Demand for Grants 2023-24 Analysis
Defence

The Ministry of Defence frames policies on defence and security-related matters, and ensures its implementation by the defence services (Army, Navy, and Air Force). In addition, it is responsible for production establishments such as 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 the falling expenditure on defence as percentage of GDP, high share of pension, continued reliance on imports to meet defence equipment needs, and shorter tenure of Agnipath recruits compared to regular cadres.

Overview of finances

The Budget of the Ministry of Defence includes the allocation towards the three defence services along with the expenditure on research and development and border roads. In 2023-24, the Ministry has been allocated Rs 5,93,538 crore. This includes expenditure on salaries of the armed forces and civilians, pension, modernisation of armed forces, production establishments, maintenance, and research and development organisations. The allocation towards the Ministry is largest across all ministries and accounts for over 13% of the total expenditure of the central government.

India among top global military spenders but expenditure declines as share of budget

According to the Stockholm International Peace Research Institute (SIPRI), India was the third-largest defence spender in absolute terms in 2021 after USA and China.[1] Note that the SIPRI database includes the expenditure on paramilitary forces under India's total defence expenditure. While China spends a lower proportion of its GDP on defence than India, its larger economy implies that it spends over 3.5 times as much as India in terms of absolute terms.

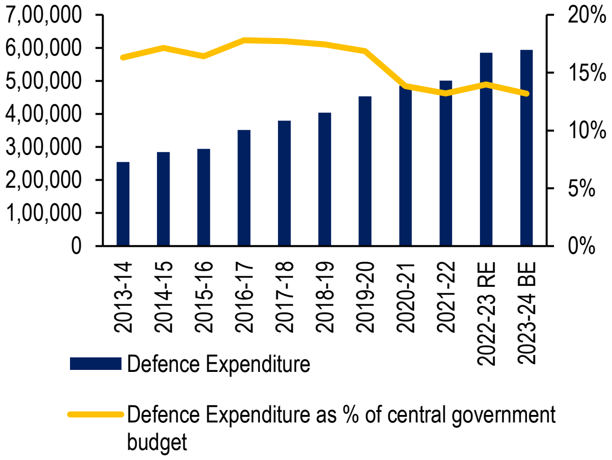
While India continues to be among the top nations in terms of spending on its military, the expenditure of the Ministry as a share of the central government expenditure has steadily declined over the years. In 2016-17, 17.8% of the total central government expenditure was spent on defence which is expected to decline to 13.2% according to the budget estimates of 2023-24. Between 2013-14 and 2023-24 while central government expenditure is estimated to increase at an annual rate of 11%, spending on defence is estimated to increase at an annual rate of 9%.

Table 1: Top military spenders and Pakistan (2021)

Country	Expenditure (in USD billion)	Expenditure (as % of GDP)
USA	801	3.48%
China	293	1.74%
India	77	2.66%
UK	68	2.22%
Russia	66	4.08%
Pakistan	11	3.83%

Note: The figures for India include expenditure on the paramilitary forces of the Border Security Force, the Central Reserve Police Force, the Assam Rifles, the Indo-Tibetan Border Police and, Sashastra Seema Bal.
Sources: SIPRI Military Expenditure Database; PRS.

Figure 1: Defence expenditure (Rs crore)



Note: BE is budget estimate and RE is revised estimate.
Sources: Union Budget Documents (various years); PRS.

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.[2] However, over the last decade, India's spending on defence has consistently been lower than this recommended level. In 2023-24, allocation to the Ministry is estimated to be marginally lower than 2% of GDP (Figure 2). This is different from the figure given in Table 1 due to different methodology used by SIPRI. If spending on defence pension is excluded from the total expenditure of the Ministry, the expenditure as a percentage of GDP decreases by about 0.5 percentage point across years.

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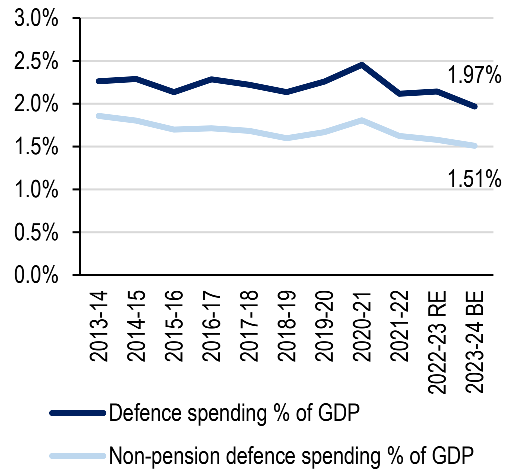
February 17, 2023

Figure 2: Defence spending as % of GDP

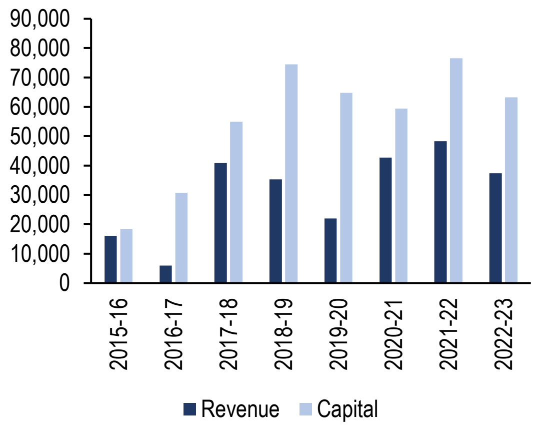


Note: BE is budget estimate and RE is revised estimate.
Sources: Union Budget Documents (various years); MoSPI; PRS.

Budget allocation lower than projected needs of the armed forces

The allocation made to the Ministry is also less than what is sought by the defence forces. The amount allocated to the Ministry each year is determined based on various needs of the forces such as acquisition of weaponry and payment of salaries and pensions. In 2022-23, the amount allocated to the armed forces was 28% lower than what was sought by the forces as part of their projected needs. The shortfall in allocation has been higher for the capital component of the budget as compared to the revenue component.

Figure 3: Shortfall in budget allocation versus projected needs (Rs crore)



Sources: 20th Report and 27th Report, Standing Committee on Defence; PRS.

In a memorandum submitted to the 15th Finance Commission, the Ministry of Defence sought adequate funding through alternate sources for meeting its increasing requirements.[3] The Ministry had pointed out that budgetary allocations have declined over the years and are inadequate to fund large defence acquisitions.[3] For the period 2021-26, the Ministry estimated to receive Rs 9.01 lakh crore for capital outlay against the defence plan projection of Rs 17.46 lakh crore (48% shortfall).[3] It was highlighted by the Ministry that consistent shortfalls in the defence budget over a long period has led to serious capability gaps, including compromising the operational preparedness of the three services.[3] Lack of adequate funds has forced the Ministry to manage its expenditure through ad-hoc mechanisms such as postponing procurements and delaying payments.[3]

The 15th Finance Commission recommended that the central government may constitute Modernisation Fund for Defence and Internal Security (MFDIS) to bridge the gap between projected budgetary requirements and budget allocation.[3] This fund will be non-lapsable. Its proceeds will be utilised for: (i) capital investment for modernisation of defence services, and (ii) capital investment and modernisation of central armed police forces and state police forces. The fund could have four specific sources of incremental funding: (i) transfers from Consolidated Fund of India, (ii) disinvestment proceeds of defence public sector enterprises, (iii) proceeds from monetisation of surplus defence land, and (iv) proceeds of receipts from defence land likely to be transferred to state governments and for public projects in future.[3] The Finance Commission estimated the indicative size of the fund at Rs 2,38,354 crore over 2021-26.[3] According to media reports, the Ministry of Finance has rejected the funding pattern of the fund as recommended by the 15th Finance Commission.[4] It is exploring new means of funding as it is of the opinion that putting money directly in a non-lapsable fund is against good parliamentary practice.[4]

The Standing Committee on Defence (2017) noted that creation of a non-lapsable defence capital fund account is an imperative need for improving operational preparedness of the armed forces.[5] Creating such a fund would ensure that procurement of equipment and ammunitions is not delayed due to lack of money.[5]

The Standing Committee on Defence (2022) was informed that the proposal to create a non-lapsable defence modernisation fund was under consideration by the central government.[6] A suitable mechanism for operationalising the fund was being worked out in consultation with the Ministry of Finance.[6] The Committee recommended expediting the creation of the fund so that defence procurement can be carried out without having to rely on supplementary or additional grants.

Composition of the defence budget

In 2023-24, the allocation made to the Ministry is 1.5% higher as compared to the revised estimates of 2022-23 (Table 2). This is significantly lower as compared to the growth in the total expenditure of the central government at 7.5% in 2023-24 over the revised estimates of 2022-23. Within the defence budget, salaries are estimated to increase by 3%

while pension is estimated to decrease by 10% in 2023-24 as compared to the revised estimates of 2022-23. Salaries and pension account for 52% of the defence budget in 2023-24. This does not include salary of Rashtriya Rifles, National Cadet Corps (NCC), Joint Staff and Agnipath as detailed break-up of these expense heads is not provided. Capital outlay, which includes spending on acquisition of arms, ammunition, and other equipment, is estimated to increase by 8% in the same period. Other expenses include spending on transportation, Rashtriya Rifles, Joint Staff, Agnipath scheme, and other establishment expenditure of the Ministry.

Table 2: Defence budget allocation (in Rs crore)

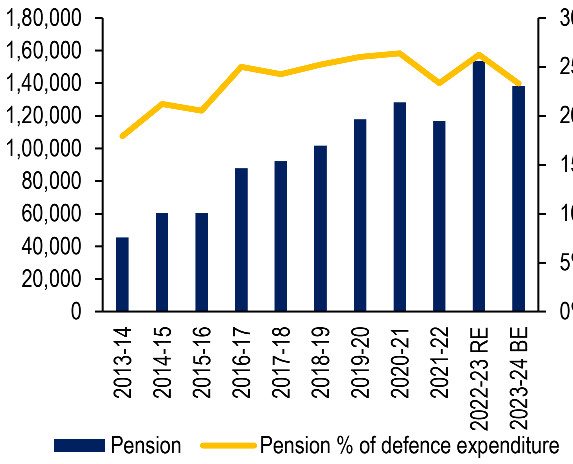
Major Head	Actuals 2021-22	RE 2022-23	BE 2023-24	% change 2022-23 RE to 2023-24 BE
Salaries	1,47,471	1,62,902	1,68,334	3%
Capital Outlay	1,44,786	1,57,979	1,71,375	8%
Pension	1,16,800	1,53,414	1,38,205	-10%
Maintenance	62,541	75,319	74,175	-2%
Other Expenses	29,083	35,177	41,449	18%
Total	**5,00,681**	**5,84,791**	**5,93,538**	**1%**

Note: Salaries include pay and allowances of the armed forces, auxiliary forces, civilians, research and development, and salary expenditure of the civil estimates. It does not include salaries of Rashtriya Rifles, NCC, Joint Staff, and Agnipath recruits as detailed breakup is not provided. Capital outlay includes capital expenditure of the Ministry and the armed forces. Maintenance includes expenditure on stores, works, repairs, and refits.
Sources: Expenditure Budget, Union Budget 2023-24; PRS.

More than 20% of the defence budget is spent on pension

Defence pension provide for pensionary charges for retired defence personnel of the three services (including civilian employees) and employees of Ordnance Factories. It covers payment of service pension, gratuity, family pension, disability pension, commuted value of pension, and leave encashment. The expenditure on defence pension has increased at an annual rate of 12% between 2013-14 and 2023-24. This is higher than the 9% annual growth in the total expenditure of the Ministry. In 2023-24, defence pension is estimated to be 10% lower as compared to the revised estimate of 2022-23. However, in 2022-23, pension expenditure was 28% higher at the revised estimate stage as compared to the budget stage. This was driven by payment of arrears of One Rank One Pension (OROP) of Rs 28,137 crore in 2022-23. Between 2014-15 and 2023-24, the spending on defence pension has been consistently higher than 20% of the total budget of the Ministry. In 2019-20 and 2022-23, 26% of the Ministry's budget was spent of pension expenditure.

Figure 4: Spending on defence pension (Rs crore)



Note: BE is budget estimate and RE is revised estimate.
Sources: Union Budget Documents (various years); PRS.

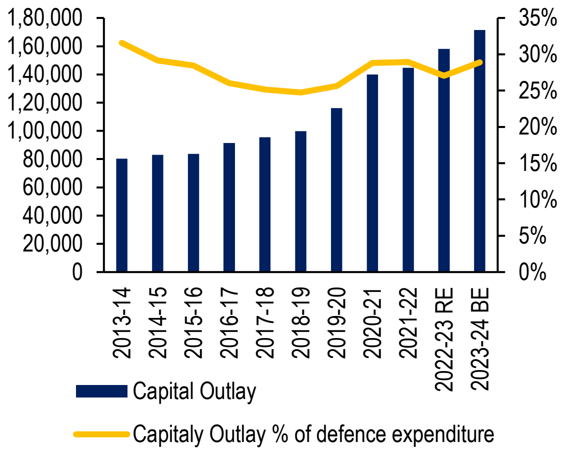
In November 2015, the government decided to implement OROP with benefits effective from July 1, 2014.[7] Under this framework, soldiers of the same rank who have retired after serving for the same length of service will receive the same pension. This applies irrespective of the date and year of their retirement. The pension under OROP is revised after every five years.[7] Almost Rs 57,000 crore has been spent under OROP since its implementation.[7] In December 2022, the Union Cabinet approved the revision of pension under OROP with effect from July 1, 2019.[7] The annual expenditure for implementing the revised pension was estimated at around Rs 8,450 crore.

The 15th Finance Commission recommended that the Ministry should take steps to reduce salaries and pension liabilities.[3] The Ministry has been examining various reforms in defence pension including: (i) bringing service personnel currently under the old pension scheme into the New Pension Scheme, (ii) increasing retirement age of personnel below officer ranks, and (iii) transfer of retired personnel to other services. Also, the recently implemented Agnipath scheme for recruiting soldiers, sailors, and airmen into the armed forces may help in reducing pension expenditure in the long term (see page 8).

Capital outlay has remained below 30% of the defence budget

One of the consequences of high spending on defence pension could be the lower spending on capital outlay. Capital outlay for defence includes expenditure on construction work, machinery, and equipment such as tanks, naval vessels, and aircrafts. It also includes capital expenditure on research and development and construction of border roads. In 2013-14, 32% of the defence budget was spent on capital outlay. This share has declined and between 2014-15 and 2023-24 less than 30% of the defence budget involved spending on capital outlay. In 2023-24, the Ministry is estimated to spend 29% of its budget on capital outlay as compared to 27% in 2022-23.

Figure 5: Expenditure on capital outlay (Rs crore)



Note: BE is budget estimate and RE is revised estimate.
Sources: Union Budget Documents (various years); PRS.

The Standing Committee on Defence (2021) had observed that the ideal ratio of revenue expenditure to capital outlay was 60:40.[8] In 2023-24, Navy and Air Force are estimated to spend over half of their budget allocation on capital expenditure.

Table 3: Revenue and capital expenditure of the armed forces in 2023-24 (Rs crore)

Forces	Revenue	Capital	Ratio (in%)
Army	3,03,748	37,342	89:11
Navy	42,722	56,341	43:57
Air Force	56,454	58,269	49:51

Note: Spending on Army includes Jammu and Kashmir Light Infantry and spending on Navy includes Coast Guard.
Sources: Expenditure Budget, Union Budget 2023-24; PRS.

Table 4: Capital outlay on the armed forces (Rs crore)

Forces	Actuals 2021-22	RE 2022-23	BE 2023-24	% change 2022-23 RE to 2023-24 BE
Army	25,131	32,598	37,342	15%
Navy	45,029	47,727	52,805	11%
Air Force	53,217	53,871	58,269	8%
Coast Guard	3,189	3,300	3,536	7%
Total	**1,26,566**	**1,37,497**	**1,51,951**	**11%**

Note: Capital outlay on Army and Air Force includes assistance for prototype development. BE is budget estimate and RE is revised estimate.
Sources: Expenditure Budget, Union Budget 2023-24; PRS.

Capital outlay on the armed forces and the coast guard is estimated to increase by 11% in 2023-24 over the revised estimate of 2022-23. In 2022-23, the capital outlay for Army and Navy was broadly in line with the budget estimates while capital outlay for the Air Force saw a 5% decline at the revised estimate stage. In 2023-24, capital outlay of the army is estimated to increase 15% over the revised estimate of 2022-23. This is followed by the Navy at 11% and the Air Force at 8%.

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. Data related to committed liabilities has not been publicly disclosed for years after 2019-20.

Table 5: Committed liabilities and modernisation budget (Rs crore)

Year	Committed liabilities	Modernisation budget	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%

Note: Figures for committed liabilities have not been publicly disclosed after 2019-20.
Sources: 3rd Report, Capital Outlay on Defence Services, Procurement Policy and Defence Planning, Standing Committee on Defence, December 2019; PRS.

The Standing Committee on Defence (2019) expressed concern over the shortage in allocation to meet committed liabilities expenditure.[9] The Committee observed that inadequate allocation for committed liabilities could lead to default on contractual obligations.[9] It observed that if India were to default on payments, it will not go down well in international markets.[9] The Committee has repeatedly recommended the Ministry to create a dedicated fund for committed liabilities and new schemes.[6,8] So far, these funds have not been created. In 2022, the Committee noted that having a separate fund would ensure that there are no difficulties in meeting deadlines for making payment towards committed purchases of the armed forces.[6]

Defence services

In 2023-24, the allocation for the three defence services (including pension) is Rs 5,54,875 crore which is 93% of the total budget allocation of the Ministry. Out of this, Army accounts for 57% of the budget while Navy and Air Force make up 17% and 19% of the allocation respectively. The expenditure on Army, Navy, and Air Force is in the ratio 3.4:1:1.2. The army has the highest pension obligations among the three services. Excluding pension, the expenditure of Army, Navy, and Air Force is in the ratio 2.4:1:1.1 in 2023-24. The allocation towards Army is expected to be largely unchanged in 2023-24 over the revised estimate of 2022-23 while for Navy and Air Force it is estimated to increase by 6% and 2%, respectively.

Table 6: Defence budget allocation (Rs crore)

Major Head	Actuals 2021-22	RE 2022-23	BE 2023-24	% change 2022-23 RE to 2023-24 BE
Army	2,85,278	3,41,221	3,41,090	0%
Navy	80,740	93,244	99,062	6%
Air Force	98,024	1,12,071	1,14,723	2%
Other	36,638	38,256	38,663	1%
Total	**5,00,681**	**5,84,791**	**5,93,538**	**1%**

Note: Allocation for Army includes Jammu and Kashmir Light Infantry and for the Navy includes Coast Guard. RE is revised estimate and BE is budget estimate.
Sources: Expenditure Budget, Union Budget 2023-24; PRS.

Army: Substantial expenditure on salaries and pension leave little room for spending on modernisation

Table 7: Breakup of the Army Budget in 2023-24 (Rs crore)

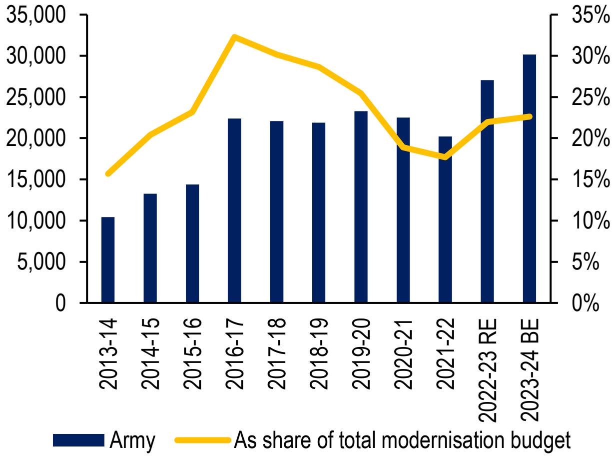
Head	Amount Allocated	% of service budget
Salaries	1,18,889	35%
Pension	1,19,300	35%
Modernisation	30,163	9%
Maintenance	35,475	10%
Other forces	14,036	4%
Agnipath	3,800	1%
Miscellaneous	19,426	6%
Total	**3,41,090**	**100%**

Note: Salaries include salary for civilians and auxiliary forces. 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, (v) Rashtriya Rifles, and (vi) assistance for prototype development. Other forces include revenue expenditure on Rashtriya Rifles, NCC, and Jammu and Kashmir Light Infantry.
Sources: Expenditure Budget, Union Budget 2023-24; PRS.

The Army is the largest of the three forces, both in terms of its budget as well as the number of personnel. As of July 2022, the Army has an authorised strength of 13.03 lakh personnel (including officers and soldiers).[10] In 2023-24, Rs 3,41,090 crore has been allocated for the Army out of which almost 70% is budgeted to be spent on salaries and pension. Note that the salary component given in Table 7 above does not include the expenditure on salary for Rashtriya Rifles, NCC, Agnipath scheme, and Jammu and Kashmir Light Infantry as detailed breakup of their allocation is not available. If the salary expenditure on these forces is included, Army's total spending on salaries will be even higher.

Modernisation involves acquisition of state-of-the art technologies and weapons systems to upgrade and augment defence capabilities of the forces. Substantial expenditure on salaries and pension reduces the funds available for modernisation of the Army. In 2023-24, 9% of the Army's budget will be spent on its modernisation. After 2016-17, there has been a decrease in the modernisation funds allocated to the Army as a share of the total modernisation funds of the three forces. In 2023-24, Army has been provided 23% of modernisation funds among the defence services.

Figure 6: Expenditure on modernisation of Army (Rs crore)



Note: RE is revised estimate and BE is budget estimate.
Sources: Union Budget Documents (various years); PRS.

The Standing Committee on Defence (2018) had 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.[11] However, Indian Army had 68% of its equipment in the vintage category, 24% in the current category, and 8% in the state-of-the-art category.[11] The Committee also noted that over the years, the Army has accumulated a substantial deficiency of weapons, stores, and ammunition. It found that adequate attention has been lacking with respect to both policy and budget for modernising the aging armoury.[11]

Navy: Significant increase in funds allocated for modernisation over last decade

Table 8: Breakup of the Navy budget in 2023-24 (Rs crore)

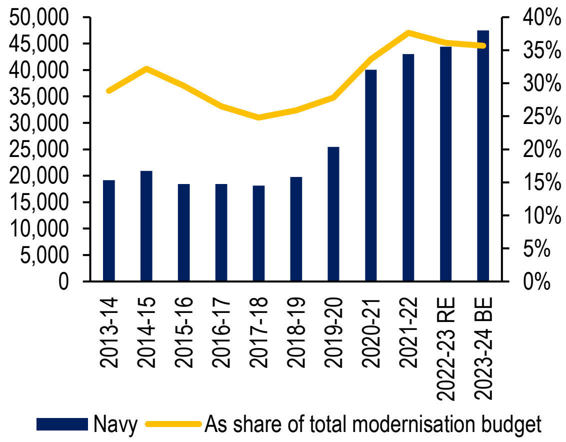
Head	Amount Allocated	% of service budget
Salaries	12,775	13%
Pension	6,776	7%
Modernisation	47,515	48%
Maintenance	13,599	14%
Other Revenue Spending	7,883	8%
Agnipath	300	0.3%
Miscellaneous	10,214	10%
Total	**99,062**	**100%**

Note: Salaries include salary for civilians. 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) Naval Fleet, and (v) Naval Dockyards and Projects. Other revenue spending comprises revenue expenditure on Joint Staff and Coast Guard.
Sources: Expenditure Budget, Union Budget 2023-24; PRS.

The Navy has been allocated Rs 99,062 crore in the budget for 2023-24 (including the expenditure on pension and coast guard). Almost half of the budget has been allocated for modernisation of the Navy. Within modernisation, Rs 24,200 crore has been allocated for the naval fleet and Rs 6,725 crore has been budgeted to be spent on naval dockyard/projects. The expenditure on naval dockyard/projects is estimated to increase by 49% in 2023-24 over the revised estimates of 2022-23.

Modernisation expenditure of the Navy has increased at an annual rate of 10% between 2013-14 and 2023-24. This has been driven by a sharp increase in the expenditure on modernisation in 2019-20 (29% year-on-year increase) and 2020-21 (58%). In July 2021, the Ministry of Defence issued a request for proposal for acquiring six conventional submarines under Project 75 (India).[12] The project is estimated to cost over Rs 40,000 crore.[12] This led to the Navy's share in the total modernisation expenditure of the defence services increase to 38% in 2021-22. In 2023-24, this share is estimated to be 36% of the overall modernisation budget.

Figure 7: Expenditure on modernisation of Navy (Rs crore)



Note: RE is revised estimate and BE is budget estimate.
Sources: Union Budget Documents (various years); PRS.

Air Force: Lowest growth in modernisation expenditure among the three forces

The Air Force has been allocated Rs 1,14,723 crore in 2023-24 (including pension for retired personnel). This is an increase of 2% over the revised estimate of 2022-23. Allocation for modernisation accounts for 48% of the Air Force's budget in 2023-24.

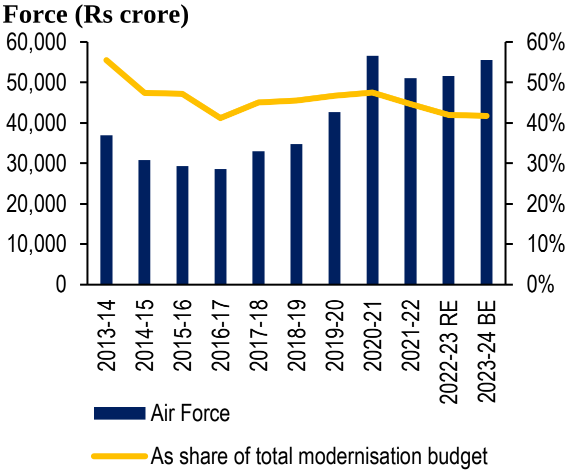
The annual growth rate of expenditure for modernisation of the Air Force was the lowest among the three forces. Between 2013-14 and 2023-24, the modernisation expenditure of the Air Force is expected to increase annually at 4%. However, the modernisation expenditure of the Air Force has consistently been the largest among the three forces. Between 2013-14 and 2023-24, more than 41% of the modernisation budget was allocated to Air Force.

Table 9: Breakup of the Air Force budget in 2023-24 (Rs crore)

Head	Amount Allocated	% of service budget
Salaries	22,795	20%
Pension	12,109	11%
Modernisation	55,586	48%
Maintenance	20,497	18%
Agnipath	166	0.1%
Miscellaneous	3,570	3%
Total	**1,14,723**	**100%**

Note: Salaries include salary for civilians. Modernisation funds for the Air Force is calculated from the following heads of capital outlay: (i) Aircraft and Aeroengine, (ii) Heavy and Medium Vehicles, (iii) Other Equipment, (iv) special projects, and (v) assistance for prototype development.
Source: Union Budget 2023-24; PRS.

Figure 8: Expenditure on modernisation of Air Force (Rs crore)



Note: RE is revised estimate and BE is budget estimate.
Sources: Union Budget Documents (various years); PRS.

In the past, 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) 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%.[14] Serviceability measures the number of aircrafts that are mission capable at a point in time.

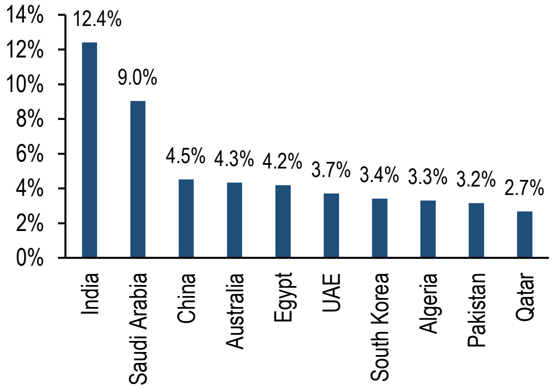
Domestic production of defence equipment

India continues to rely significantly on imports for defence equipment

According to data maintained by SIPRI, India was the largest importer of arms between 2011-2021 followed by Saudi Arabia, China, and Australia. It accounted for 12% of the total volume of arms imported in the period from 2011 to 2021. The

Standing Committee on Defence (2022) expressed concerns over India's increasing import of arms and equipment.[6] Between 2017-18 and 2021-22 (up to December 2021), 87 out of the 239 contracts for acquisition of military hardware worth Rs 1.18 lakh crore have been signed with foreign vendors including USA, Russia, Israel, and France.[6] The defence equipment imported during this period includes helicopters, aircrafts, missiles, rifles, simulators, and ammunition.

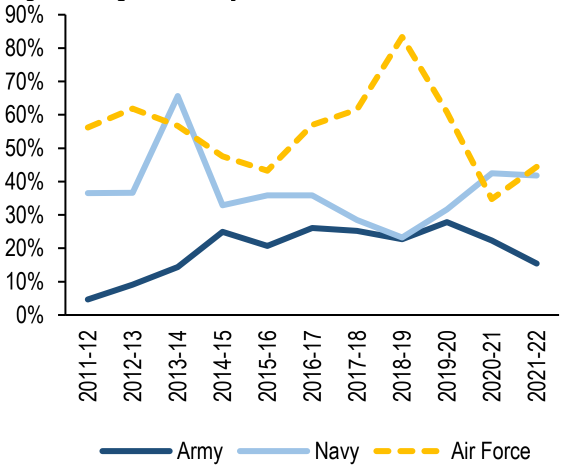
Figure 9: Top 10 importers of arms between 2011-2021 (as % of global imports)



Sources: SIPRI; PRS.

Between 2011-12 and 2020-21, imported capital acquisition by the defence services increased at an annual rate of 7.2% while capital equipment from indigenous sources increased at an annual rate of 9.7%.[6] In 2020-21, 35% of the total capital acquisition was made from foreign sources as compared to 40% in 2011-12. In 2021-22 (up to December 2021), India had imported 39% of its capital acquisition needs for the defence services.

Figure 10: Share of spending on imports for capital acquisition by armed forces



Note: Data for 2021-22 is up to December 2021.
Sources: 28th Report: Capital Outlay on Defence Services, Procurement Policy, Defence Planning and Married Accommodation Project, Standing Committee on Defence, 2022; PRS.

However, there is significant variation in the import dependence of the three defence services over the last decade. This could be because warships and planes are more capital intensive in nature and hence may require to be imported if domestic supplies are not available. Between 2011-12 and 2020-21, the average annual increase in expenditure on imported capital equipment for the army was 29% as compared to 6% from domestic sources. For the Navy, spending on imported capital equipment increased at an average annual rate of 11% as compared to 8% from indigenous sources.

The Standing Committee on Defence (2022) noted that although procurement from foreign vendors is less than from their Indian counterparts, still the value of imports has been constantly increasing since 2016-17.[6] It recommended that Defence Public Sector Undertakings (DPSUs), Defence Research and Development Organisation (DRDO) and private industries work in tandem to produce not only import substitute equipment but also expand the export potential so that India becomes an exporter of defence equipment. The Estimates Committee (2018) noted that dependence on foreign suppliers, especially for military hardware, makes India's security vulnerable as during emergency situations the supplier may not provide the required weapons or spare parts.[14]

Table 10: Enhancement in indigenous content under DAP 2020

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 (Global-Manufacture in India)	-	50% or more
Buy (Global)	-	30% or more (for Indian vendor)

Note: IDDM is indigenously designed, developed, and manufactured. Buy and Make category refers to an initial procurement of equipment from a foreign vendor, followed by transfer of technology. DPP is Defence Procurement Procedure.
Sources: Press Information Bureau; PRS.

In order to reduce import dependence, the central government has notified three positive indigenisation lists comprising of 310 items which will be placed under staggered import embargo and procured from indigenous sources.[15] In addition, DPSUs have released three positive indigenisation lists for 1,238 items out of which 266 items have so far been indigenised.[16] The Defence Acquisition Procedure (DAP), 2020 seeks to enhance indigenous content in the manufacturing of defence equipment.[17] DAP is applicable for the acquisition of capital goods and services. It also provides for leasing of assets as another category of acquisition which can substitute huge initial capital outlays with periodical rental payments.[17] Among the categories listed in Table 10, Buy (Indian-IDDM) is given the highest priority in procurement. This is followed by Buy (Indian) and Buy and Make (Indian).[18]

Over the last few years, there has been a significant increase in defence exports which has been primarily led by the private sector.[19] Between 2016-17 and 2021-22, India's defence exports increased at an average annual rate of 53%. The share of the private sector in defence exports increased sharply at an average annual rate of 114%. The Ministry of Defence has set a target of achieving defence exports worth Rs 35,000 crore by 2024.[20]

Table 11: Exports of defence products (Rs crore)

Year	Total Exports	Exports by Private Sector	% share
2016-17	1,521	194	13%
2017-18	4,682	3,163	68%
2018-19	10,746	9,813	91%
2019-20	9,116	8,008	88%
2020-21	8,435	7,271	86%
2021-22	12,815	8,800	69%

Sources: Starred Question No. 198, Lok Sabha, Ministry of Defence; PRS.

Defence Personnel

Recruitment in the armed forces is primarily done under two broad categories: (i) officers, and (ii) Personnel Below Officer Rank (PBOR). PBORs are referred to as Junior Commissioned Officers (JCO)/Other Ranks (OR) in the Army while in the Navy and Air Force they are categorised as Sailors and Airmen respectively. There are multiple sources of recruitment for both officers and PBORs in the armed forces. For instance, to join as an officer in the army, candidates can be selected through the National Defence Academy, Indian Military Academy, or the Short Service Commission.[21]

Service tenure of majority of recruits under Agnipath will be significantly shorter compared to regular cadre

The Report of the Group of Ministers on National Security (2001), had observed that there was a need to have a younger profile for the armed services so that they are at their fighting best at all times.[22] The Kargil Review Committee (1999) had recommended that in order to have a young and fit army, the minimum service period to be eligible for pension should be reduced from 17 years to seven to 10 years.[22]

In June 2022, the Union Cabinet approved the Agnipath scheme for recruitment to the armed forces.[23] Henceforth, Agnipath will govern enrolment under the armed forces for the PBOR category.[23] Candidates recruited under the scheme will serve for four years and will form a separate rank under the armed forces, known as Agniveers. From each batch of Agniveers, up to 25% of the personnel will be enrolled in regular cadre of the armed forces. According to the Ministry of Defence, recruitment of personnel under the Agnipath scheme will enhance the youthful profile of the armed forces.[23] It would help in reducing the average age profile of the armed forces by around four to five years.[23] According to the current sanctioned strength (as of July 2022), JCO/OR/sailors/airmen make up 95%, 87%, and 92% of the total sanctioned strength of personnel in the Army, Navy, and Air Force respectively. However, when compared to PBOR personnel of various ranks, the service tenure of 75% of Agniveers is quite short.

Table 12: Retirement of JCOs/ORs (in years)

	Army		Navy		Air Force	
Rank	*Term*	*Retiring age*	*Term*	*Retiring age*	*Term*	*Retiring age*
Sepoy/ equivalent	19-22	42-48	15	52	17-22	52
Naik/ equivalent	24	49	19-22	52	19-24	49-52
Havildar/ equivalent	26	49	25-28	52	25-28	49-52
Naib Subedar/ equivalent	28	52	30-32	52	28-33	52
Subedar/ equivalent	30	52	34-35	57	30-35	52-57
Subedar Major/ equivalent	34	54	37	57	33-37	54-57

Note: JCO- Junior Commissioned Officers; OR- Other Ranks.
Sources: Report of the Seventh Central Pay Commission, November 2015; PRS.

While the impact of the Agnipath scheme on the operational preparedness of the armed forces may not be clear currently, it may help reduce the pension expenditure in the long run. As at least 75% of the Agniveers will not get any pensionary benefits, it may help reduce expenditure on personnel. After the expiry of four years, the people leaving the armed forces will get a Seva Nidhi package of Rs 11.7 lakh.[23]

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