

INTEGRATION OF MoD AND DEFENCE PLANNING

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After the initial euphoria over India's victory in the Indo-Pak War of 1971 had subsided, Defence Minister Babu Jagjivan Ram affirmed in the Lok Sabha on May 2, 1972, "It is not merely inter-Service cooperation in peace-time and in war which is needed for safeguarding our security. Coordination is equally essential, at *political* and *administrative* levels, with those responsible for foreign policy, for internal public order, and for numerous activities connected with transportation, communication, supplies and production"¹. With his long experience in government at various levels, the minister realised the need for unfailing civil-military relations in the form of a defence policy integrated with foreign policy, internal security, intelligence and even local administration.

The official history of the 1971 War also stated that the Higher Defence Organisation (HDO) and the civil services equation in the government machinery had evoked an intense but muted controversy². It argued that an integrated Ministry of Defence (MoD), with civilians and men in uniform intermixed at various levels, should cap the new pattern defence control organisation.³ Ideally, the recommendations should have received sufficient impetus to achieve complete integration of the MoD and Service

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1. Prof Bimal Prasad, *As Defence Minister, Struggles and Achievements- Babu Jagjivan Ram*, (Kanpur: Alka Prakashan, 1973), p. 608.

2. *Official History of 1971 War*, Chapter XIX, "Review and Reflections", p. 793.

3. *Ibid.*, p. 794.

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Headquarters (HQ) but the euphoria of victory and the image of Gen Niazi's humiliating military surrender shadowed these concerns. While the Western nations, mainly the UK and USA, undertook continual exercises in defence reforms during the Seventies and Eighties, there were no serious attempts in India to integrate defence decision-making, improve civil-military relations, synergise intelligence efforts or strengthen the higher defence structure.

The aim of this paper is to study the aspects of civil-military integration that directly affect defence management, particularly the issues pertaining to integration of the MoD with Service HQ and integrated defence planning, from pre-budgeting to procurement.

GOVERNMENTAL FRAMEWORK AND DEFENCE

India has been unique among the democratic countries of the world in having the higher military organisation functioning outside the governmental framework and structure after the early years of independence. The Service HQ have been performing dual roles: one of the Operational Command (with its Operational Planning Staff) and the other of the Planning Staff (for long-term defence policy formulation) undertaking force employment in support of the former and perspective resource planning in support of the latter roles. Overlooking the fact that these are governmental responsibilities and cannot be undertaken effectively unless the Service HQ function from within the government, an innocuous government note, initiated on May 27, 1952, declared the Armed Forces Headquarters as "attached offices" of the Defence Ministry⁴. Since the Central Secretariat Manual of Office Procedures (CS-MOP) decrees that ministries are the policy-making bodies

4. Dr Subhash Kapila, "India's Chief of Defence Staff: A Perspective Analysis," Paper no. 250, May 2001, South Asia Analysis Group, New Delhi.

while their “attached offices” merely implement it⁵, it was natural that the Armed Forces Headquarters were divested of the defence policy-making role. In order to fully comprehend the limitations in functioning as “attached offices”, it is necessary to appreciate the status and responsibilities of such offices vis-à-vis the departments of the government. Hence, a brief description of the government’s machinery and its transaction of business are given hereunder.

ROLE AND RESPONSIBILITY

Two among the many rules issued by the President of India regarding transaction of government business under Article 77(3) of the Constitution, are⁶:

- **The Government of India (Allocation of Business) Rules.**
- **The Government of India (Transaction of Business) Rules.**

While the former deal with allocation of the government business among its different departments, each of which is headed by a minister, the latter seek to define the authority, responsibility and obligations of each department in the matter of disposal of business allotted to it.

DEPARTMENTS, ATTACHED OFFICES AND SUBORDINATE OFFICES

The Government of India (Allocation of Business) Rules define the terms as follows:

- **Department:** means any of the ministries, departments, secretariats and offices mentioned in the First Schedule to the Government of India (Allocation of Business) Rules. ‘Secretariat offices’ are those which are responsible for formulation of the policies of the government and also for the execution and review of those policies. The first Schedule to the rules specifies the list of ministries, departments, secretariats and offices. A department is responsible for formulation of policies of the government in relation to business allocated to it and also for the execution and

5. Manual of Official Procedures, Cabinet Secretariat, Chapter III –Machinery of Government, para 6

6. Ibid., Para 4.

review of those policies⁷. For the efficient disposal of business allotted to it, a department is divided into wings, divisions, branches and sections with a Special Secretary/Additional Secretary/Joint Secretary in charge of each wing.

- **Attached and Subordinate Offices:** Where the execution of the policies of the government requires decentralisation of executive action and/or direction, a department may have under it executive agencies called “attached” and “subordinate” offices. Attached offices are generally responsible for providing executive direction required in the implementation of the policies laid down by the department to which they are attached. They also serve as the repository of technical information and advise the department on technical aspects of questions dealt with by them. Subordinate offices generally function as field establishments or as agencies responsible for the detailed execution of the policies of the government. They function under the direction of an attached office, or where the volume of executive direction involved is not considerable, directly under a department. In the latter case, they assist the departments concerned in handling technical matters in their respective fields of specialisation.
- **Secretary:** A Secretary to the Government of India is the administrative head of the ministry or department. He is the *principal adviser* to the minister on all matters of policy and administration within his ministry/ department, and his responsibility is *complete and undivided*⁸.

By this definition, the Defence Secretary, is the Principal Adviser to the Defence Minister on all matters of defence policy and his responsibility is undivided. Where does this place the Chiefs of Staff? The said rules also state that the senior officers, including the head of a subordinate/ attached office under an administrative ministry/ department, will correspond, in respect of matters involving intervention/ approval of another ministry/ department, only with their parent ministry/ department which, if

7. Ibid., Para 5.

8. Ibid., Para 5 (9) a.

required, will take up the matter with the relevant ministry. It is explicitly specified that an officer of a subordinate office/ attached office/ autonomous body will not correspond directly with the minister of another ministry except the head of a statutory body/ regulatory authority set up by an Act of Parliament⁹. This imposes a major restriction on senior officers of the Services, including the Chiefs of Staff to exchange views with officials in the Ministries of External Affairs, Home, or Finance even on significant strategic or financial issues, which is vital for developing a long-term vision and plans with a broader perspective in respect of their organisations.

The Defence Secretary is the Principal Adviser to the Defence Minister on all matters of defence policy.

It is understandable in respect of organisations dealing with agriculture, health or environment where the end service providers — the farmers, doctors, nurses or the conservancy contractors employed by local authorities — need not necessarily be government employees. But soldiers, who are service providers in respect of the MoD, are employees of the government, irrespective of rank and function. It is only logical then that the MoD is integrated with headquarters of the three armed forces and the forces themselves are intimately involved in all decisions that affect them. Whereas the other departments can be staffed by civil servants providing advice to the ministers, the MoD needs to be staffed with military personnel and civil professionals to provide professional and objective advice. However, this has never been the case in independent India though it was so during the British era. It would be interesting to study this transition and understand its implications.

MINISTRY OF DEFENCE

Organisational Structure

During the British rule, supreme authority over the Indian Army vested in the Governor General-in-Council, subject to the control of the Crown, which was exercised by the Secretary of State for India. Two members in the

9. Ibid., Ch. VIII, para 52.

Council were responsible for military affairs, one of whom was the Military Member, who supervised all administrative and financial matters, while the other was the Commander-in-Chief (C-in-C) who was responsible for all operational matters. The Military Department was abolished in March 1906 and it was replaced by two separate departments, the Army Department and the Military Supply Department. In April 1909, the Military Supply Department was abolished and its functions were taken over by the Army Department. Until 1921, the Secretary of the Army Department was a military officer but, subsequently, civilian officers were appointed to this post and British Indian Civil Service (ICS) officers held all other senior posts in the Secretariat¹⁰. The Army Department was redesignated as the Defence Department in January 1938¹¹.

It was only in 1938 that an Indian born civilian officer was appointed as Under Secretary in the Defence Department. In July 1942, an Indian ICS officer, Chandulal M. Trivedi, was appointed Secretary to the department and held the post till January 1946¹². Until independence, the department had been referring all important proposals, which had been on most occasions cleared by the (C-in-C) in his capacity as the Defence Member of the Governor General's Council, to Whitehall for decision. Directions received from Whitehall were communicated to the Army HQ which served as a glorified post office. The rules and regulations that governed the armed forces at that time were framed with reference to British hierarchy and authority. Immediately after independence, there was a need to revise the codes of the armed forces. Suddenly, there was a change in role and responsibility after August 15, 1947, and the department was found lacking in experience to handle the problems of defence administration, particularly in the face of the post-partition mayhem.

After independence, all departments of the government came to be designated as ministries and the Defence Department was redesignated as the Ministry of Defence (MoD), headed by a Cabinet Minister accountable

10. A.L.Venkateswaran, *Defence Organisation in India* (Ministry of Information and Broadcasting, GOI 1966), p. 115.

11. <http://mod.nic.in/aboutus/welcome.html> January 13, 2010.

12. Venkateswaran, n. 10, p. 116.

to the Prime Minister and Parliament for all its activities. During the British period, the C-in-C, as head of the three Services, coordinated the requirements of the Services, as no proposal which was unacceptable to him could reach the Defence Department. With the appointment of three independent Service Chiefs on August 15, 1947, the business of coordinating and integrating the requirements of the three Services devolved on the MoD. Prior to independence, all proposals were discussed between the Military Finance Department and the Defence Headquarters (DHQ)

before the files reached the Defence Department. The old practice of the DHQ referring proposals directly to the Ministry of Finance (Defence) continued until 1949 when the procedure of scrutinising the proposals at the Defence Ministry before forwarding to the Finance Ministry was introduced. The procedure was changed on the pretext that some proposals which may be financially acceptable may not be administratively feasible or politically advisable. Hence, it became imperative that administrative approval be obtained before a proposal was examined for financial feasibility.

To date, the mechanism and working relationship between the MoD and the three DHQ has essentially remained the same though necessity driven internal rearrangements within the MoD and DHQ have been effected periodically. Currently, the MoD comprises four departments, each headed by civilian Secretary, as mentioned against Serial No.9 in the First Schedule to the Government of India (Allocation of Business) Rules, last amended in June 2009¹³. The MoD is responsible to ensure effective implementation of the government's policy directions and the execution of approved programmes within the allocated resources besides communicating the policy directions to the three DHQ, inter-Service organisations, production establishments and Research and Development (R&D) organisations. The Defence Secretary functions as head of the Department of Defence

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13. The Government of India (Allocation of Business) Rules 1961, Schedule 1.

and is additionally responsible for coordinating the activities of the four departments within the ministry.

The four departments in the MoD are:

- **Department of Defence:** As per the First Schedule to the Government of India (Allocation of Business) Rules, the armed forces of the Union, the Army, Navy and the Air Force, and their respective headquarters are listed under this department. This department deals with the DHQ and other inter-Service organisations besides being responsible for the defence budget, establishment matters, defence policy implementation, Parliamentary issues, defence cooperation with other countries and co-ordination of all defence related activities.
- **Department of Defence Production:** Headed by a Secretary, the department deals with matters pertaining to defence production, indigenisation of imported stores, equipment and spares, planning and control of departmental production units of the Ordnance Factory Board and Defence Public Sector Undertakings (DPSUs).
- **Department of Defence Research and Development:** Headed by a Secretary, who is also the Scientific Adviser to the Defence Minister, its function is to advise the government on scientific aspects of military equipment and logistics and the formulation of research, design and development plans for equipment required by the Services.
- **Department of Ex-Servicemen's Welfare:** Headed by a Secretary, this deals with all resettlement, welfare and pensionary matters of ex-Servicemen.

FINANCIAL ADMINISTRATION

During the British period, defence expenditure was not voted¹⁴. Acting on the Esher Committee recommendations, in 1920, a Deputy Financial Adviser was attached to each of the major branches of the Army HQ. After August 15, 1947, defence expenditure came under the scrutiny of the legislature. To meet the requirement, Deputy Financial Advisers were attached to each branch of the Army HQ, Naval HQ and Air HQ, besides the Departments of Defence Production, Pension, Budget and even to Inter-

14. Venkateswaran, n. 10, p. 118.

Service Committees such as the Principal Personnel Officers' Committee and Principal Supply Officers' Committee. Subsequently, the Ministry of Finance (MoF) (Defence) designated a Financial Adviser (FA) who headed a separate wing of the MoF but worked in close liaison with officials of the MoD on a year-round basis, serving both as an adviser and also a controlling authority for safeguarding economic efficiency and propriety in defence expenditure.

From August 1, 1983, the government brought the position of FA (Defence) at par with the FAs in other departments in order to establish an integrated financial advice system. Currently, the Finance Division, which is fully integrated with the MoD, is headed by an FA (Defence Services)/ Secretary Defence (Finance) who is responsible to the Defence Minister for internal audit and accounting of defence expenditure through the Controller General of Defence Accounts (CGDA). He is also tasked with preparing the Defence Estimates (Defence Budget) in consultation with officials from the Services and MoD.

In the UK, the MoD is not just the Department of State but also the headquarters of the three armed Services.

INTEGRATION OF MoD AND SERVICE HQ

After independence, the role, task, authority and post of C-in-C India were taken over by the Defence Minister and the post of C-in-C India was abolished. Officials in the MoD were expected to advise the minister on the administrative, diplomatic and political consequences of the military proposals. Regrettably, they had neither any exposure in defence administration during the British period nor any first-hand knowledge about the Service related problems, customs, traditions, rules and regulations. As a result, officials at the ministry requested detailed information on each proposal and reacted with undue caution, causing delays which could have been avoided if the staff at the ministry was reasonably informed on the subject. This routinely gave an impression that the system was slow, cumbersome and ineffective. The most obvious solution was to have the men in uniform serving at the MoD to provide a military perspective to the

Minister, as is the norm in other advanced countries. In the UK, the MoD is not just the Department of State but also the headquarters of the three armed Services. In the USA, the DoD is composed of the Office of the Secretary of Defence, Joint Chiefs of Staff (JCS), Joint Staff, Departments of the Army, Navy and the Air Force besides the Unified and Specified Combatant Commands. In India, this was not amenable to the politico-bureaucratic class then, nor is it acceptable now, thereby eluding the required level of functional integration.

The Group of Ministers (GoM) in its report "Reforming the National Security System" brought out in 2001, highlighted the need to restructure the MoD and the Service HQ in order to increase the interface between the two¹⁵. Earlier, the Kargil Review Committee, which examined the sequence of events that led to the Kargil conflict, recommended the establishment of a National Defence Headquarters, arguing that the location of Services' HQ in the government would further enhance civilian supremacy and bring about constructive interaction between the civil government and the Services¹⁶. Given the apprehensions associated with such a complete integration, it was expected that there would be some initiative at least towards partial integration – say, at the functional level if not the policy level. The least that could have been tried was to appoint military officers from the armed forces at the mid to higher (Joint Secretary/ Deputy Secretary) level positions in the MoD so that they could provide professional advice to the bureaucrats placed above them while learning the nuances of managing the civilian staff serving them. Similarly, civilian officers of the rank of Director/Joint Secretary could have been appointed in the Service HQ in positions not directly involved with operations but overseeing specific responsibilities of administration, logistics, finance, procurements, etc. Unfortunately, nothing more than a cosmetic renaming of the Army and Naval Headquarters as Integrated Headquarters has been achieved after implementation of the GoM report.

15. GOM report 2001, Para 6.4.

16. *From Surprise to Reckoning – The Kargil Review Committee Report* (New Delhi: Sage Publications, 1999), pp. 258-259.

Commenting adversely upon this, the Standing Committee on Defence in its thirty-sixth report (2008-09) strongly recommended the appointment of armed forces personnel of requisite expertise at the level of Joint Secretary and/or Additional Secretary so that the Armed Forces Headquarters may be intrinsically involved in the decision-making process. It was not the first time that the Standing Committee on Defence commented upon this issue. In its sixth report (published in 1996), the Committee questioned the view of the MoD that there is adequate continuous interaction between the ministry and the DHQ. The MoD claimed that the Defence Minister's weekly meeting with the Defence Chiefs helps them to be associated in policy formulation! It was further justified that the existing system provides an opportunity for an independent in-depth analysis and reevaluation of any proposed policy before it is approved, and emphasised that any integration beyond this point would tantamount to merger of the two organisations which would be neither desirable nor practicable.¹⁷ Obviously, there has been an obdurate reluctance to bring about the desired level of integration and the most obvious casualty of this aberration has been integrated defence planning, budgeting and consequent defence modernisation. Commenting adversely on the mechanism of defence planning and procurements, the GoM report of 2001 noted, "The present system governing defence acquisitions suffers from lack of integrated planning; weaknesses in linkages between Plans and Budgets; cumbersome administrative, technical and financial evaluation procedures; and absence of a dedicated professionally equipped procurement structure within the MoD." This was a sum of all the identifiable evils that plagued the system. It would be interesting to examine each of these issues separately and analyse the weakness that continues to rot the system.

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17. Standing Committee on Defence (1995-96), Sixth report, para 2.39.

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DEFENCE PLANNING, BUDGETING AND PROCUREMENT

Defence planning, budgeting and procurement are a progression of politico-bureaucratic-military functions. The resources allocated to the military are not available for other social needs of the nation. Therefore, defence allocation is a political decision aimed at balancing security with social concerns. The foreign policy and military policy are entwined because arms can either deter or provoke, depending upon the adversary's potential and ideology. Thus, defence policy is a function of politico-diplomatic strategy. The choice of weapon systems, a function of the military planners, has to be based on a long-term and medium-term defence policy, thus, making the defence planning, budgeting and procurement an integrated exercise.

ROLE OF THE HIGHER DEFENCE ORGANISATION IN DEFENCE BUDGETING

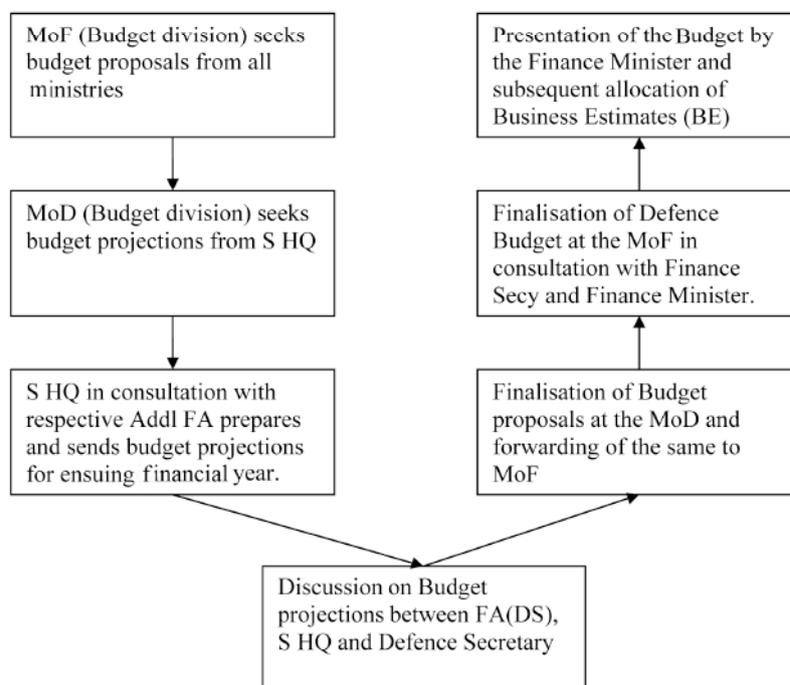
The GoM report of 2001 stated, "A need has been felt for a review of the form and content of the Defence Services Estimates and the expansion of budgetary classification to promote programme-based budgeting while ensuring compliance with security requirements."¹⁸ Even prior to the GoM report, experts had often opined that defence planning and budgeting in India take place in two isolated compartments. Budget formulation was not based on any approved defence programme but on the basis of an in-house 15-year perspective plan (which had no government approval) prepared by each Service and the five-year defence plans which may or may not have been sanctioned¹⁹. The budget formulated by the FA(DS) was sent to the MoF which was the final decision-making authority on allocation of resources. Containing the fiscal deficit being the primary concern of the MoF, ceilings were imposed on the basis of what was considered affordable, keeping

18. GoM report on National Security 2001, p. 108 (para 6.52).

19. The Eighth Defence Plan (1990-95) and Tenth Plan (2002-07) failed to get government sanction.

in view the likely revenues and targeted deficits. The 'ceiling', which was imposed arbitrarily at the end of the budgetary process, without detailed scrutiny of priorities, hampered defence modernisation since it affected capital expenditure more than the revenue expenditure, which is normally in the nature of obligatory or pre-committed expenditure. The gap between the projected requirement of the Services and the allocations made by the MoF could be attributed to the complete lack of linkage between operational planning and financial decision-making. A former FA (DS) wrote, "The budgetary process in India is undertaken in an incremental and routine way without any specific regard for modernisation needs or operational preparedness"²⁰. A schematic representation of the budgetary process that invited adverse comments from the GoM in 2001 is given in Fig 1.

Fig 1: Budgetary Process Prior to GoM Report



20. Amiya Kumar Ghosh, *Defence Budgeting and Planning in India: The Way Forward* (New Delhi: KW Publishers, 2008), p. 18.

In the absence of an articulated defence policy framework, “policy directions” have little meaning.

Fig 1 depicts defence planning and budgeting as two separate processes sans any lateral linkages. Though the two processes are depicted abreast, a closer look will reveal that in India, it is a linear process with FA(DS) serving as the link.

- Whereas the Finance Minister had a definitive role to play in defence allocation, the Defence Minister had no role to play either in formulation or processing of the defence budget. The planning and budgeting mechanism smacks of a civilian bureaucratic control rather than a civilian political control.
- The Chiefs of Staff Committee (COSC), the highest policy-making body in the Services, had no role to play in the budgetary process, denying an integrated approach to budget projections.
- Except for minimal interaction at the end of the budgetary process between the FA (DS) and the Additional FAs of the Services, the process lacked interaction between the Planning Staff at DHQ and the officials in the MoD (Finance).

The annual report of the MoD states that the principal task of the ministry is to frame policy directions on defence and security related matters.²¹ In the absence of an articulated defence policy framework, “policy directions” have little meaning. The highest policy-making body on defence related matters, the Defence Committee of the Cabinet (DCC) was superseded by the Emergency Committee of the Cabinet during the Sino-Indian conflict of 1962 and never got revived. The Defence Minister’s Committee (DMC) which performed a key role in resource allocation and long-term planning for defence was put into disuse during Krishna Menon’s time. Defence Councils and Boards which were promised by Pandit Nehru to the Parliament on April 1, 1955, for efficient management of defence, were never established. Writing about the defence decision-making in resource allocation, Air Commodore Jasjit Singh questioned almost a decade ago,

21. Annual Report of the MoD 2008-09, Chapter II – Organisation and Functions of the MoD, p. 12.

“What comprises the organisation and the responsibilities in respect of development of military capability for the future?”²² Sadly, there is no such organisation established till date though the recently established Defence Acquisition Council (DAC) plays a limited role within the expansive process of defence planning and modernisation. In fact, the DAC is only a revised version of what was established in 1947, but apparently had gone into disuse in the 1950s.

It is often argued by many that integrated defence planning has suffered because the Chief of Defence Staff (CDS) has not been appointed. Viewing the issue of integrated planning through the prism of the CDS is fraught with the danger of leaving the core issues unaddressed. It needs to be appreciated why the COSC has not been able to facilitate integrated defence planning before we attempt to justify how the CDS would make a difference. To enable the COSC to assess the military challenges and provide professional advice to the government, availability of crucial intelligence inputs and a joint planning staff are essential. As per the HDO proposed by Lord Ismay in 1947, the Joint Intelligence Committee (JIC) and the Joint Planning Staff (JPS) were designated as sub-committees of the COSC with an aim to strengthen its strategic intelligence and planning. Unfortunately, the COSC never had the benefit of the JIC and JPC complementing each other in their work, as a full-time Defence Planning Staff (DPS) was never established until 1986, by which time the JIC was moved to the Cabinet Secretariat. The Committee for Defence Planning (CDP), which was formed in 1977 to undertake Defence Periodic National Security Assessment, failed to meet the desired objectives. Another attempt was made in the form of a “Planning and Coordination” cell created in the MoD to coordinate the various plans of the Services into a “Defence Plan”. However, this could at best compile the plans sans objective analysis and, thus, remained a non-starter. In 1986, a DPS comprising officers from the three Services, Defence Research and Development Organisation (DRDO), MoD and Ministry of External Affairs (MEA) were established under the COSC. Over a period of time, the civilian officers were withdrawn,

22. Air Commodore Jasjit Singh, *India's Defence Spending: Assessing Future Needs* (New Delhi: KW Publishers, 2001), p. 72.

The Planning-Programming and Budgeting System (PPBS) of the USA, introduced in 1961, brought the emphasis on planning before budgeting, to be made in terms of military objectives and force requirements rather than the resource allocation aspects.

leaving the DPS as a vestigial tri-Service organisation, without the crucial inputs from the bureaucracy and the scientific community. In response to the Group of Ministers (GoM) report of 2001 when an Integrated Defence Staff (IDS) was established for coordinating the plans of three Services, the DPS was merged with it. In effect, the COSC had neither policy guidance from the top nor strategic inputs from below.

From 2002, the Capital Budget projections, after consideration by the FA (DS), were referred to the IDS to seek its integrated view. Understandably, the involvement of the IDS in the last stage of the budgetary process did not make much difference. In 2002, a Long-

Term Integrated Perspective Plan (LTIPP) for 2002–2017 was prepared by the IDS with the aim of providing an integrated perspective to planning and budgeting but was eventually discarded due to delay in finalisation of the draft! In its 16th report, tabled in the Lok Sabha on April 28, 2007, the Parliament's Standing Committee on Defence commented that the five-year plans of the military had lost their utility for resource planning due to delays in their approval even as the LTIPP was being conducted in a "lackadaisical" manner. Appearing before the Parliament's Standing Committee on Defence in April 2007, the MoD representative stated that LTIPP was being revised following a deliberate and integrated 'top down' approach by articulating National Security Strategy, National Military Strategy, and National Military Objectives. If fructified, as promised, the LTIPP would have been an extremely involved process with inputs from the Services, MoD, National Security Adviser (NSA) and various other agencies²³. It is now clear that an LTIPP is in place covering the 11th, 12th and 13th Plan periods (2007-2022) though the Draft National Security Strategy

23. Standing Committee on Defence (14th Lok Sabha), Sixteenth report, April 2007, pp. 46-48.

on which it was to have been based is still under evaluation.²⁴ National Military Strategy has never been heard of since then.

The Planning-Programming and Budgeting System (PPBS) of the USA, introduced in 1961, brought the emphasis on planning before budgeting, to be made in terms of military objectives and force requirements rather than the resource allocation aspects. The Goldwater-Nichols Department of Defence Reorganisation Act of 1986 mandates the Secretary of Defence, with the advice and assistance of the Chairman, Joint Chiefs of Staff, to provide written policy guidance for the preparation and review of the programme recommendations and budget proposals of their respective components²⁵. As per the National Defence Authorisation Act of 2000²⁶, the Secretary of Defence, in consultation with the Chairman, Chiefs of Staff, conducts a comprehensive examination of the national defence strategy of the USA and establishes a defence programme for the next 20 years. The budgetary process starts with a Five-Year Defence Plan (FYDP) which is the basis for subsequent stages of the budgetary process and ends after the budget is finalised by updating the FYDP projected one year forward. Thus, a linkage is continuously maintained between planning and budgeting. In the UK, the Secretary State for Defence is supported by five ministers, one of whom is the Minister of State for Strategic Defence Acquisition Reform. However, the Secretary of State for Defence is specifically responsible for Defence Policy, Planning and Budget issues and heads the Defence Council, besides the Defence Ministerial Committee. There is a 10-year Long-Term Costing (LTC) for defence which is supported by the Budget Management Plan produced annually, covering the estimates of two subsequent years. Here too, the role of the Defence Minister in planning and providing necessary guidance in programming provides the vital impetus.

The Chief of IDS (CISC), who now heads a tri-Service organisation, continues to be deprived of strategic intelligence inputs from the JIC which is placed under the Cabinet Secretariat. He reports to the Chairman, COSC

24. Annual Reports of MoD -2007-08 and 2008-09.

25. 113 (g) (1) of Sec 102 (Powers and duties of the Secretary of Defence), Goldwater-Nichols Department of Defence Reorganisation Act of 1986.

26. Public Law 106-65, 106th Congress.

Only 10 per cent of the defence budget is actually available for modernisation, which is much less in comparison to the 30-40 per cent made available in the advanced countries.

which suffers from the same limitation. Even if a CDS was appointed, as recommended by the GoM report, he would have been heading the IDS today. The argument that a CDS would make a difference to defence planning seems unsustainable in the current scenario, where no credible efforts are undertaken to strengthen the functioning of the IDS and COSC. The body which has the benefit of combined military advice from the three Chiefs of Staff, Director, Intelligence Bureau (IB), Secretary, Research and Analysis Wing (R&AW), and

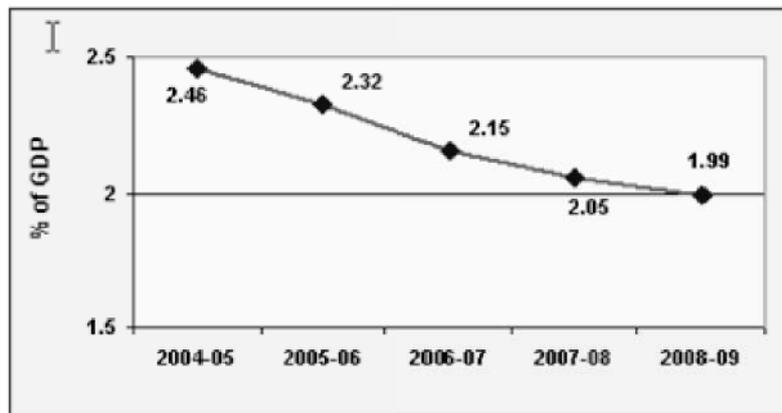
Chairman, JIC, is the Strategic Policy Group (SPG) of the National Security Council (NSC). Unfortunately, the SPG is neither involved in defence planning and budgeting nor there is any evidence to suggest that the Strategic Defence Review (SDR) prepared by the SPG is referred to when the LTIPP is prepared.

ECONOMICS OF DEFENCE BUDGETING

In the last few years commencing 2004-05, the defence budget has been growing at the rate of 8 to 10 per cent per annum but continues to remain short of demands. Expressing concern over the steady decline in defence outlay as a percentage of Gross Domestic Product (GDP) (refer Fig 2) , the 16th report of the parliamentary Standing Committee “strongly recommended” a minimum 3 per cent of GDP every year, besides saying that the government “must allocate” the amounts projected by the defence Services so that the acquisition and modernisation programmes do not face “any resource crunch”. The merit of allocation as a percentage of GDP as against an open-ended approach linked to geo-political considerations is debatable but there are indications that the government would keep the annual increase in the defence budget at around 10 per cent which would result in a net increase of around 4-5 per cent after adjusting for inflation. Considering that two-thirds of the amount for capital acquisition is pledged for assured and received deliveries, only 10 per cent of the defence budget

is actually available for modernisation, which is much less in comparison to the 30-40 per cent made available in the advanced countries²⁷.

Fig 2: Defence Allocation on GDP Basis



Source: Laxman Behera, "India's Defence Budget 2008-09", IDSA Strategic Comments, March 2008.

While the shortfall in resource allocation, particularly towards modernisation, is a cause for concern, the inability to spend the entire budget allocation and the rush to spend the capital budget as the financial year comes to end, is of greater concern. The MoD had projected Rs 4,18,101 crore as its requirement during the five annual budgets during the 10th Plan (2002-07) period but got only Rs 3,79,300 crore, of which it was unable to spend Rs 21,167 crore²⁸. The underutilisation of capital expenditure which was less than 5 per cent of allocation in 2003-04 has steadily been on the rise, as a result of which more than 10 per cent of the budget allocation towards capital expenditure remained unutilised in 2007-08. To avoid underspending of the defence budget, there has been a demand from the industry to introduce the concept of rolling budgets, carrying forward the underspends from the previous years to the following years. In Financial Year (FY) 2004-05, the government had proposed to institute a non-lapsable

27. "Defence Budgeting and Procurement Process Need an Overhaul," *The Acorn*, March 25, 2008.

28. Defence Procurement Scene, April-June 2007, an IDC (India Defence Consultants) report, June 2007.

Defence plans are five-year based and budgets are year-on-year basis. There is no integration between the plan and the budget.

Defence Modernisation Fund of Rs.25, 000 crore to which unspent funds were to be added²⁹. However, there was no progress on the issue as it was later clarified that there is no provision in the budgetary rules and regulations to carry forward unspent funds. The factors that contribute to the surrender of funds are many but the main reasons are:

- Non-integration of the MoD and DHQ which causes avoidable delays in communication.
- Bureaucratic delays within the MoD.
- Delay in conclusion of price negotiations.
- Holding up the release of stage payments to vendors for not meeting contractual obligations.

Defence plans are five-year based and budgets are year-on-year basis. Since there is no integration between the plan and the budget, on the one hand, ceilings imposed by the Finance Ministry at the end of the budgetary process hamper the defence procurements and, on the other, paradoxically, there is a rush to spend the annual capital budget by the end of the financial year for fear of inviting criticism if the unspent amount is surrendered. Experts have often opined that most of the problems associated with the surrender of funds can be resolved by introducing time-bound activities in the procurement procedures adopted at various levels in the DHQ and MoD³⁰. The Defence Procurement Procedure (DPP) introduced in 2005, was a step in this direction.

DEFENCE PROCUREMENT PROCEDURE

Approvals for capital expenditure have to be accorded by the MoD, whereas limited financial powers under the revenue head are delegated to the DHQ. A Defence Procurement Procedure (DPP) was introduced in February 1992, prior to which there was no formal mechanism in the MoD

29. *Financial Express*, February 4, 2004.

30. V. N. Srinivas, *Budgeting for Indian Defence* (New Delhi: KW Publishers, 2008), p. 28.

to process defence procurements. However, as the procedure was found grossly inadequate, it was, adversely commented upon by the GoM report of 2001. As a consequence, a revised DPP was introduced in December 2002 which dealt with capital acquisitions involving “buy” decisions only. In 2005, a comprehensive DPP-2005 dealing with capital procurements and a Defence Procurement Manual (DPM) dealing with revenue procurements, were introduced. The DPM is a more detailed compendium of procedures covering revenue procurements as well as the provision of all other goods, services and support activities. The DPP-2005 was further modified in 2006 as DPP-2006 to include the “make” category, paving the way for indigenous development through research and design.

As a result of a continual evaluation based on the feedback from the Services and the industry, the DPP and DPM were further refined in 2008 and 2009 respectively. DPP-2008 provided more transparency and quality emphasis, as some of the provisions given hereunder would indicate:

- A Request for Information (RFI) would be displayed on the MoD website inviting inputs from prospective vendors before finalising the Service Qualitative Requirements (SQR). This would increase the lead time available to vendors and would broaden the vendor base.
- Qualitative Requirements (QRs), as laid down by the DHQ would be analysed right at the inception stage for the methods and agency responsible for its evaluation.
- A broad based multi-disciplinary trial team has been proposed for testing equipment being procured for use by more than one Service and the Technical Oversight Committee has been mandated to oversee whether the trials are conducted as per the methodology specified in the Request for Proposal (RFP).
- All verbal communications with the vendors during the course of trials would be confirmed in writing within a week.
- Results of technical/staff evaluation, along with the reasons for disqualification, would be intimated to vendors after acceptance of technical/staff evaluation reports.

DEFENCE PROCUREMENT ORGANISATION

Defence Acquisition Council (DAC): During FY 2002-03, a Defence Acquisition Council (DAC) headed by the Defence Minister was established as a consequence of the GoM report of 2001. With the Defence Minister as the Chairman, and Service Chiefs along with the CISC, Secretaries at the MoD, and Special Secretary (Acquisition) as members, the Council provides “in principle” approval for capital acquisitions projected in the LTIPP covering a 15-year span, at the beginning of the 5-year plan period³¹. It also gives Acceptance of Necessity (AON) for capital acquisitions in the forthcoming five-year plan, identifying them as “make”, “make and buy” or “buy” categories. Three Boards, namely the Defence Procurement Board (DPB), Defence Production Board and Defence R & D Board were established under the DAC to implement the DAC decisions.

Defence Procurement Board: The Defence Procurement Board, comprising the Defence Secretary (Chairman), Vice Chiefs of the three Services, CISC, Secretary Defence R&D and Secretary Defence Finance, oversees all activities related to acquisition on the capital account flowing out of the “buy” and “buy and make” decisions of the DAC. It is responsible for coordination, supervision and monitoring of the acquisition process besides setting out the Annual Acquisition Plan for the three Services (based on approval of the Five-Year Capital Acquisition Plan by the DAC) for incorporation in the ensuing annual budget. The Board can confirm or modify the *inter-se* and *intra-se* priorities of acquisition proposals by the Services and recommend modifications for approval by the Defence Minister in the pattern of resource sharing on the capital account related to acquisition of weapons, equipment and weapon systems among the Services. It is empowered to approve emergency purchases, when necessary, within the Defence Minister’s delegated powers.

Defence Production Board: Chaired by the Secretary, Defence Production and Supplies, the composition of the Defence Production Board is similar to the DPB but also includes the Chairman of the Ordnance Factories Board and the CMD of DPSUs as required. The Defence Production Board will oversee

31. <http://www.mod.nic.in/> February 6, 2010.

all activities related to indigenous manufacture, under the Department of Defence Production, flowing from the “buy and make” and “make” decisions of the DAC concerning the import and Transfer of Technology (ToT). The Production Board monitors progress of all “make” projects and provides requisite details to the Defence Acquisition Council in the latter’s deliberations on licensed production, ToT, and *ab-initio* production/development, as required.

Acquisition Wing: The DPB is assisted by the Acquisition Wing headed by the Special Secretary (Acquisition) in the MoD and consists of four divisions, namely, Land, Maritime, Air Force and Systems Divisions. Each division has an Acquisition Manager of the rank of Joint Secretary in the MoD, a Technical Manager who is a Service Officer of 2-star rank and a Financial Manager (an additional FA from the MoD Finance Division). The respective division of the Acquisition Wing shall remain involved throughout the life-cycle of acquisition, right from the preparation of Qualitative Requirements (QRs) to obtaining approvals after price negotiations, which includes conduct of equipment evaluation trials and also establishment of equipment induction cells within the Services.

THE ROAD AHEAD

As per the *SIPRI Yearbook* of 2008, India ranked 10th in global spending with an expenditure of \$24 billion. India is likely to reach an annual budget of \$40 billion by 2011-12 of which \$16-17 billion would be available for capital expenditure³². India aims at increasing the combat squadrons of the Indian Air Force (IAF) from 34 to 42, and acquire the most modern weaponry for the Army and Navy. Its Information Technology (IT) and space capabilities have expanded its military reach from the traditional battlefield into the space and cyber-space domains. Seventy per cent of India’s defence equipment is imported and DPP 2008 clarifies that we are in a free market economy in defence requirements. Should we not plan well so that we get the best value for our money?

32. Lt Gen V.K. Chopra, “Indian Defence Industry Snapshot,” November 2008, indiadefenceonline.com

It is recommended that a Defence Planning Council (DPC), with the Defence Minister as its head and the Defence Chiefs along with the Secretaries in the MoD and MoF as members, be established.

Thankfully, in the last few years, there have been many commendable initiatives to streamline the Defence Procurement Procedure. The same is not true with regard to defence planning and budgeting. Today, the defence procurement process in respect of capital acquisitions is centralised and corporative, right from the stage of according in-principle approval by the DAC (which is chaired by the Defence Minister) to the end of the acquisition process which is closely monitored by the Acquisition Wing. The Council, Boards, Acquisition Wing and the Service specific divisions are all corporate in character, with

civilian and Service representation. On the other hand, the process of pre-budget planning and the budget allocation process have not changed much over the years, in which there is hardly any involvement of the Defence Minister or the policy-making bodies such as the CSS or COSC.

Decisions involving capital acquisitions for the Services must factor in the threat perception, force levels, and availability of resources in the mid to long term. Experts have been recommending a comprehensive document in the nature of a Defence Planning Guidance (DPG) which assesses the military threats, provides goals, objectives and priorities for defence missions, looks at the resource forecast and strategic technology forecast, and gives out a broad strategy for the development of military capabilities³³. Yearly allocation of the defence budget in incremental terms or as a fixed percentage of GDP may compromise strategic decision-making.

Logically, the policy objectives dictated by the government should form the basis for preparing not a vague 15-year LTIPP or a rigid 5-year plan but a few alternative plans in a realistic time-frame of 10 years. The best option that suits the country in the medium and long terms, with a degree of flexibility to switch between alternates based on geo-political considerations,

33. Vinod Anand, "Integrating the Indian Military: Retrospect and Prospect," *Journal of Defence Studies*, vol. 2, issue 2, Winter 2008.

should be decided by the Defence Minister after wider consultation with the politico-diplomatic-military trinity. To achieve this, it is recommended that a Defence Planning Council (DPC), with the Defence Minister as its head and the Defence Chiefs along with the Secretaries in the MoD and MoF as members, be established. The CISC, who currently heads the Planning Staff at IDS, should be invited to attend all the meetings. The Council should meet at least twice a year — once before the commencement of the budgetary process and once before the Revised Estimates are finalised. This would go a long way in ensuring rational allocation of resources since the Council will have the opportunity to evaluate the ongoing programmes and weigh one programme against the other in terms of its cost and military worth, as felt necessary by experts in defence economics³⁴. Eventually, the DAC can be dissolved and the DPC can be entrusted the responsibilities of the DAC since both the roles (planning and acquisition) are essentially two sides of the same coin. If this happens, it would in effect be the revival of the erstwhile Defence Minister's Committee, a long-pending demand from defence experts advocating the revival of a corporate model of defence management³⁵.

It is believed that the threat perception of each of the three Services is at variance and in its endeavour to lay the groundwork for an increased share of the budget, each Service tends to exercise its own priorities, favouring its own plans, to the detriment of joint plans³⁶. Since most military exercises today demand participation by more than one Service, necessitating coordinated planning in modernisation and acquisition, Service specific planning needs to make way for integrated planning. Many aspects of Command, Control, Communication, Computers, Intelligence, Surveillance, Reconnaissance (C4ISR) involving surveillance, electronic warfare and network-centricity are common to all the Services. Communication and weapon systems comprising the guidance systems, missiles, radars, guns and ammunition

34. Amiya Kumar Ghosh, "Economic and Resource Allocation in Defence," in Jasjit Singh, ed., *Asian Defence Review 2008-09* (New Delhi: KW Publishers, 2010), p. 243.

35. Singh, n. 22, p. 72.

36. Gen V. P. Malik, Brig Gurmeet Kanwal, "Defence Planning in India," *ORF Policy Brief*, February 2005.

A gap between the envisioned capabilities and net deliverables can be avoided if the MoD and DHQ work in a unified atmosphere, as is the case in the US and UK.

can be worked on common platforms. Hence, HQ IDS should be involved in the planning and budgetary process right from the early stage.

It is in the best interest of the Services that only well considered proposals are routed to the ministry with as much clarity as possible. A closer coordination not only amongst the armed forces but also between the forces and the MoD (Finance Division), on the one hand, and the MoD and MoF, on the other, at the pre-budget stage, is imperative. The role of the ministry should be confined to examine whether the proposals put forth by the Services are politically and administratively acceptable. Once the administrative approval is accorded, it should become the responsibility of the MoD, with the influence of the Defence Minister, to obtain financial sanction.

Presently, the Defence Procurement Board is empowered to make such amendments in the annual plan as deemed necessary on account of operational urgencies, budgetary provisions or any other exigencies, based on recommendations made by Integrated Services HQ/Defence Staff/DoD/Defence (Finance)³⁷. However, more flexibility in terms of utilising unspent amount needs to be introduced. The long awaited reform in the defence-finance mechanism to prevent surrender of budgeted capital expenditure worth thousands of crores needs to be put in place at the earliest.

Most often, the ministry wastes time in seeking information and operational justification for proposals. Poor planning, deficiency in defining qualitative requirements, multiple approval agencies and dispersed centres of accountability result in a gap between the envisioned capabilities and net deliverables. These can be avoided if the MoD and DHQ work in a unified atmosphere, as is the case in the US and UK. Despite the repeated demands from the strategic community and critical observations made by successive Standing Committees on Defence, nothing more than a mere change in nomenclature has taken place as regards the integration of the MoD and

37. <http://www.mod.nic.in/> February 6, 2010.

DHQ. Small but definitive steps towards integration of the MoD and DHQ over a period of time must be initiated at the earliest. Cross-posting of upper-middle level civilian officers to DHQ and vice-versa should be the starting point. Career diplomats can be employed in intelligence and strategic planning within the Services. Bureaucrats with an engineering background can be associated with maintenance planning and logistic management and even capital work planning within the Services. Similarly, qualified Service officers can be employed in various Departments of Defence, Defence Production, Defence R&D and Ex-Servicemen's Welfare. This cross-Service exposure would not only help in appreciating the work culture, strengths and limitations of each other but also provide a greater insight into the functional aspects of either Service, which would go a long way in helping the officers arrive at the right decisions when the officers revert to their parent departments to undertake higher assignments.

Further, it is important for the officials at the MoD to remain in the ministry for longer durations and associate closely with the branch of the Service with which they are concerned to appreciate the requirements of the armed forces better. Unfortunately, this does not happen as they come to work in the ministry from any department and remain there for short durations.

With regard to better coordination among the armed forces, HQ IDS has initiated a series of reforms in joint planning, training and procurements but this is just a beginning and a lot needs to be achieved in order to improve the system of defence planning and budgeting in India.