DPP, as and when required, to streamline the acquisition process. A revised DPP is currently at an advanced stage of finalisation.

The budget and expenditure on Capital acquisition of Defence Forces during the 11th Plan and 12th plan is given below :

11th Plan

(Rs. in crore)

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

12th Plan

(Rs. in Crore)

Year	BE	RE	Actuals
2012-13	66032.24	57395.46	58768.86
2013-14	73444.59	66406.41	66850.30
2014-15	75148.03	66151.73	65582.06

The equipment for which Capital Procurement contracts have been signed during the above periods include Ships, Aircrafts, Missiles, Tanks, Rockets, Ammunition, Simulator, Helicopters, Radars.'

Advance planning for the Forces

3.5 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 the 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.

3.6 The details of contracts signed in respect of three Services during last three financial years and current year are as follows:

Year	2012-13		2013-14		2014-15		2015-16	
	No. of Contract	Value (Rs. in Crore)	No. of Contract	Value(Rs. in Crore)	No. of Contract	Value (Rs. in Crore)	No. of Contract	Value(Rs. in Crore)
Army	29	7260.23	23	14834.32	21	10109.86	17	5670.92
Navy	26	3726.45	10	1243.57	19	51311.22	16	2556.27
Air Force	18	33319.88	9	7849.32	7	3438.44	11	31728.17
Total	73	44306.56	42	23927.21	47	64859.52	44	39955.36
Grand Total	206 contracts for Rs. 173048.65 crore							

The contracts have been signed for Capital procurement of defence equipment including Ships, Missiles, Rockets, Simulators, Tanks, Guns, Aircrafts, Helicopters and Radars.'

Chapter IV

Married Accommodation Project

4.1 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 lac dwelling units have been slated for construction in four phases as per details given below:- Dwelling Units:

SERVICE	**PHASE - I**	**PHASE - II**	**PHASE - III**	**PHASE - IV**	**TOTAL**
Army	50924	58382	33939	33195	176440
Navy	3225	3107	-	-	6332
Air Force	7509	5238	2484	878	16109
Total	61658	66727	36423	34073	198881

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

Projections and allocations made to MAP

4.2 Projections and allocations made to MAP by the Ministry and the expenditure incurred during the last two years of the Eleventh Plan and first three years of Twelfth Plan and the projected and allocated budget for the year 2016-17 is as under:

'(a) The combined details of Capital and Revenue Budget regarding the projection and allocation of DG MAP including the expenditure incurred in the last two years of the 11th Plan and first four years of 12th Plan along with projected budget of the 2016-17 is as under:

(Rs in Cr)

Service / Code Head	2010-11			2011-12			2012-13			2013-14			2014-15			2015-16 (upto 29 Feb 16)			2016-17
	Proj	Allocation	Expdr	Proj	Allocation	Expdr	Proj	Allocation	Expdr	Proj	Allocation	Expdr	Proj	Allocation	Expdr	Proj	Allocation	Expdr	Proj
ARMY Capital Budget Code Head 902/45	1500.200	779.655	820.553	1224.200	961.269	863.548	1346.620	980.000	952.669	1125.000	1071.938	1029.240	1449.780	1641.558	1605.663	1500.000	2330.000	1990.392	2400.000
NAVY Capital Budget Code Head (912/41)	149.980	260.980	252.331	227.330	145.730	131.804	202.330	116.350	124.619	200.000	150.000	157.260	200.000	198.000	196.288	200.650	190.000	156.614	180.000
AIR FORCE Capital Budget Code Head (917/41)	154.94	172.830	174.665	200.000	175.525	172.913	200.000	228.560	230.540	240.000	150.250	139.359	149.365	129.365	122.096	250.000	160.000	157.617	250.000
TOTAL	1805.120	1213.465	1247.549	1651.530	1282.524	1168.265	1748.950	1324.910	1307.828	1565.000	1372.188	1325.859	1799.145	1968.923	1924.047	1950.650	2680.000	2304.623	2830.000

4.3 During presentation before the Committee, MAP supplied the following figures on the allocation of budget:

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
FINAL ALLOT (Rs in Crore)	1282.524	1324.910	1372.189	1968.923	2741.000	2830.00 (PROJECTION)
EXPDR (Rs in Crore)	1168.265	1307.828	1325.859	1924.017	2304.623	1546.85 (BE ALLOCATION)

On the delay of Married Accommodation Project, DG MAP apprised the Committee as under:

"Apart from that, the mandate was to make these houses in a period of 16 years. They started in the year 2002, which takes me to 2018. Last year also, the commitment was given that there would be a delay of two years and that is what we are sticking on today. If I start my phase III today, it would finish by 2020. Thus there will be a two years delay in the whole mandate *per se."*

4.4 He further apprised the Committee as under:

"Sir, in phase I, we tried a model in which we had outsourced to the CPSUs. They did 50 per cent of our work. There were a lot of delays in that, and hence, the Government took a call that in phase II, we will not give anything to the PSUs, it will be done in-house. Then, it was decided that we will make larger packages to attract the big ticket guys. When we got these big ticket guys, they underbid the project. When they underbid the projects, at the times the mobilization advance which was given, was not put to correct use. Hence, a stage came where we had to cancel 30 contracts. But this was what happened about a year and half back. Today, we are averaging about two per cent per month; and we have reached a figure of about 23,000, which was 10,000 when I gave a presentation in the last March. We are targeting another 15,000, which would take me to about 38,000 by another year."

Authorization of Married Accommodation and satisfaction level

4.5 The Ministry submitted the following information on the authorization of Married Accommodation and satisfaction level :

'NCOs/OR of Army were authorized 14 per cent married accommodation as per Scale of Accommodation 1983. This was revised to 35 per cent vide Scale of Accommodation 2009. Scales have also similarly been increased for other Services as well. Authorisation levels have been decided in the past taking into account likely level of deployment in peace areas, likely percentage of personnel who would be married and moving with families to places of postings. The increase in authorization reflects the changes seen with respect to the above parameters among NCO/ORs due to changes in socio-economic conditions and increasing number of nuclear families. Authorization of Married Accommodation at present is worked out based on the scales of accommodation-2009 and satisfaction level is decided based on the accommodation available vis a vis accommodation authorized. An example is given below:

Category	Posted Strength	Authorised for Accommodation	Accommodation available at Stations	Deficiency	Satisfaction level
Officers	100	100	75	(-)25	75%
JCO	250	250	200	(-)50	80%
OR	2000	700	300	(-)400	42.8%

4.6 On the authorization level of Officers and Other Ranks in the context of married accommodation, the Ministry submitted:

'The details of Authorization level of Officers and Other Ranks in the context of Married Accommodation as per Scales of Accommodation 2009 are mentioned below:

Army:

Services	**Officers**	**JCOs**	**NCO/ORs**
Army	100%	100%	35% 35%
Air Force	100%	100%	75% 35%
Navy	100%	100%	75% 35%

Air Force:

Officers	
Squadron Leader and above	100 %
Flight Lieutenant	80 %
Flying Officer	63 %
ORs	
WOs	100%
JWOs	100%
SNCOs/NCOs	75%
Aircraftmen	35%
NCsE	75%

Navy:

Offrs	
Lieutenant Commander and above	**100 %**
Lieutenant	**83 %**
Sub Lieutenant	**63 %**
ORs	
MCPOs and CPOs	100 %
POs	75 %
Leading Sea-I and Sea-II	35 %

4.7 During oral evidence Engineer in Chief informed the Committee on the satisfaction level as under:

> "That gives a wrong picture because today 35 per cent of jawans only are authorized accommodation. When we are talking about 35 per cent, they are the ones in peace areas. We are not even taking into account the jawans who are in forward areas. So, we are talking about 85 per cent of 35 per cent. But the case has been taken up with the Ministry of Defence, now to increase the satisfaction level in the scales of accommodation of jawans from 35 per cent to 75 per cent. That case is under consideration and not yet decided."

Part - II

Recommendations

Allocations under Capital Budget Head

1. The Committee note that during the year 2015-16, at the Budget Estimate stage an amount of Rs 94,588 crore was provided under the Capital Budget Head (including other than acquisition). However, this amount was reduced to Rs. 81,400 crore at the Revised Estimate stage. The Committee are surprised to find that in the current year, the budget under Capital Head is Rs. 8248 crore less as compared to BE 2015-16. Specifically for Capital Acquisition, which is also stated to be the modernization budget for the Forces, the net reduction for BE 2016-17, as compared to the BE of 2015-16, is to the extent of Rs. 7,406.69 crore!

2. The trend of Capital Account Budgeting may be evidenced from the following data:

(Rs. in Crore)

Year	Service	BE		RE		Expenditure
		Projected	Allocated	Projected	Allocated	
2011-12	Army	25,611.68	19,210.69	20,641.69	16,005.69	14,947.82
	Navy	26,882.60	14,657.83	21,482.18	17,459.08	19,211.52
	Air Force	36,186.10	30,282.03	30,282.03	27,734.78	28,841.18
2012-13	Army	28,234.60	19,237.80	18,971.09	15,749.30	14,760.69
	Navy	28,643.19	24,766.42	25,002.85	18,266.42	17,759.88
	Air Force	36,950.52	30,514.45	36,999.62	30,517.95	32,980.11
2013-14	Army	25,528.08	17,883.83	19,271.59	14,967.25	14,433.29
	Navy	33,775.53	24,149.03	27,290.06	20,418.98	20,358.85
	Air Force	64,607.84	39,208.84	65,825.22	37,750.44	38,614.93

2014-15	Army	41,936.15	26,533.60	23,832.67	21,933.54	18,586.73
	Navy	28,253.21	23,832.67	22,903.31	18,507.07	22,269.66
	Air Force	62,408.33	33,710.68	38,948.19	33,710.68	32,796.42
2015-16	Army	31,938.67	27,342.42	27,845.33	24,230.47	14,693.82*
	Navy	26,268.13	25,003.24	25,152.20	19,740.06	15,275.55*
	Air Force	46,191.96	33,686.75	35,780.78	30,442.15	26,363.84*
2016-17	Army	37,960.18 #	26,935.81 #			
	Navy	30,223.31	22,000.09			
	Air Force	41,266.41	29,795.42			

** Expenditure upto end of January 2016*

(# Includes BE of NCC, Military Farms, Rashtriya Rifles and ECHS which are shifted to modified Grant No. 20-MoD(Miscellaneous) from FY 2016-17)

3. This year too, the Army projected an amount of Rs. 37,960.18 crore for Capital Budget but only Rs. 26,935.81 crore has been allocated, which is in line with the trend being witnessed over the years.

4. The same is the case with the Navy and Air Force which projected a requirement of Rs. 30,223.31 crore and Rs. 41,266.41 crore respectively but were provided an allocation of Rs. 22,000.09 crore and 29,795 crore. It would be worthwhile to note here that while the Ministry has to purchase all modern weapon systems from foreign sources, the increase in the Capital Budget for the current year, 2016-17 in dollar terms is less than what was allocated at RE 2015-16.

5. The Committee find this phenomenon, where the projected amount in the Capital Budget is not provided to the Services, to be very discouraging. <u>This</u>

results in severe cuts in procurement apart from adversely impacting schemes relating *inter alia* to Land, Aircraft and Aero Engines, heavy and medium vehicles and other equipment, military farms, rolling stock, Ex-Serviceman's Contributory Health Scheme, Rashtriya Rifles, National Cadet Corps, Construction Works, National Defence Academy, Married Accommodation Project, Naval Fleet and Naval Dockyards/Projects, etc.

6. During the deliberations on Demands for Grants (2016-17), the Defence Secretary very candidly submitted before the Committee that the money allocated for Capital acquisition was not in accordance with the requirements of the Services. The Services get whatever is allocated by the Ministry of Finance. The often repeated explanation of the Ministry in regard to the allocations not being commensurate with the projections is centered on the overall resource constraints of Government of India. Although, assurances are given by the way of stating that additional allocations would be provided as and when required at the supplementary/RE Stage, the matter gets postponed to the subsequent years. Moreover, when the threat perception is on the increase, the Services seem to be falling back. The Committee cannot accept the stance of the Ministry which implies that the Services have to manage with whatever is allocated. Proactive steps need to be taken for effectively countering the threat scenario.

7. Therefore, the Committee urge upon the Ministry to ensure that the allocations to the Services, under the Capital Head, are commensurate with the projection and the "Threat Perception" so that the process of modernization of the Services keeps pace as per with the plan and matters pertaining to security do not suffer for the want of resources.

<u>Capital Acquisitions - Creation of 'Roll on' and 'Non Lapsable Fund'</u>

8. The Committee find from the data supplied by the Ministry that during the year 2015-16, in regard to the Army, an amount of Rs 21,934 crore provided initially was reduced to Rs. 17,997.6 crore at RE stage. For the current year, in BE 2016-17, Rs. 21,535.3 crore has been allocated, which is indicative of a negative trend, or decline of 1.8 per cent over BE 2015-16. Similarly, the allocation for Capital Acquisition with regard to Navy which was Rs. 24,283.24 crore at the stage of BE was reduced to Rs. 19,101.19 crore at RE stage. For the current year 2016-17, only Rs. 21,322.64 crore has been allocated, thereby indicating a decline of 12.2 per cent in the allocation in comparison to BE 2015-16. For the Air Force, Rs. 31,481.52 crore which was allocated at BE stage for the year 2015-16 was reduced to Rs. 28,643.10 crore at RE stage. For the current year, the allocation is Rs. 27,556.02 crore, which is indicative of a negative trend or fall of 12.5 per cent in the allocation in comparison to BE 2015-16.

9. The Committee note that, in total, an amount of Rs. 77,406.69 crore was provided in 2015-16 for Capital acquisitions, inclusive of DGOF supplies. At RE stage, the amount was reduced to Rs. 65,400 crore. For the current year, however, the Ministry has allocated only Rs. 70,000 crore.

10. The Committee find it very surprising that instead of increasing the allocation, the Ministry has reduced the budget for Capital acquisitions for the Forces. As can be seen, all the three Services have witnessed a drop in allocation not only at the RE of 2015-16 but also in the 2016-17 allocations. The back to back decline in allocation comes at a time when all the three Services have several

mega procurement contracts (including the one for procuring Rafale fighters) to be finalized. The cut in the latest allocation would therefore mean that all the pending procurement projects may not go through unless the Government decides to step up the allocation. The past trend of allocations and expenditure shows that the Ministry of Finance imposes budgetary cuts at RE stage. The Committee have, in their reports presented earlier, emphasised on the allocations being of a 'Roll on' and 'Non Lapsable' nature. The Ministry, however, does not seem to have initiated any action in this direction and has only stated that it may not be desirable to make the Capital Budget 'Non-Lapsable' and 'Roll on', ostensibly on the plea that there has been no occasion in the last five years where any substantial amounts were available as surplus for rolling over. The intention of the Committee in recommending having Non-Lapsable funds for Defence modernization is primarily for ensuring that the money allocated for a particular item is spent on the specified item only, not necessarily in the same Financial year.

11. The Committee, therefore, desire that the Ministry should look into the aspect of creating a 'Non-Lapsable' and 'Roll on' Capital Budget afresh so that allocations made towards a specific item are not lapsed and fresh allocations sought in the next financial year for the same purpose.

<u>Capital Acquisition Budget for Specific projects</u>

12. The Committee understand that the budget allocated for Capital Acquisitions pertaining to high value equipment for the Services is distinct and

separate. However, the funds allocated lapse due to absence of proper planning to acquire defence equipment. While tendering evidence, the Defence Secretary too admitted that the process of planning needs to be drastically changed. Therefore, with a view to monitoring the specific items there is a need for converting this Budget into an "outcome" oriented budget of specified categories / projects, *viz.,* programmes and schemes for acquisition of Artillery and Air Defence Guns, Bullet-Proof Jackets, Helicopters, Missiles, Submarines, Naval Ships, Fighter and transport Aircraft, Mid-Air Re-Fuellers etc. Annual targets could be set for each such programme/scheme and allocations made accordingly, thus paving the way for outcome-oriented monitoring. Since the outcome of each such project would be measurable, it would be possible to assess the progress made by the Ministry during the year, pinpoint the reasons for shortfall and take remedial measures.

<u>Underspending</u>

13. The Committee while examining the Demands for Grants, 2015-16, also observed that the Capital expenditure has never remained under control. It was observed that the Capital Head invariably ends off with unutilised funds. During the year 2011-12, at RE stage, Army was allocated Rs. 16, 005.69 crore but was able to utilise only Rs. 14, 947.82 crore. During the year 2012-13, at RE stage, Army was allocated Rs. 15, 749.30 crore, but again it was able to utilise only Rs. 14,760.69 crore. In the same year, Navy was allocated Rs. 18, 266.42 crore but

it could spend only Rs. 17, 759.88 crore. During the year 2013-14, the Army was allocated Rs.14, 967.25 crore at RE stage, but it was able to spend only Rs. 14, 433.29 crore. Similar was the case with Navy, which was not able to spend in full the allocation made at RE stage. Again, in the year 2014-15, Army was allocated Rs. 21, 933.54 crore but spent only Rs. 18, 586.73 crore and Air Force was able to spend only Rs. 32, 796.42 crore against the allocation of Rs. 33, 710.68 crore. During the year, 2015-16, Army was allocated Rs. 24, 230.47 crore, Navy Rs. 19, 740.06 crore and Air Force Rs. 30, 442.15 crore at RE stage but by the end of January, 2016, these services were able to spend only Rs. 14,693.82 crore, Rs. 15,275.55 crore and Rs. 26,363.84 crore respectively.

14. Further, the allocation for Capital Acquisition for Army which was Rs.21,939.4 crore during 2015-16, was reduced to Rs.1,79,97.6 crore (Reduction of Rs. 3,941.8 crore). In BE of 2016-17, allocation of Rs. 21,535.3 crore amounts to a reduction of Rs. 404.1 crore as compared to BE 2015-16.

15. The allocation for Capital Acquisition for Navy which was Rs. 24,283.24 crore during 2015-16 was reduced to Rs. 19,101.19 crore at RE (Reduction of Rs. 5,182.05 crore).The allocation of Rs. 21,322.64 crore at BE 2016-17 is short of the allocation of BE 2015-16 by Rs. 2,960.6 crore.

16. The allocation for Capital Acquisition for Air Force during 2015-16 was Rs. 31,481.52 crore which has been reduced to Rs. 28,643.1 crore at RE (Reduction of Rs. 2,838.42 crore). The allocation at BE 2016-17 is Rs. 27,556.02 crore with the difference between BE 2015-16 and BE 2016-17 being to the extent of Rs. 3925.5 crore.

17. This decline in the allocation for Capital Acquisition will definitely affect several procurement contracts including the one pertaining to Rafale fighters Aircraft which is to be finalised. The cut in budgetary allocation at BE 2016-17 indicates that all the pending procurement projects may not go through unless the Government increases the allocations at the Revised Estimate stage. The Ministry has stated that the process of modernisation of the forces will proceed as planned. In case the pace of utilisation of available funds and the approval of new schemes surpasses available resources, additional funds will be sought. A close examination of the defence budgets of the past reveals that the Government's ability to spend has come under repeated pressure. In the past four years, the MoD has surrendered over Rs. 35,000 crore from its Capital allocations.

18. The Committee in this regard, take note of the admission by the Financial Advisor that the Ministry of Defence is unable to spend the full amount allocated under the Capital Budget either as given or reduced in the RE stage. The Committee find it surprising that despite having a full fledged Defence Procurement Policy and a separate Financial Division of experts, the Ministry has not been able to utilise the money allocated year after year. The Committee, therefore, reiterate their earlier recommendation that Capital Allocation and Expenditure should be "Non-Lapsable and Roll-on" allocation. It should be a part of plan expenditure and the progress should be monitored by a Specialist/expert Committee to ensure that the time schedules as set are followed on various stages till the delivery of Capital goods.

19. Keeping in mind the overall budgetary constraints of Government of India,

the Committee also desire that the Ministry of Defence explore the possibility of leasing out their unutilized land and other equipment and earn Capital which could be utilized for Capital acquisition. The Committee may be intimated of the action taken in this regard.

20. During examination of Demands for Grants 2015-16, the Committee was apprised that Capital Outlay was in the ratio of 30:40:30 all over the world which means that out of the total Capital Outlay, 30 per cent has to be for the category of state-of-the-art technology, 40 per cent current and 30 per cent for obsolescence. The Ministry of Defence is endeavoring to follow this standard pattern. The Committee felt that in order to achieve this standard ratio, we would have to not only enhance our Capital Outlay but also make it "Non-Lapsable and Roll-on" as an urgent change in our Financial Policy. The major reason cited by the Defence Secretary for not adhering to this standard ratio was insufficient Capital Budget. Therefore, the Committee desired that the Defence Ministry officials have to make sincere and effective efforts and ensure that the funds allocated are fully & efficiently utilized under respective heads.

Capital and Revenue Outlay Ratio

21. From the information furnished by the Ministry it is seen that the 'Revenue' to 'Capital Ratio' of the budgetary allocation in case of the Army has changed from 77:23 (77 – Revenue and 23 - Capital) in 2011-12 to 81:19 in 2015-16 and 2016-17 (BE). Similarly, in the case of the Air Force the allocation on Revenue Account has risen from 34 per cent in 2011-12 to 44 per cent in 2016-17 (BE) with commensurate fall in the allocation under the Capital Account. The Committee

find it very disappointing to note that the Budget for Capital acquisitions for the Army is declining in comparison to revenue allocations thereby leaving very little scope for acquisition of new weapon systems. With a view to have the Services in a war-ready mode and to arm them with modern state of the art weaponry, a Capital revenue ratio that is in favour of the Capital segment is a must.

Committed Liabilities and New Schemes

22. The Committee also note from the reply of the Ministry that as far as the Capital segment is concerned, funds are first set aside for meeting the projected Committed Liabilities that are likely to materialise during the year. The remaining allocation is distributed for meeting the requirement projected for other items. The procurement plan for Capital modernization schemes may have to be reviewed and re-prioritized, based on available funds.

23. The Committee note that Committed Liability refers to payments anticipated during a financial year in respect of contracts concluded in the previous years. Under the Defence Services Estimate, Committed Liabilities constitute a significant element in respect of the Capital acquisition segment, since a project may span over several financial years. As such, it is important to track the element of Committed Liabilities which hold the first charge on the budget allocation. Inadequate allocation for Committed Liabilities could lead to default on contractual obligations. During the year 2014-15, BE allocations for committed liabilities and new schemes were Rs. 18,851.26 crore and Rs 2,084.15 crore in case of Army. For the Navy these allocations were Rs. 21,248.07 crore and Rs. 663.92 crore respectively. In case of Joint Staff, an allocation of

Rs. 473.07 crore was made for Committed Liabilities and only Rs. 9.17 crore for New Schemes. The case of Air Force was no different either. The Force was given only Rs. 29,173.40 crore for Committed Liabilities and Rs. 2,644.99 crore for New Schemes. In total, Rs. 69, 745.80 crore was allocated for Committed Liabilities and Rs. 5,402.23 crore for New Schemes. For the current year, 2016-17, the Services projected a requirement of Rs. 73,552.51 crore for Committed Liabilities and Rs. 22,892.02 crore for New Schemes which includes Rs. 21,921.38 crore for Army, Rs. 23,276 crore for Navy, Rs. 325.55 crore for Joint Staff and Rs. 28029.58 crore for Air Force under the head 'Committed Liabilities' and Rs. 7,748.91 crore for Army, Rs. 4,781 crore for Navy, Rs. 425.28 crore for Joint Staff and Rs. 9,936.83 crore for New Schemes.

24. However, based on the allocation of funds by the Ministry of Finance, the actual allocation in BE 2016-17 is lesser by Rs. 2,472.12 crore for Committed Liabilities and Rs. 5,662.91 crore for New Schemes in case of Army, Rs. 4512.23 crore for Committed Liabilities and Rs. 3181 crore for New Schemes in case of Navy, Rs. 205.88 crore for New Schemes in case of Joint Staff, and Rs. 5138.53 crore for Committed Liabilities and Rs. 5251.86 for New Schemes in case of Air Force. In total, there is cut of Rs. 12,142.88 crore for Committed Liabilities and Rs. 14,301.65 crore for New Schemes. As per the Ministry of Defence's own admission, these shortfall in the allocation will affect the preparedness of the Forces.

25. From the data supplied by the Ministry, it is seen that the allocations made

for Committed Liabilities are being cut at RE stage each year. Considering the fact that Committed Liabilities are the payments anticipated during a financial year in respect of contracts concluded in previous years, the Committee are baffled as to how a cut can be made in the Head of Account for Committed Liabilities. The Committee also find it surprising that while the Government's stress is on modernization of the Forces, meager allocations are made for New Schemes pertaining to the Army and other Services as well. Therefore, the Committee desire that the Capital Budget should be increased so as to be commensurate with the projection of the Services. It also needs to be ensured that steps are taken to ensure that budget is utilized fully. It is the earnest desire of the Committee that proper allocations should be made for New Schemes for enabling in modernizing the forces.

Deals which may be affected immediately due to lower Capital Outlay

26. The Committee note that as per the statement of the Ministry of Defence lower Capital Budget allocation may affect the major Aircraft or Armament deals planned to be procured from foreign sources. The deals/plans in the pipeline include, induction of new fighters in the form of Su-30 aircraft, LCA Mk-1 and Mk-1A aircraft, Rafale aircraft and other suitable fighters. A separate proposal is planned to be made for additional funds in FY 2016-17 for procuring Rafale Aircraft, once the cost and timelines for delivery are finalised. As informed, the Government is also preparing the road map for induction of fighter aircraft in the IAF and all future induction will be as per this road map. IAF is likely to build up its fighter aircraft fleet to the required strength by the end of 15th Plan Period. The Committee are of the view that these, as well as similar other big ticket

projects, may be affected due to lower Capital Allocations. Therefore, there is a need on the part of the Ministry to shun ad-hoc planning and take necessary steps so that allocations under this head of account would be sufficient for purchasing modern equipment.

Long gestation period in procurements

27. The Committee note that procurement is an ongoing process and the time taken varies from case to case due to inherent complexities and uniqueness. The DPP provides for a broad timeframe of 80-137 Weeks for Capital procurement cases. During oral evidence, the Defence Secretary enlightened the Committee on new procurement procedure and stated that the Ministry has brought about some changes in the Defence Procurement Procedure, 2016 (DPP) and the innovations and the major changes have been made. The main preferred category in the Defence Procurement Procedure is now 'Buy Indian- Indian Designed, Developed and Manufactured (IDDM)' which is a new category. 'Buy Indian-IDDM' means Indigenously Designed, Developed and Manufactured products with minimum 40 per cent indigenous content. In case of the product not designed and developed indigenously, it should have at least 60 per cent indigenous content. The indigenous content in different categories have been specified, but are subject to variations on case-to-case basis in Categorisation Committee as approving authorities. The make procedure has been further made more attractive with Government bearing 90 per cent of the financial burden. Further, if RFP is not issued within the specified time, the total development cost will be paid to the developing agency. The preference to MSME in make procedure has been stipulated. Single vendor situation resulting because of

submission of single bid has been rationalised without compromising transparency and only the Defence Acquisition Council is empowered to accept such situations. New categories of SQR like Essential Parameter A, Essential Parameter B and Enhanced Performance Parameter have been introduced to make it more realistic, industry friendly and without compromising the requirement of the Services or of transparency and without compromising Government interests and funds. The new changes which have been brought about in the Defence Procurement Procedure are expected to streamline the defence acquisition procedure drastically.

28. While the enthusiasm in propagating the new DPP is very encouraging, as admitted by the Ministry, the procurement cycles are very long and it takes three to seven years for the procurements to materialise. This raises the doubt on the assurances given by the Ministry on ensuring timely procurements. An unduly long time taken on specific acquisition, say 7 years, leaves the possibility of making the contracted equipment obsolete and better and more sophisticated models could have been introduced by some other company. Therefore, the Committee desire that the Ministry should make all out efforts to cut the procurement cycle to a minimum time span so that the requirement of the Forces may be met with in short time frame and also the equipment would not turn obsolescent by the time of delivery. The Committee also feel that the procedures related to procurement should be made simpler and user-friendly.

Essential Parameters of DPP 2016

29. The Committee expressed concerns and doubts on certain parameters of DPP 2016 on which no satisfactory reply was given by the representatives of the

Ministry. For instance, in the event of a vendor failing to deliver the equipment contracted for, it was informed that the Ministry cannot go back to L-2 vendor. The Committee are of the view that having such a provision which enables to approach the L-2 vendor would be beneficial by way of widening the vendor base as well. The Committee also expressed doubts over ensuring timely delivery of the equipment under the new dispensation, which possibly envisages that the vendors are ready with the products. At times, it may be preferable to opt for retrofitting of the existing equipment instead of opting to buy off the shelf, which may not materialise or take unduly long time. The Committee, therefore, feel that such of the provisions of the new DPP need to be relooked into and reformulated. The Committee desire that responsibility should be fixed and that there should be provision of penalties on the vendors who do not deliver satisfactorily.

Dependence on foreign suppliers for military hardware

30. Modernisation involves acquiring new state-of-the-art platforms, technologies and weapon systems to upgrade and augment Defence capabilities. The budget for the same is taken from the Capital segment of the Defence budget. However, the Committee note that the Army spent an amount of Rs. 991.67 crore in 2012-13, Rs. 1501 crore in 2013-14, Rs. 3452.61 crore in 2014-15, and Rs. 2554.11 crore in 2015-16. Similarly, the Navy spent Rs. 5,968.80 crore in 2012-13, Rs. 12, 577.81 crore in 2013-14, Rs. 6,884 crore in 2014-15 and, Rs. 6110.31 crore in 2015-16 in importing military equipment. As for the Air Force, an amount of Rs. 19220.95 crore was spent in 2012-13, Rs. 20,927.54 crore in 2013-14, Rs. 14,655.75 crore, in 2014-15, and Rs. 10,156.47 crore in the year

2015-16 on import of weaponry. In total, in the last 4 years, the Services imported equipments worth Rs. 105001.02 crore. The Committee are worried over the burgeoning import bill of the equipment, for which no action has been initiated by the Ministry to reduce it till date. The Committee desire that in New DPP, the Ministry should encourage the indigenous manufacturers and they may be provided incentives to design and develop Defence equipments so as to avoid spending large sums of money on foreign sources.

31. The Committee find that dependence on foreign suppliers for military hardware is increasing. The Ministry clarified that Capital procurement of Defence equipment from Indian and foreign vendors is carried out as per provisions of the DPP. However, Defence equipment is being imported from various countries as per the operational requirements of Armed Forces. The 89 contracts with total value of Rs. 88786.73 Crore signed during 2013-14 and 2014-15 include 50 contracts signed with Indian vendors with total value of Rs. 64462.67 crore and 39 with foreign vendors with total value of Rs. 24324.06 crore. The Committee note that the major Defence equipment imported during last two years include rockets and component level repair facility for Tanks from Russia, Unmanned Aerial Vehicles, fire control system for tanks and missiles from Israel, aircraft and simulators from USA and BMCS high Zone Modules of Artillery Guns from France. The Committee desire that the Ministry should take pre-emptive action for enabling emergence and development of vendors within the country to supply military hardware to the Services. This would, *inter alia* help in avoiding repetition of the mistakes made earlier whereby vendors charged huge sums of money to supply spare parts or embargos were applied against the country

supplying spare parts to India.

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

32. The Committee note that the import component of the Defence equipment manufactured by DPSUs is substantial. For instance, in case of HAL the import component is said to range from 44 per cent to 60 per cent; 41 per cent to 49 per cent in case of equipment manufactured by BEL; and over 20per cent in case of equipment manufactured by BEML. Further, the import component of Ships manufactured by HSL is informed to be 30 per cent; and 54per cent to 72 per cent in case of Ships manufactured by MDL. The import content of OFB's Defence Products during the last three years is said to have ranged from 8.9per cent to 15.15 per cent.

33. The Committee find this situation to be of concern as the policy of the Nation is to lay more and more emphasis on Self reliance in Defence production. While the aspect of indigenously manufactured ships and crafts is highlighted, the analysis of import content reveals that the country is heavily dependent on supply of requisite equipment/components from foreign sources. It is a matter of surprise to note that Mazagaon Docks Ltd constructed the P17A with 72 per cent import content. Another platform P15B was constructed with 68 per cent of import content. Even the products developed and manufactured by Ordnance Factories have more than 15 per cent import content. The Committee earnestly desire that in the interest of national security, appropriate measures be taken under the Make In India policy for achieving self-reliance in Defence production and reducing the import content in the military equipment manufactured indigenously.

Make-in-India policy

34. The Committee note that 'Make in India' initiative of the Government of India aims to facilitate investment, foster innovation, protect intellectual property, build best-in-class manufacturing infrastructure; whereas Defence Production Policy aims at 'achieving substantive self-reliance in the design, development and production of equipment, weapon systems, platforms required for Defence in as early a time frame possible; creating conditions conducive for the private industry to take an active role in this endeavour; enhancing potential of SMEs in indigenization and broadening the Defence R&D base of the country. The 'Make in India' initiative provides further fillip in realising the objectives of Defence Production Policy in achieving the substantive self- reliance in Defence requirements of the country. In order to evolve a policy framework to implement Make in India in Defence manufacturing, a 'Committee of Experts' was constituted in the Ministry. The recommendations of the Committee have been suitably incorporated in revised DPP approved by DAC in Jan 2016.

35. The Committee also note that apart from this, several policy changes have been initiated by the Government to build a robust Defence Industrial base in India. These include, liberalisation of FDI policy, liberalisation of industrial licensing policy, level playing field between public & private sector etc and these initiatives would help in more active participation of Indian private sector, especially Micro, Small & Medium Enterprises (MSMEs) in Defence Research, development and manufacturing of Defence equipment in the country; higher indigenisation levels in Defence equipment; enhancement of technical

capabilities; creation of employment opportunities; thereby reducing in dependence on imports .

36. However, the Ministry has not made any specific allocations for the 'Make in India Policy' as there is no 'Make in India Project' category for procurement of Capital equipment. However, the objectives of 'Make in India' initiative of the Government are pursued by according preference to, 'Buy (Indian)', 'Buy and Make (Indian)' categories and other policy initiatives such as liberalization of FDI policy & Industrial Licensing policy, simplification of export procedures etc.

37. While tendering evidence before the Committee, the Defence Secretary too, elaborated on Make in India policy under the procurement process, the latest outcome of which seems to be the introduction of the new category (Indian Design Developed and Produced) in DPP 2016. While the Ministry is pursuing many plans for encouraging Indian Defence Sector, the Committee desire that the focus should be on trying to develop core, critical capabilities in the country; and not working as system integrator only. The Committee desire that specific steps taken in this direction may be conveyed to them.

Defence Planning- Five Year Plans

38. The Committee note that the Defence Five Year Plans are formulated to chalk out the necessary steps to maintain and augment Defence capabilities in line with the RM's Operational Directives, the Long Term Perspective Planning and the current threat perception. These plans help to estimate the outlay required to achieve the planned objectives. The plan period of 10th Plan was 2002-

07, 11th Plan, 2007-12 and 12th Plan 2012-17. However, to the surprise of the Committee, these Plans did not receive Government approval.

39. The Committee also note that during the 10th Plan (2002-07), a projection of Rs. 4,18,101 crore was made, but the expenditure incurred was only Rs. 3,57,627.17 crore. During 11th Plan (2007-12), a projection of Rs. 6,48,750.16 crore was made but expenditure incurred was on the higher side at Rs. 6,72,714.63 crore. As per the submission of the Ministry, although the Five Year Plans did not receive Governmental approval, the activities were proceeded with for implementation to the extent possible, within the available allocations. Thus, the Plans formulated only served as a guide for formulating annual budgetary projections even though formal approvals for the Plans could not be obtained.

40. The Committee does not find the reasoning put forth by the Ministry that instead of Five Year Plans, the annual plans served the purpose to be tenable. Long term plans are made with the intention of accessing the requirements of the Services and avoiding ad-hoc planning so that a trajectory may be taken to achieve the desired objectives. The Committee would like to be apprised of the specific reasons for non approval of these plans and desire that approval of Defence Five Year Plans should be given due importance so that our Forces know of the availability of budget and are also able to anticipate the number and type of equipment and infrastructure that needs to be created in the coming Five Years and prepare themselves accordingly.

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

41. 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.

42. The Committee also note that during the 11th Plan period an amount of Rs. 2,21,978.65 crore was allocated at Budget Estimate stage. However, the amount was reduced to Rs 2,02,974.22 crore at Revised Estimate stage and Rs. 2,11,058.83 crore was the actual amount spent. During first three years of 12th Plan period Rs. 2,14,624.86 crore was allocated which was reduced to Rs. 1,89,953.6 crore at Revised Estimated stage. The amount actually spent during 12th Plan Period was Rs. 1,91,201.22 crore for the purchase of Ships, Aircrafts, Missiles, Tanks, Rockets, Ammunition, Simulator, Helicopters, Radars etc. The Committee find substantial variation in BE, RE and Actual figures of both the plan periods. Therefore, they desire to know the reasons for the same and

whether before allocating funds for Capital Acquisition, aspects relating to cost escalation due to inflation has been taken into account.

Married Accommodation Project

43. 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 for constructing married accommodation for the three services, with the aim of overcoming the deficiency of accommodation for service personnel. A total deficiency of two lac dwelling units have been slated for construction in four separate phases for addressing the deficiency.

44. The Committee also note that as admitted by DG MAP, the projects are running behind schedule by at least two years, which the Committee feel is the matter of concern. The argument put forth by the Ministry that outsourcing fifty percent work to Central Public Sector Undertakings contributed to the delay in the construction work is indicative of inadequacies in the monitoring system with MAP. Another reason given for the delay viz., big ticket players having underbid the project, also does not seem to be a plausible explanation. It is strange that despite many years of experience, the MAP could not differentiate between 'under' or 'overbidding'!

45. Although the DG MAP stated before the Committee that the MAP has got assured budgetary support and there was no shortage of funds, on the contrary, the data provided indicates that while MAP made a projection of Rs. 2830 crore during 2016-17, only Rs. 1546.85 crore was allotted.

46. The Committee desire that instead of making assurances, MAP should make improvements in its working which should be reflected at the ground level. The Committee are also of the view that MAP should look into the aspect of obtaining prefabricated construction material which is available in the market so as to speed up the construction work and avoid delays in providing accommodation for the Services fighting for the nation.

47. The Committee also desire that MAP should also identify areas where no accommodation outside the Military area is available which include Jaisalmer, Barmer etc and give priority for construction of dwelling units in such areas.

Authorization of Married Accommodation and satisfaction level

48. The Committee note that NCOs/OR of Army were authorized 14 per cent married accommodation as per 'Scale of Accommodation', 1983. This was revised to 35 per cent vide Scale of Accommodation 2009. Authorisation levels have been decided in the past taking into account likely level of deployment in peace areas and likely percentage of personnel who would be married and moving with families to places of posting. The increase in authorization reflects the changes seen with respect to the above parameters among NCO/ORs due to changes in socio-economic conditions and increasing number of nuclear families.

Authorization of Married Accommodation at present is worked out based on the scales of accommodation-2009 and satisfaction level is decided based on the accommodation available vis a vis accommodation authorized.

49. The Committee find that authorization and satisfaction level as calculated by the Ministry is misleading and gives an incorrect impression that if the satisfaction level is 100 per cent as per the scale, it would imply that every armed forces personnel has been given accommodation. The Committee desire that the Ministry should take necessary steps to ensure that satisfaction level, in case of Officers as well as Jawans is achieved in the true sense of term.

NEW DELHI;	**MAJ GEN B C KHANDURI, AVSM (RETD),**
29 April, 2016	**Chairperson,**
09 Vaisakha, 1938 (Saka)	**Standing Committee on Defence**

APPENDIX-I

STANDING COMMITTEE ON DEFENCE (2015-16)

MINUTES OF THE NINTH SITTING OF THE STANDING COMMITTEE ON DEFENCE (2015-16)

The Committee sat on Monday, the 4 April, 2016 from 1100 hrs. to 1650 hrs. in Main Committee Room, Parliament House Annexe, New Delhi.

PRESENT

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

Lok Sabha

2. Shri Suresh C Angadi
3. Shri Thupstan Chhewang
4. Col Sonaram Choudhary(Retd)
5. Shri G Hari
6. Shri Ramesh Jigajinagi
7. Shri Tapas Paul
8. Shri Ch Malla Reddy
9. Smt Mala Rajya Lakshmi Shah
10 Shri A P Jithender Reddy
11. Smt Pratyusha Rajeshwari Singh

Rajya Sabha

12. Shri Rajeev Chandrasekhar
13. Shri A U Singh Deo
14. Shri Harivansh
15. Shri Vinay Katiyar
16. Shri Hishey Lachungpa
17. Shri Madhusudan Mistry
18. Smt Ambika Soni
19. Shri Tarun Vijay

SECRETARIAT

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

WITNESSES

REPRESENTATIVES OF THE MINISTRY OF DEFENCE

S.No.	Name	Designation
1.	Shri G Mohan Kumar	Defence Secretary
2.	Shri AK Gupta	Secy (DP)
3.	Shri Prabhu Dayal Meena	Secy (ESW)
4.	Dr S Christopher	Secy DR&D
5.	Lt Gen MMS Rai	VCOAS
6.	VAdm P Murugesan	VCNS
7.	Air Mshl BS Dhanoa	VCAS
8.	Air Mshl A S Bhonsle	CISC
9.	Shri SS Mohanty	FA(DS)
10.	Ms. Surina Rajan	Addl Secy (DP)
11.	Shri J R K Rao	Addl Secy(J)
12.	Smt Anuradha Mitra	FA (Acq)
13.	Lt Gen PK Srivastava	DGFP
14.	Lt Gen Sanjay Kumar Jha	DGPP
15.	Lt Gen Vishwambhar Singh	DGWE
16.	Lt Gen A K Ahuja	DCIDS
17.	Lt Gen R K Sharma	DG OL&SM
18.	Air Mshl RKS Bhadauria	DCAS
19.	Air Mshl Anil Khosla	DG Air (Ops)
20.	Lt Gen Subrata Saha	DCOAS (P&S)
21.	Shri GS Malik	CCR&D (R&M & Imp)
22.	Shri RG Vishwanathan	Addl FA & JS
23.	Shri J Janardhan	Spl DG QA
24.	Shri Ashok Dongre	JS(Trg) & CAO
25.	Shri Rajnish Kumar	FA & JS
26.	Shri A N Das	Addl. FA & JS
27.	Shri Ravi Kant	Addl. Secy, (R)
28.	Shri Sanjay Prasad	JS(LS)
29.	Shri AKK Meena	JS & AM (MS)
30.	Shri Subir Mallik	JS & AM (LS)
31.	Shri Jiwesh Nandan	JS (G)

32.	Shri Rajeev Verma	JS & AM (Air)
33.	Maj Gen Manoj Pande	ADG MO(B)
34.	Maj Gen BK Pande	ADG FP
35.	Maj Gen SS Hasabnis	TM (LS)
36.	Maj Gen SK Upadhya	ADG (Proc)
37.	Maj Gen J. S. Sandhu	ADG(B)
38.	Shri K Chandrasekhar	ADG (Adm)
39.	RAdm Dinesh K Tripathi	ACNS (P&P)
40.	AVM Sandeep Singh	ACAS (Plans)
41.	AVM SM Subhani	ACAS Fin P
42.	AVM BR Krishna	ACAS Proj
43.	AVM H J Walia	ADG(A)
44.	AVM M Baladitya	ACAS Procurement
45.	AVM OEM Menon	ACAS (Org &Cer)
46.	Dr JP Singh	Director, Parliamentary Affairs
47.	Shri Praveen Kumar	Dir (Acq)
48.	Shri S.K. Pandey	Dir(Fin)
49.	Ms Maulshri Pande	Director (Fin/Budget)
50.	Col Pratap Malik	Director A
51.	Brig C Bansi Ponnappa	Dy TM (LS)
52.	Brig Sanjay Puri	DDG PP (Plans)
53.	Brig Anil Puri	DDG FP(A)
54.	Brig C P Sangra	DDG(Lgs)
55.	Brig R R Sharma	DDG (Trg)
56.	Brig AK Chanma	DDG P&M Cell
57.	Air Cmdr DK Awasthi	PD AS
58.	Cmde P K Banerjee	DDG (P&C)
59.	Cmde Sanjay Vatsayan	PNDP

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

3. The Chairperson initiated the discussion and directed the Ministry of Defence to intimate the Committee about their scheduled programmes atleast 2 months in advance so that Committee's schedule of Sittings is not disturbed. 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.

4. The representatives of the Ministry commenced their briefing through a Power Point Presentation on General Defence Budget. This was followed by detailed deliberations on the following issues:

(i) Inadequate budgetary provision to Defence in this year's Budget Estimates.

(ii) Reasons for clubbing demands under various services,
(iii) Making Capital Budget as a roll on and non- lapsable,
(iv) Slow pace of decision making,
(v) Effect of underspending, and
(vi) Amount of Defence Pension allocated for arrear of OROP in the Budget for 2016-17.

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

(i) The newly-formulated Defence Procurement Procedure (DPP 2016).

(ii) Delayed timelines,

(iii) Indecisiveness and hierarchical hurdles,

(iv) Roadmap for `Make in India',

(v) Enhancing core critical capability of Defence under `Make in India'.

The Committee took break for lunch and resumed the Sitting at 2:30 P.M.

6. Afterwards, a Presentation was made on Army. The Presentation was found to be short of relevant information and therefore, the Committee decided to call for Presentation on Army on any other day.

7. Thereafter, Presentation on Air force was made, which was followed by discussion on the following points:

(i) Inadequate Budgetary Provisions,

(ii) Shortage of Squadrons,

(iii) Need to replace MiG 21 Aircraft,

(iv) Delay in Making of Intermediate Jet Trainer Craft (Kiran).

(v) Depleting Pilot to Cockpit Ratio,

(vi) Need to have a separate fund for Air force to attend to work related to unforeseen natural calamities,

(vii) Need for utilizing highways for landing of smaller Aircraft, and

(viii) Need for having a Air Force Station at Zanskar etc.

8. The Ministry gave a Presentation on Directorate General of Quality Assurance (DGQA), National Cadet Corps (NCC) and Sainik Schools in that order. This was

followed by detailed discussions on the subjects and Members raised queries on the following issues:

(i) Expansion of NCC by raising more NCC units;

(ii) Having NCC units in all schools increase in number of Sainik Schools and similarity in their infrastructure; and

(iii) Opening Sainik Schools for girls, etc.

9. The representatives of the Ministry of Defence replied to various queries/observations of Members. The information not readily available was desired to be furnished later on. The Chairperson directed the representatives of the Ministry of Defence to furnish written replies to all the queries at the earliest.

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

The Committee then adjourned.

APPENDIX II

STANDING COMMITTEE ON DEFENCE (2015-16)

MINUTES OF THE TENTH SITTING OF THE STANDING COMMITTEE ON DEFENCE (2015-16)

The Committee sat on Tuesday, the 5th April, 2016 from 1100 hrs. to 1700 hrs. in Main Committee Room, Parliament House Annexe, New Delhi.

PRESENT

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

Lok Sabha

2. Shri Suresh C Angadi
3. Shri Shrirang Appa Barne
4. Shri Dharambir
5. Shri Thupstan Chhewang
6. Col Sonaram Choudhary(Retd)
7. Shri H DDevegowda
8. Shri Sher Singh Ghubaya
9. Shri Ramesh Jigajinagi
10. Shri Vinod Khanna
11. Shri Tapas Paul
12. Shri Malla Reddy
13. Smt Mala Rajya Lakshmi Shah
14. Shri A P Jithender Reddy
15. Smt Pratyusha Rajeshwari Singh

Rajya Sabha

16. Shri Rajeev Chandrasekhar
17. Shri A U Singh Deo
18. Shri Harivansh
19. Shri Vinay Katiyar
20. Shri Hishey Lachungpa
21. Shri Madhusudan Mistry
22. Smt Ambika Soni
23. Shri Tarun Vijay

SECRETARIAT

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

WITNESSES

REPRESENTATIVES OF THE MINISTRY OF DEFENCE

Sl. No.	Name	Designation
1.	Shri G Mohan Kumar	Defence Secretary
2.	Shri SS Mohanty	FA(DS)
3.	Shri Ravi Kant	Addl. Secy. (R)
4.	Shri AN Das	Addl. FA & JS
5.	Shri Jiwesh Nandan	JS (G)
6.	Dr S Christopher	Secy(DR&D)
7.	Dr K Tamilmani	DG(Aero)
8.	Dr Satish Kumar	DG (MSS)
9.	Dr S C Sati	DG(NS & M)
10.	Ms J Manjula	DG(ECS)
12.	Dr KD Nayak	DG (MED &CoS)
11.	Dr Manas K Mandal	DG(LS)
12.	Dr CP Ramanarayanan	DG(ACE) & CC R&D(HR)
13.	Shri GS Malik	CCR&D (R&M & Imp)
14.	Dr Guru Prasad	CCR&D (PC & SI)
15.	Shri M Hafizur Rahaman	CCR&D (TM)
16.	Dr G Athithan	CCR&D (SAM)
17.	Shri Sudhir Mishra	CCR&D (BrahMos)
18.	Shri RG Vishwanathan	Addl FA & JS
19.	Lt Gen A K Ahuja	DCIDS (PP&FD)
20.	Maj Gen SK Upadhya	ADG (Proc)

21.	VAdm P Murugesan	VCNS
22.	RAdm Dinesh K Tripathi	ACNS (P&P)
23.	RAdm Kapil Mohan Dhir	ACDIS(WSOI)
24.	Cmde Sanjay Vatsayan	PDNP
25.	Cmde A K Sharma	DACIDS (Budget)
26.	Shri Rajendra Singh	DG ICG
27.	Shri V D Chafekar	DDG (P&P)
28.	Comdt MM Mark	JD (Plans)
29.	Air Mshl A S Bhonsle	CISC
30.	AVM SC Chafekar	ACIDS(FP)
31.	Shri J.R.K. Rao	Addl. Secy.(J)
32.	Shri Deepak Anurag	JS (C&W)
35.	Shri Ajay Kumar Sharma	Addl DG(Lands/IT)
36.	Shri PrachurGoel	Addl DG (C&Crd)
37.	Shri P Daniel	Addl DG(Adm)
38.	Shri G VijayaBhaskar	DDG (C&Crd)
39.	Shri Ajay Singh	CE CW&E
40.	Shri Ashwini Kumar	Addl FA & JS
41.	Shri Suresh Kumar	JS(BR)
42.	Lt Gen. MMS Rai	VCOAS
43.	Lt Gen Ranbir Singh	DGMO
44.	Lt Gen Sanjiv Talwar	E-in-C
45.	Lt Gen BS Sahrawat	DG LW&E
46.	Lt Gen Suresh Sharma	DGBR
47.	Lt Gen RV Kanitkar	QMG
48.	Maj Gen Michael Mathew	ADG LW&E
49.	Maj Gen Ajay Anand	DG Works
50.	Maj Gen SPS Kohli	ADGW(Army)
51.	Maj Gen Manoj Pande	ADG MO(B)
52.	Maj Gen Gurdip Singh	DG MAP
53.	Brig SK Vidyathi	DDG MO (C)
54.	Brig K K Repswal	DDGW (PPC &Est)

58.	Brig RK Sharma	DDG (TP)
59.	Brig Sanjay Gupta	DDG CS
60.	V Adm P Murugesan	VCNS
61.	Air Mshl BS Dhanoa	VCAS
62.	Air Mshl BBP Sinha	AOA
63.	Cmde Ravi Malhotra	PDW

2. At the outset, the Chairperson welcomed the Members of the Committee and informed them about the agenda for the Sitting. The Committee then invited representatives of the Ministry of Defence, Navy and other organizations. The Chairperson welcomed the representatives to the Sitting of the Committee and drew their attention to Direction 55(1) of Directions by the Speaker, Lok Sabha.

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

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

(i) Gap between allotted funds and expenditure,

(ii) Contractual appointment of scientists,

(iii) 'Make in India' initiative,

(iv) Export of DRDO developed equipments,

(v) Mechanism to address user grievance and feedback,

(vi) Involvement of private sector etc.

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

(i) Depleting fleet strength of Navy,

(ii) Inadequacies in capital budget,

(iii) Shortage of manpower,

(iv) Delayed procurement process,

(v) Replacement of ageing equipment,

(vi) Operational preparedness etc.

The representatives of the Ministry of Defence submitted their replies to queries/observations of members.

6. Thereafter, a presentation on Coast Guard Organization was given before the Committee. Subsequent queries from Members included wide gap in projection of funds and allocation and coordination of Indian Coast Guard with Navy.

7. The Committee took break for lunch and resumed the Sitting at 1440 hrs.

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

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

(ii) Encroachment of Defence Lands by civilians,

(iii) Digitisation of records in DGDE,

(iv) Financial problems of cantonment boards,

(v) Recoveries of dues from Army and Navy etc.

9. The Ministry gave presentation on Military Engineer Services and Married Accommodation Project in that order. This was followed by detailed discussions on the subjects and Members asked questions on the following issues:

(i) Delay in completion of projects,

(ii) Adoption of state-of-the-art technology etc.

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

(i) Status of Border connectivity,

(ii) Financial crunch faced by BRO,

(iii) Non-availability of adequate number of quarries,

(iv) Obsolescence of equipment, shortage of manpower,

(v) Modernisation plan etc.

The representatives of the Ministry of Defence submitted their replies to queries/observations of Members.

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

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

The Committee then adjourned.

APPENDIX-III

STANDING COMMITTEE ON DEFENCE (2015-16)

MINUTES OF THE ELEVENTH SITTING OF THE STANDING COMMITTEE ON DEFENCE (2015-16)

The Committee sat on Wednesday, the 06 April, 2016 from 1030 hrs. to 1450 hrs. in Main Committee Room, Parliament House Annexe, New Delhi.

PRESENT

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

Lok Sabha

2. Shri Shrirang Appa Barne
3. Shri Dharambir
4. Shri Thupstan Chhewang
5. Col Sonaram Choudhary(Retd)
6. Shri H D Devegowda
7. Shri Sher Singh Ghubaya
8. Shri Vinod Khanna
9. Shri Tapas Paul
10. Shri Ch. Malla Reddy
11. Shri Rajeev Satav
12. Shri A.P. Jithender Reddy
13. Smt. Pratyusha Rajeshwari Singh

Rajya Sabha

14. Shri Rajeev Chandrasekhar
15. Shri Harivansh
16. Shri Vinay Katiyar
17. Shri Madhusudan Mistry
18. Smt. Ambika Soni

SECRETARIAT

1. Smt Kalpana Sharma - Joint Secretary
2. Shri T G Chandrasekhar - Director
3. Smt J M Sinha - Additional Director
4. Shri Rahul Singh - Under Secretary

WITNESSES

REPRESENTATIVES OF THE MINISTRY OF DEFENCE

Sl. No.	Name & Designation	Designation
1.	Shri G Mohan Kumar	Defence Secretary
2.	Shri SS Mohanty	FA(DS)
3.	Shri Ravi Kant	Addl. Secy. (R)
4.	Shri Subir Mallik	JS & AM (LS)
5.	Shri Jiwesh Nandan	JS (G)
6.	Lt Gen. MMS Rai	VCOAS
7.	Lt Gen Subrata Saha	DCOAS (P&S)
8.	Lt Gen PK Srivastava	DGFP
9.	Lt Gen Sanjay Kumar Jha	DGPP
10.	Lt Gen Vishwambhar Singh	DGWE
11.	Lt Gen RK Sharma	DG OL & SM
12.	Maj Gen BK Pande	ADG FP
13.	Maj Gen SK Upadhya	ADG (Proc)
14.	Maj Gen Manoj Pande	ADG MO(B)
15.	Brig. AK Channan	DDG P&M Cell
16.	Brig Sanjay Puri	DDG PP (Plans)
17.	Brig Anil Puri	DDG FP(A)
18.	Brig Rohit Gupta	DDGWE-1
19.	Shri AK Gupta	Secy (DP)
20.	Ms. Surina Rajan	Addl. Secy. (DP)
21.	Shri AK Prabhakar	DGOF & Chairman/OFB
22.	Shri Bharat Khera	JS(NS)
23.	Shri RJ Bhattacharya	DDG/Budget
24.	Shri Sanjay Garg	JS(DIP)
25.	Smt Kusum Singh	JS (P&C)
26.	Shri KK Pant	JS(Aero)
27.	Shri Sanjay Prasad	JS(LS)
28.	Shri DK Mahapatra	Secy/OFB
29.	Shri V Udaya Bhaskar	CMD(BDL)
30.	Shri T Suvarna Raju	CMD(HAL)
31.	Shri S K Sharma	CMD(BEL)
32.	Maj Gen SK Upadhya	ADG (Proc)

33.	RAdm (Retd) L V Sarat Babu	CMD(Hindustan Shipyard Ltd)
34.	Shri P Dwarakanath	CMD(BEML)
35.	RAdm (Retd) Shekhar Mital	CMD (Goa Shipyard Ltd)
36.	RAdm (Retd) AK Verma	CMD(GRSE)
37.	Dr DK Likhi	CMD(MIDHANI)
38.	RAdm (Retd) RK Shrawat	CMD(MDL)
39.	Shri M Mazhar Ali	GM (Planning)
40.	Dr CP Ramanarayanan	DG(ACE) & CC R&D(HR)
41.	Dr Guru Prasad	CCR&D (PC&PI)
42.	Shri J Janardhan	DGQA
43.	R Adm AK Saxena	DGND(SSG)
44.	R Adm OPS Rana	DGNAI
45.	Shri S Chatterjeem	DGONA
46.	AVM BR Krishna	ACS(Project)
47.	AVM Sandeep Singh	ACAS(Plans)
48.	AVM SJ Nanodkar	ACAS(Ops)
49.	Shri AN Das	Addl. FA
50.	Shri Prabhu Dayal Meena	Secy, (ESW)
51.	Shri Sudhansu Mohanty	FA DS
52.	Lt Gen Rakesh Sharma	AG
53.	Lt Gen Ashwani Kumar	DG(DC&W)
54.	Smt K Damayanthi	JS(ESW)
55.	Ms. Devika Raghuvanshi	Addl FA & JS
56.	Ms. Santosh	JS (Res-II)
57.	Shri RozyAgarwal,	Joint CGDA
58.	Maj Gen AP Bam	MD ECHS
59.	Maj Gen Jagatbir Singh	DGR
60.	Maj Gen Rakhi Singh	Addl DG, AGMS
61.	Brig Harinder Singh	DDG DIAV
62.	Brig HS Kahlon	DDG DIAV(Designate)
63.	Brig Sadhan Sawhnay	Dy DGAFMS (Plg)
64.	Cmde Rohtas Singh	Secy, KSB
65.	Col SS Pundir	SO to AG

2. At the outset, the Chairperson welcomed the Members of the Committee and informed them about the agenda for the Sitting. The Committee then invited representatives of the Ministry of Defence and Defence Public Sector Undertakings. The Chairperson welcomed the representatives to the Sitting of the Committee and drew their attention to Direction 55(1) of Directions by the Speaker, Lok Sabha.

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

4. The representatives of the Ministry of Defence commenced their briefing through a PowerPoint presentation on the status of availability of ammunition. This was followed by detailed deliberations on the state of ammunition and related issues which included the following:

(i) inadequacy of ammunition,

(ii) inability of Ordnance Factory Board to fulfill the targets given to them,

(iii) alternate source of production,

(iv) private sector participation in defence production and

(v) import of ammunition etc.

5. Thereafter, a PowerPoint presentation on Defence Public Sector Undertaking was made. This was followed by extensive discussion on the subject which included the following:

(i) capacity ,efficiency and innovation of/by PSUs,

(ii) non-realization of targets and

(i) non-availability of funds etc.

6. Thereafter, a PowerPoint presentation on Indian Ordnance Factories was made. This was followed by detailed discussion on the subject which included the following:

(i) self reliance in production,

(ii) salient features of Ordnance Factory Board Budget and

(iii) modernization of OFs etc.

7. The Committee took break for lunch and resumed the Sitting at 1335 hrs.

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

(i) constraints faced by the Department of Ex-Servicemen Welfare in the welfare activities, resettlement and rehabilitation of Ex-Servicemen, war-widows and their dependents,

(ii) non-availability of suitable jobs as per qualifications in case of appointment on compassionate ground,

(iii) OROP-problems and grey areas,

(iv) financial assistance to Ex-Servicemen,

(v) status of Second World War pensioners and widows and

(v) empanelment of hospitals, non-payment of bills, inadequacy of funds for 2016-17 etc.

9. The Chairperson directed the representatives of the Ministry of Defence, Defence Public Sector Undertakings, Ex-Servicemen Welfare, Ex-Servicemen Contributory Health Scheme to furnish written replies to all the queries in a week's time.

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

The Committee then adjourned.

__APPENDIX-IV__

STANDING COMMITTEE ON DEFENCE

MINUTES OF THE TWELFTH SITTING OF THE STANDING COMMITTEE ON DEFENCE (2015-16)

The Committee sat on Friday , the 29 April, 2016 from 1000 hrs. to 1030 hrs. in Committee Room`62', Parliament House, New Delhi.

PRESENT

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

Lok Sabha

2 Shri Suresh C Angadi
3 Shri Shrirang Appa Barne
4 Shri Dharambir
5 Col Sonaram Choudhary(Retd)
6 Shri Sher Singh Ghubaya
7 Shri Ramesh Jigajinagi
8 Km Shobha Karandlaje
9 Dr Mriganka Mahato
10 Shri Ch Malla Reddy
11 Smt Mala Rajya Lakshmi Shah
12 Shri A P Jithender Reddy

Rajya Sabha

13 Shri A U Singh Deo
14 Shri Harivansh
15 Shri Hishey Lachungpa
16 Shri Tarun Vijay

SECRETARIAT

5. Smt. Kalpana Sharma - Joint Secretary
6. Shri T.G. Chandrasekhar - Director
7. Smt. Jyochanmayi Sinha - Additional Director

8. Shri Rahul Singh - Under Secretary

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

(i) Report on Action Taken by the Government on the recommendations/observations contained in the seventh report (16th Lok Sabha) on Demands for Grants (2015-16) of the Ministry of Defence on Army (Demand No. 23).

(ii) Demands for Grants of the Ministry of Defence (2016-17) on General Defence Budget, Civil Expenditure of Ministry of Defence (Demand No. 20) and Defence Pension(Demand No. 21).

(iii) Demands for Grants of the Ministry of Defence (2016-17) on Army, Navy and Air Force (Demand No. 22).

(iv) Demands for Grants of the Ministry of Defence (2016-17) on Ministry of Defence (Miscellaneous) (Demand No. 20).

(v) Demands for Grants of the Ministry of Defence (2016-17) on Capital Outlay on Defence Services, Procurement Policy and Defence Planning (Demand No. 23).

3. After deliberations the Committee adopted the above reports with slight modifications in respect of recommendations.

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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