

Demand for Grants 2021-22 Analysis

Defence

The Ministry of Defence frames policies on defence and security-related matters, and ensures its implementation by the defence services (i.e. Army, Navy and Air Force). In addition, it is responsible for production establishments such as ordnance factories and defence public sector undertakings, research and development organisations, and ancillary services that assist the defence services, such as the Armed Forces Medical Services.

This note analyses budgetary allocation and expenditure trends of the Ministry. The note also discusses certain issues such as large pension expenditure, lower capital outlay, and high import dependence for defence procurement.

Overview of finances

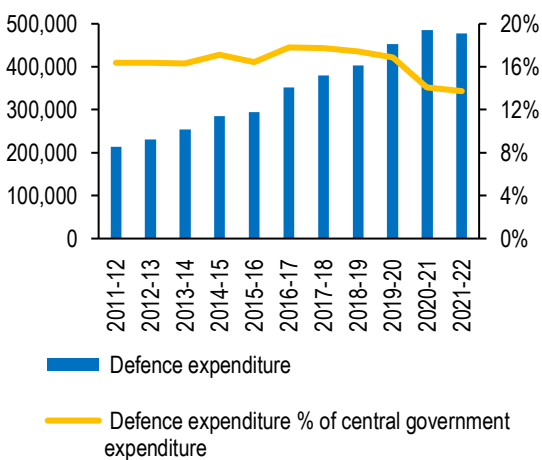
In 2021-22, the Ministry of Defence has been allocated Rs 4,78,196 crore. This includes expenditure on salaries of armed forces and civilians, pensions, modernisation of armed forces, production establishments, maintenance, and research and development organisations.

The allocation to the Ministry of Defence is the highest (14%) among all ministries of the central government.

Defence budget has decreased as a proportion of total government expenditure

In the last decade (2011-12 to 2021-22), the budget of the Ministry of Defence has grown at an annual average rate of 8.4%, while total government expenditure has grown at 10.3%.

Figure 1: Budget of Ministry of Defence (2011-12 to 2021-22) (in Rs crore)



Note: Figures for 2021-22 are Budget Estimates and for 2020-21 are Revised Estimates.
Sources: Union Budget Documents 2011-2022; PRS.

During this period, defence expenditure as a proportion of central government expenditure decreased from 16.4%, to 13.7%. The year-wise budget of the Ministry is shown in Figure 1.

Defence expenditure as a percentage of GDP declined from 2.4% in 2011-12 to 2.1% in 2021-22. The Standing Committee on Defence (2018) had recommended that the Ministry of Defence should be allocated a fixed budget of about 3% of GDP to ensure adequate preparedness of the armed forces.¹

India is the 3rd largest military spender

According to the Stockholm International Peace Research Institute (SIPRI), India was the third-largest defence spender in absolute terms in 2019 (after USA and China).² USA spent more than India on defence, both in absolute terms, and as a percentage of GDP. China spent lower in terms of percentage of GDP, but its absolute expenditure on defence was 3.7 times that of India.

Table 1 compares India’s defence expenditure with the seven largest spenders in absolute terms and as a percentage of GDP.

Table 1: International comparison of defence expenditure (2019)

Country	Expenditure (in USD billion)	Expenditure (as % of GDP)
USA	731.75	3.4%
China	261.08	1.9%
India	71.13	2.4%
Russia	65.10	3.9%
Saudi Arabia	61.87	8.0%
France	50.12	1.9%
UK	48.65	1.7%
Pakistan	10.26	4.0%

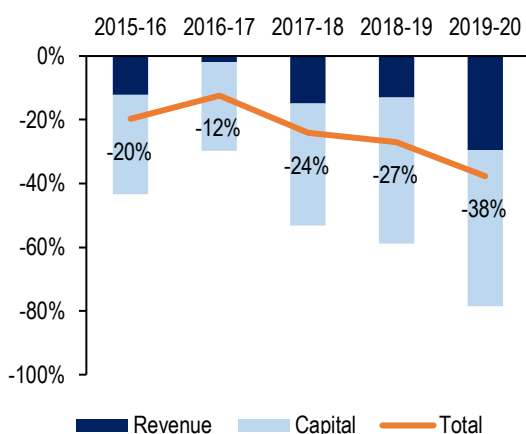
Sources: “SIPRI Military Expenditure Database”, Stockholm International Peace Research Institute, 2019; PRS.

Actual expenditure has been less than the projected amount by the defence forces

The expenditure on defence by the three armed forces has been significantly lower than the amount projected by the three services, with the shortfall ranging from 12% to 36%. For instance, in 2015-16, while the forces projected a required expenditure of Rs 3,63,270 crore, the actual expenditure during the year was Rs 2,10,637 crore (a shortfall of 20%). Figure 2 shows the difference (shortfall) between the amounts projected by the three forces and the actual expenditure between 2015-16 and 2019-20. The

average shortfall for revenue expenditure was 14% while for capital expenditure it was 38%. Note that since 2016-17, the budget allocation for capital expenditure has been fully utilised.

Figure 2: Shortfall between amount projected by the armed forces and actual expenditure (2015-16 to 2019-20) (in Rs crore)



Note: Calculation for 2019-20 is based on expenditure up to December 2019.

Sources: 7th Report, Capital Outlay on Defence Services, Procurement Policy and Defence Planning, Standing Committee on Defence, March 2020; PRS.

Growth of 3% over Budget 2019-20

The allocation for the Ministry of Defence is estimated to grow at an annual average rate of 3% in 2021-22 over 2019-20. This is lower than the growth in overall central government expenditure of 14%. Similarly, growth in capital outlay for defence was 10% in 2021-22 (over 2019-20), while growth in total capital expenditure of the central government was 29%. Capital outlay for defence includes expenditure on construction work, machinery, and equipment such as tanks, naval vessels, and aircrafts.

Between 2011-12 and 2021-22, capital outlay for defence grew at an annual average rate of 7%, while overall capital expenditure of the central government grew at 13%. The share of capital outlay for defence in total government capital expenditure decreased from 41% to 23% in this period.

Composition of defence budget

The share of capital outlay has also decreased within the defence budget. It fell from 30% in 2011-12 to 22% in 2018-19. During this time, the share of pensions increased from 18% to 26%. This trend has reversed since 2019-20, as discussed below.

In 2021-22, expenditure on salaries and pensions forms the largest portion of the defence budget (Rs 2,58,628 crore, 54% of the defence budget). Capital outlay of Rs 1,28,150 crore, forms 27% of the defence budget. The remaining allocation is towards stores (maintenance of equipment), border roads, research, and administrative expenses.

Table 2: Defence budget allocation (Rs crore)

Major Head	Actuals 2019-20	RE 2020-21	BE 2021-22	Change (annualised) 2019-20 to 2021-22
Salaries	1,35,771	1,35,787	1,42,778	3%
Capital outlay	1,06,483	1,31,510	1,28,150	10%
Pensions	1,17,810	1,25,000	1,15,850	-1%
Stores	42,907	49,660	44,861	2%
Other expenses	50,026	42,780	46,557	-4%
Total	4,52,996	4,84,736	4,78,196	3%

Note: Salaries, pensions and capital outlay are of the three services. Salaries include salary for civilians, auxiliary forces, Rashtriya Rifles, Jammu and Kashmir Light Infantry and Coast Guard. Pensions include rewards. Capital outlay includes capital expenses on border roads and coast guard. Stores includes ammunition, repairs and spares. Others include administration expenses, expense on research and development and housing. RE is revised estimate and BE is budget estimate.

Sources: Expenditure Budget, Union Budget 2021-22; PRS.

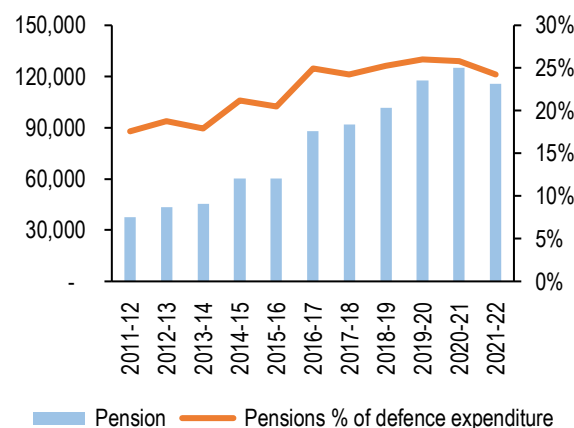
Expenditure is estimated to record an annual average increase of 3% over 2019-20. The increase is highest for capital outlay, which is expected to grow at 10%. Allocation for salaries has increased by 3% and allocation for pension has decreased by 1%.

Share of pensions

Defence pensions provides for pensionary charges for retired Defence personnel of the three services (including civilian employees) and also employees of Ordnance Factories. It covers payment of service pension, gratuity, family pension, disability pension, commuted value of pension and leave encashment.

Expenditure on defence pensions has grown at an average annual rate of 12% in the last 10 years. This is higher than the average annual growth rate of the defence budget (8.4%). The share of pension in the defence budget has increased from 18% to 26% (in 2019-20), before declining to 24%.

Figure 3: Expenditure on pensions (2011-12 to 2021-22) (in Rs crore)



Note: Figures for 2020-21 are Revised Estimates and 2021-22 are Budget Estimates. Sources: Union Budget 2011-22; PRS.

In 2020-21, the budget estimate for pension (Rs 1.34 lakh crore), was revised down to Rs 1.25 lakh crore (5% decline). This allocation has been further reduced for 2021-22 to Rs 1.16 lakh crore.

In November 2015, One Rank One Pension (OROP) was implemented for armed forces personnel. This implies that a uniform pension will be paid for defence personnel retiring at the same rank, irrespective of their date of retirement. Until November 2020, Rs 42,740 crore had been disbursed to 20 lakh pensioners on account of implementation of OROP.³

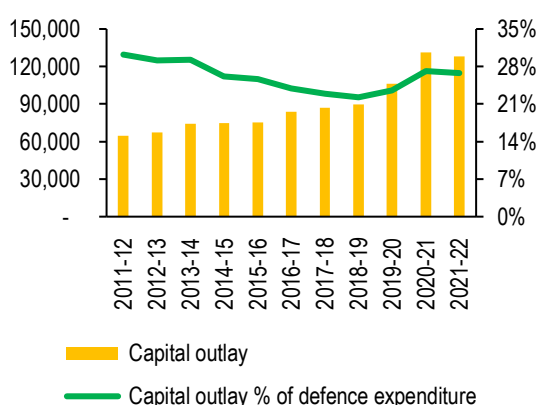
The Standing Committee on Defence (2019) noted that the defence pension liabilities will continue to increase exponentially every year due to increase in number of retirees, amount of dearness relief, gratuity, and other retirement benefits.⁴

The share of funds spent on pensions is bound to rise since approximately 60,000 personnel retire every year.⁵ This reduces the funds available for modernisation of the armed forces. Some suggestions to reduce the pension bill include introducing a different pension scheme or assured jobs on early retirement.

Share of capital outlay

Capital outlay for defence includes expenditure on construction work, machinery, and equipment such as tanks, naval vessels, and aircrafts. Over the last 10 years, the share of the defence budget spent on capital outlay has declined. The share was highest during 2011-12 at 30% of the total defence budget, which fell to 22% in 2018-19 (the lowest), and recovered to 27% (in 2020-21).

Figure 4: Capital outlay as percentage of defence expenditure (2011-12 to 2021-22) (in Rs crore)



Note: Figures for 2020-21 are Revised Estimates and 2021-22 are Budget Estimates.

Sources: Union Budgets 2011-2022; PRS.

The share of capital outlay increased from 24% in 2019-20 to 27% in 2020-21 (revised estimates). Expenditure in 2020-21 of Rs 1,31,510 crore was also higher than the budget estimates of 2020-21 by almost Rs 25,000 crore (23% increase). This was

due to additional spending of Rs 20,000 crore on naval fleet, aircrafts, and other equipment for the Navy and the Air Force. In 2021-22, capital outlay has been budgeted at Rs 1,28,150 crore (27% of the budget of the Ministry).

Committed liabilities

Note that capital acquisition of the armed forces consists of two components: (i) committed liabilities, and (ii) new schemes. Committed liabilities are payments anticipated during a financial year in respect of contracts concluded in previous years (as acquisition is a complex process involving long gestation periods). New schemes include new projects which are at various stages of approval and are likely to be implemented in future.

The budget allocation for capital acquisition which should cover both committed liabilities and new schemes does not cover all committed liabilities.⁶ Inadequate allocation for committed liabilities could lead to default on contractual obligations.

Table 3: Committed liabilities and modernisation budget (2016-17 to 2019-20) (in Rs crore)

Year	Committed liabilities	Budget allocation	Shortfall (in %)
2016-17	73,553	62,619	15%
2017-18	91,382	68,965	25%
2018-19	1,10,044	73,883	33%
2019-20	1,13,667	80,959	29%

Sources: 3rd Report, Capital Outlay on Defence Services, Procurement Policy and Defence Planning, Standing Committee on Defence, December 2019; PRS.

The Standing Committee examining the Demand for Grants 2020-21 reports that the Ministry did not supply information regarding committed liabilities and new schemes separately. Therefore, there is no information in Table 3 for 2020-21.¹¹

Non-lapsable fund for modernisation

The Report of the 15th Finance Commission for 2021-26 studied the issue of whether a separate mechanism for funding of defence and internal security should be set up.⁷ The Commission recommended setting up a dedicated, non-lapsable Modernisation Fund for Defence and Internal Security to bridge the gap between projected budgetary requirements and budget allocation.⁸

The Commission recommended an allocation of Rs 1.5 lakh crore to the Fund over a period of five years (2021-26) by allocating 1% of the gross revenue receipts of the central government for this purpose. The Fund may also contain disinvestment proceeds of the defence public sector enterprises, and funds collected through monetisation of surplus defence land (to be used only for defence expenditure). The Commission expects the fund to collect Rs 2.38 lakh crore over the 2021-26 period.

A similar recommendation to create a Non-Lapsable Capital Fund Account for defence modernisation was made by the Standing Committee on Defence (2017).⁹ At the time, the Ministry of Finance had objected to the creation of such a fund on various grounds. It had held that though the fund is non-lapsable, it would not be available to the Ministry of Defence automatically, as it would require Parliament's sanction.¹⁰ The Finance Minister had maintained that the present mechanism of authorisation of budget on an annual basis is working well.¹¹

Analysis of the three armed forces

This section analyses the budget of the three armed forces, as well as issues related to their operational preparedness and modernisation.

In 2021-22, the total allocation to the three forces (including pensions) is Rs 4,51,704 crore, 94% of the total defence budget. The rest of the allocation is towards research and development and defence services ordnance factories. 61% of the defence budget is allocated for the Army, 20% for the Air Force, and 14% for the Navy. Table 4 details the defence budget allocation amongst the three forces.

Table 4: Budget of defence services (in Rs crore)

Major Head	Actuals 2019-20	Revised 2020-21	Budgeted 2021-22	Share of Budget
Army	2,76,050	2,92,964	2,90,073	61%
Navy	61,819	71,761	67,553	14%
Air Force	87,220	97,559	94,078	20%
Other	27,908	22,452	26,492	6%
Total expenditure	4,52,996	4,84,736	4,78,196	-

Note: Expenditure for Army includes expense on Border Roads Organisation, and Jammu and Kashmir Light Infantry. Expenditure for Navy includes expense on Coast Guard Organisation.

Sources: Expenditure Budget, Union Budget 2021-22; PRS.

Composition of service budgets

Air Force and Navy are more capital intensive than the Army. But across all three branches, the ratio of capital to revenue expenditure is falling, with the share of pensions and salary increasing.

Army

The Army is the largest of the three forces, both in terms of its budget as well as the number of personnel. An amount of Rs 2,90,073 crore has been allocated for the Army in 2021-22. This includes Rs 2,11,614 crore for salaries and pensions which is 73% of the Army's budget. Note that as of July 2017, the Army has a sanctioned strength of 12.6 lakh personnel.¹² Significant expenditure on salaries and pensions, leaves only 11% of the Army's budget (Rs 30,637 crore) for modernisation. Table 5 provides the composition of the Army's budget for 2021-22.

Compared to the revised estimate for 2020-21, the allocation for pension has decreased (by Rs 8387 crore) and the allocation for modernisation has increased (by Rs 4,568 crore) in 2021-22.

Table 5: Composition of Army Budget (2021-22) (in Rs crore)

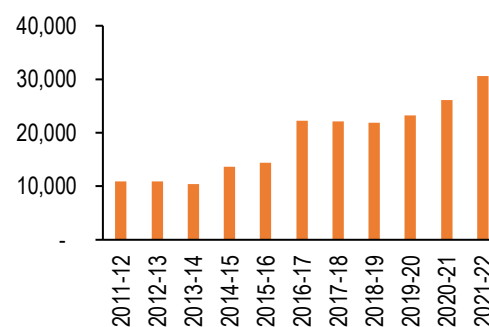
Head	Amount allocated	% of service budget
Salaries	1,11,693	39%
Pensions	99,921	34%
Modernisation	30,637	11%
Maintenance	20,332	7%
Others	27,490	9%
Total	2,90,073	100%

Sources: Union Budget 2021-22; PRS.

Note: Salaries include salary for civilians, auxiliary forces, Rashtriya Rifles, Jammu and Kashmir Light Infantry. Modernisation funds for the Army is calculated from the following heads of the capital outlay: (i) Aircraft and Aeroengine, (ii) Heavy and Medium Vehicles, (iii) Other Equipment, (iv) Rolling Stock, and (v) Rashtriya Rifles.

Modernisation involves acquisition of state of the art technologies and weapons systems to upgrade and augment defence capabilities of the forces. Figure 5 shows the expenditure on modernisation of the Army over the last 10 years. Funds for modernisation of the Army have grown at an annual average rate of 11% between 2011-12 and 2021-22. In 2021-22, modernisation spending for the Army is estimated to grow at an annual rate of 15% over 2019-20.

Figure 5: Expenditure on modernisation of Army (in Rs crore)



Sources: Union Budgets 2011-22; PRS.

Notes: Figures for 2020-21 are Revised Estimates and for 2021-22 are Budget Estimates.

The Standing Committee on Defence (2018) has noted that modern armed forces should have one-third of its equipment in the vintage category, one-third in the current category, and one-third in the state-of-the-art category.¹²

However, the current position of the Indian Army is that 68% of its equipment is in the vintage category, 24% in the current category, and only 8% in the state-of-the-art category.¹⁰ Further, the Committee noted that the Indian Army has a significant shortage of weapons and ammunition. According to the

Committee, these shortages have persisted since adequate attention was lacking both in terms of policy and budget for modernisation. Such a situation could impact Army preparedness in the context of a two-front war.¹²

Navy

The Navy has been allocated Rs 67,553 crore (including pensions) in 2021-22. Modernisation comprises 46% (Rs 31,031 crore) of the budget of the Navy. Table 6 below provides the composition of the Navy's budget for 2021-22.

Table 6: Composition of Navy Budget (2021-22) (in Rs crore)

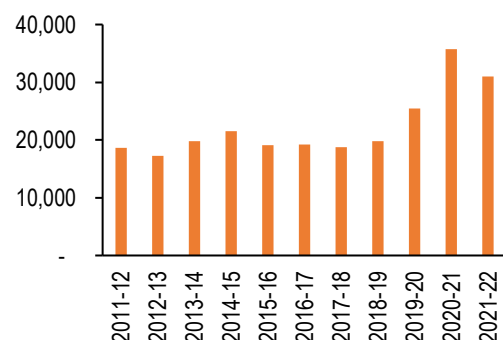
Head	Amount allocated	% of service budget
Modernisation	31,031	46%
Salaries	13,121	19%
Maintenance	7,610	11%
Pensions	5,694	8%
Others	10,097	15%
Total	67,553	100%

Note: Salaries include salary for civilians and coast guard. Modernisation funds for the Navy is calculated from the following heads of the capital outlay: (i) Aircraft and Aeroengine, (ii) Heavy and Medium Vehicles, (iii) Other Equipment, (iv) Joint Staff, (v) Naval Fleet, and (viii) Naval Dockyards and Projects. Sources: Union Budget 2021-22; PRS.

Modernisation spending for the Navy as a percentage of total defence budget has declined from 8.7% in 2015-16 to 4.9% in 2018-19. The Standing Committee on Defence (2018) has stated that this could lead to a delay in induction of critical capabilities and resultant cost-overruns.¹²

Modernisation spending for the Navy has since recovered to 6.5% in 2021-22. Figure 6 shows the expenditure on modernisation of the Navy over the last 10 years. Expenditure on modernisation has grown at an annual average rate of 5% between 2011-12 and 2021-22. In 2021-22, though modernisation spending is estimated to grow at an annual rate of 10% over 2019-20, it is lower than the spending in 2020-21 (as per the revised estimates).

Figure 6: Expenditure on modernisation of Navy (in Rs crore)



Notes: Figures for 2020-21 are Revised Estimates and for 2021-22 are Budget Estimates. Sources: Union Budgets 2011-22; PRS.

Air Force

The Indian Air Force (IAF) has been allocated Rs 94,078 crore for the year 2021-22 (including pensions for retired personnel). Modernisation comprises 52% (Rs 48,870 crore) of the total budget of the IAF.

Table 7: Composition of Air Force Budget (2021-22) (in Rs Crore)

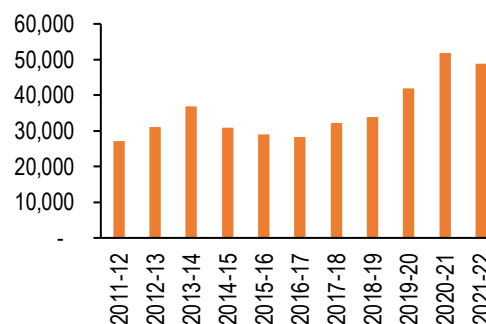
Head	Amount allocated	% of service budget
Modernisation	48,870	52%
Salaries	17,964	19%
Pensions	10,211	11%
Maintenance	9,429	10%
Others	7,605	8%
Total	94,078	100%

Source: Union Budget 2021-22; PRS.

Note: Salaries include salary for civilians. Modernisation funds for the Air Force is calculated from the following heads of the capital outlay: (i) Aircraft and Aeroengine, (ii) Heavy and Medium Vehicles, and (iii) Other Equipment.

Figure 7 shows the expenditure on modernisation of the IAF over the last 10 years. Funds for modernisation have grown at an annual average rate of 6% between 2011-12 and 2021-22. In 2021-22, spending on modernisation is estimated to grow at an annual rate of 8% over 2019-20. The spending is 6% lower than the revised estimates for 2020-21.

Figure 7: Expenditure on modernisation of IAF (in Rs crore)



Notes: Figures for 2020-21 are Revised Estimates and for 2021-22 are Budget Estimates.

Sources: Union Budgets 2011-22; PRS.

The CAG has raised issues in relation to the capital acquisition process of the IAF.¹³ In its report (2019), the CAG examined 11 contracts of capital acquisition signed between 2012-13 and 2017-18, with a total value of approximately Rs 95,000 crore. It found that the current acquisition system was unlikely to support the operational preparedness of the IAF and recommended that the Ministry of Defence undertake structural reforms of the entire acquisition process.¹³

The Estimates Committee (2018) has noted that there should be 70% serviceability of aircrafts since aircrafts have to undergo standard maintenance checks.¹⁴ However, as of November 2015, the

serviceability of aircrafts was 60%. Serviceability measures the number of aircrafts that are mission capable at a point in time.

Issues in defence procurement

Defence procurement refers to the acquisition of defence equipment, systems and platforms which is undertaken by the Ministry of Defence, and the three armed forces. The Ministry released the Defence Procurement Procedure (DPP), 2016 in March 2016 which lays down detailed guidelines regulating defence procurement in India.¹⁵ This was replaced by the Defence Acquisition Policy, 2020, released in September 2020.¹⁶

Procurement of defence hardware is a long process, involving large number of stakeholders. Coordination issues between these stakeholders sometimes results in delays.¹⁴ For example, in the case of procurement of equipment for the air force, the CAG found that it took three to five years to just sign the contract, and another three to five years to complete the delivery.¹³ There was a need to remove procedural bottlenecks, simplify procedures, hasten defence acquisition, and ensure greater participation from the industry.¹⁷

The defence procurement executive is currently in the Ministry of Defence.¹⁸ An Expert Committee on Defence Procurement (2015) observed that a procurement organisation needs to have specialised knowledge of various fields including technology, commercial negotiations, cost estimations, and financial structures.¹⁸ Therefore, it recommended the creation of a separate defence procurement executive, with specialist wings and personnel, outside the formal structure of the Ministry of Defence. This executive would spearhead the procurement process, with the Ministry of Defence and Service Headquarters. Note that countries such as France and the United Kingdom have independent agencies responsible for defence procurement.¹⁸

High dependence on imports

According to the Stockholm International Peace Research Institute, between 2015-19, India was the second largest importer of major arms, after Saudi Arabia, accounting for 9% of global imports.¹⁹ The Estimates Committee (2018) had stated that dependence on foreign suppliers for military hardware not only results in huge expenditure on imports, but makes national security vulnerable as suppliers may not provide weapons during emergency situations.¹⁴ Table 8 notes the total procurement from foreign and Indian vendors during 2014-15 to 2019-20. For 2020-21, the Ministry has targeted domestic procurement of Rs 52,000 crore.²⁰

The Estimates Committee (2018) has observed that the indigenisation level in the defence sector is increasing at a very slow rate. It further stated that nothing concrete has been done for the

implementation of the strategic partnership model, which envisaged a key role for private players in building platforms such as submarines and fighter jets in India.¹⁴ The Committee also noted the high dependence on external content by Defence Public Sector Undertakings (DPSUs). For example, the import content for platforms manufactured by Hindustan Aeronautics Limited (in terms of value of the platform), ranged between 40% to 60%.¹⁴

Table 8: Total procurement from foreign and Indian vendors (2014-15 to 2019-20) (Rs crore)

Year	Total procurement	Foreign vendors	Indian vendors	% Foreign vendors
2014-15	65,860	25,981	39,879	39.4%
2015-16	62,342	23,192	39,150	37.2%
2016-17	69,150	27,278	41,872	39.4%
2017-18	72,732	29,035	43,697	39.9%
2018-19	75,921	36,957	38,964	48.7%
2019-20*	67,287	31,058	36,228	46.2%

Note: *Data for 2019-20 is up to December 31, 2019.

Sources: 7th Report, Capital Outlay on Defence Services, Procurement Policy and Defence Planning, Standing Committee on Defence, March 2020; PRS.

Indigenisation and growth of the defence sector

Import embargo

In August 2020, the Ministry of Defence published a list of 101 items for which there will be an embargo (ban) on import.²⁰ The list includes weapon systems, such as artillery guns, and anti-submarine rocket launchers, and equipment such as high power radar and upgrade systems. The ban on each item will apply as per the deadline specified. For 67 items, the ban came into effect from December 2020. The Ministry expects the ban on imports to give a push to self-reliance in the defence sector by boosting the domestic industry. It estimates that the embargo will result in domestic contracts of nearly four lakh crore rupees within the next five to seven years. Between April 2015 and August 2020, Rs 3.5 lakh crore worth of these items was procured.²⁰

Draft Defence Production and Export Promotion Policy

In August 2020, the Ministry released the Draft Defence Production and Export Promotion Policy to boost the defence production capabilities, reduce dependence on imports, and promote exports for self-reliance in the defence industry.²¹

The domestic defence industry (including aerospace and naval shipbuilding) is currently estimated to be about Rs 80,000 crore. The Policy aims to achieve a turnover of Rs 1.75 lakh crore in aerospace and defence goods and services by 2025 (including exports of Rs 35,000 crore).

Currently, the procurement from the domestic industry is nearly Rs 70,000 crore (60% of overall defence procurement). The Policy aims to double this to Rs 1,40,000 crore by 2025. It proposes creating a distinct head for domestic capital procurement in the defence budget, and increasing allocation for domestic capital procurement by a minimum of 15% per year for the next five years.

Defence Acquisition Procedure, 2020

The Defence Acquisition Procedure (DAP) governs the acquisition of weapons and equipment for India's defence forces.¹⁶ The DPP 2016 specified two modes of capital acquisition: (i) buy, and (ii) buy and make. The DAP has introduced 'leasing' as a new mode of acquisition. Leasing substitutes initial capital outlays with periodical rental payments. It is preferred in situations where: (i) procurement is not feasible due to time constraint, or (ii) the asset is required only for a specific time. 'Make' refers to manufacturing portion of the contract. Other key features of the DAP are discussed below.

Increase in indigenous content

Table 9 shows the categories of capital acquisition in the DPP 2016 and DAP for the Buy, and Buy and Make modes. The DAP has enhanced the indigenous content (IC) requirement in various categories of procurement. IC is the percent of cost of indigenous content in base contract cost.

Categories of acquisition provided in DAP are: (i) Buy (Indian-IDDM) refers to the procurement of products from an Indian vendor that have been indigenously designed, developed and manufactured; (ii) Buy (Indian) refers to the procurement of products from an Indian vendor; (iii) Buy and Make (Indian) refers to an initial procurement of equipment from an Indian vendor in a tie-up with a foreign vendor, followed by indigenous production involving transfer of technology; (iv) Buy (Global-Manufacture in India) refers to a purchase from a foreign vendor where the 50% IC value can be achieved in 'Make' through an Indian subsidiary of the vendor; and (v) Buy (Global) refers to outright purchase of equipment from foreign or Indian vendors.

Table 9: Indigenous content requirement for different categories of acquisition

Category	DPP-2016	DAP-2020
Buy (Indian-IDDM)	40% or more	50% or more
Buy (Indian)	40% or more	50% or more (for indigenous design)
Buy and Make (Indian)	50% or more of 'Make' part	50% or more of 'Make' part
Buy and Make	Not specified	Category not present
Buy (Global-Manufacture in India)	Category not present	50% or more
Buy (Global)	Not specified	30% or more (for Indian vendor)

Note: Buy and Make category refers to an initial procurement of equipment from a foreign vendor, followed by transfer of technology.

Sources: DPP-2016, DAP-2020; PRS.

Procurement from DRDO, DPSUs

The DAP adds a separate mechanism for acquisition of systems designed by the Defence Research and Development Organisation (DRDO), Defence Public Sector Undertakings (DPSUs), and Ordnance Factory Boards (OFBs). Based on operational requirements, the procuring agency will identify equipment which can be designed and developed by DRDO, DPSUs, or OFBs. Such cases would then be categorised under Buy (Indian-IDDM) for subsequent procurement. This is expected to enhance domestic development capabilities.

Changes to acquisition procedure

The acquisition process starts with a request for information and formulation of requirements before the project is cleared. Thereafter, contractors submit bids which are evaluated and field tested (trials) before the contract is awarded. The DAP seeks to: (i) formulate service quality requirements using verifiable parameters, in a standardised format, and (ii) provide for single stage clearance for acquisitions of up to Rs 500 crore. The DAP will also rationalise trial and testing procedures to ensure transparency and avoid duplication of trials.

Project Management Unit

A Project Management Unit (PMU) has been mandated to support contract management. It was announced as part of the Aatmanirbhar Bharat reforms.²² The PMU will facilitate provision of consultancy support during the acquisition process. This is expected to ensure a time bound procurement process and enable faster decision making.

Increase in FDI limit

In September 2020, the limit for foreign direct investment under the automatic route was increased from 49% to 74%.²³ FDI beyond 74% is permitted with government approval which may be given where FDI is likely to result in access to modern technology.²⁴ Domestic companies can benefit from enhanced access to capital and state of the art technology. This change was announced as part of the Aatmanirbhar Bharat Abhiyaan.²²

- ¹ “40th Report: Demands for Grants (2018-19) General Defence Budget, Border Roads Organisation, Indian Coast Guard, Military Engineer Services, Directorate General Defence Estates, Defence Public Sector Undertakings, Welfare of Ex-Servicemen, Defence Pensions, Ex-Servicemen Contributory Health Scheme”, Standing Committee on Defence, Lok Sabha, March 12, 2018, http://164.100.47.193/lsscommittee/Defence/16_Defence_40.pdf.
- ² “SIPRI Military Expenditure Database”, Stockholm International Peace Research Institute, <https://www.sipri.org/sites/default/files/Data%20for%20all%20countries%20from%201988%E2%80%932018%20as%20a%20share%20of%20GDP%20%28pdf%29.pdf>.
- ³ “Five years of historic decision to implement OROP”, Press Information Bureau, Ministry of Defence, November 6, 2020.
- ⁴ “1st Report: Demands for Grants (2019-20) General Defence Budget, Border Roads Organisation, Indian Coast Guard, Military Engineer Services, Directorate General Defence Estates, Defence Public Sector Undertakings, Welfare of Ex-Servicemen, Defence Pensions, Ex-Servicemen Contributory Health Scheme”, Standing Committee on Defence, December 2019, http://164.100.47.193/lsscommittee/Defence/17_Defence_1.pdf.
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