Demand for Grants 2025-26 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 delays in indigenous development of defence equipment.

Overview of finances

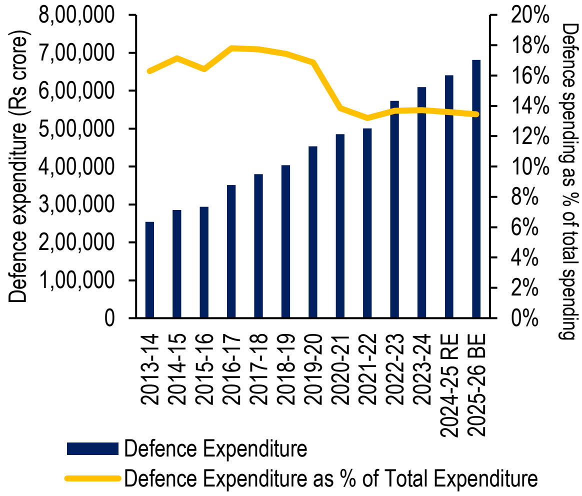
The Budget of the Ministry of Defence includes the allocation towards the three defence services along with the expenditure on research and development and border roads. In 2025-26, the Ministry has been allocated Rs 6,81,210 crore. This includes expenditure on salaries of the armed forces and civilians, pension, modernisation of armed forces, production establishments, maintenance, and research and development organisations. The allocation towards the Ministry is the largest across all ministries and accounts for 13% of the total expenditure of the central government.

India's defence expenditure declines both as a share of Centre's budget and GDP

The central government allocates the largest share of its budget to the Ministry of Defence. However, the share of the central budget spent on defence has decreased over the years. In 2014-15, the Centre spent 17% of its total budget on defence which reduced to 13% as per the budget estimates of 2025-26. Between 2013-14 and 2025-26, compared to an annual increase of 9% in defence spending, total central government expenditure increased at an annual rate of 10%.

The Standing Committee on Defence (2023) had observed that most of India's defence purchases are transacted in dollars.[1] It recommended that the depreciation of rupee against the dollar and the inflation rate should be considered while allocating funds for the defence services.[1] Between January 1, 2024 and January 27, 2025, the Indian rupee has depreciated by almost 4% against the US dollar.

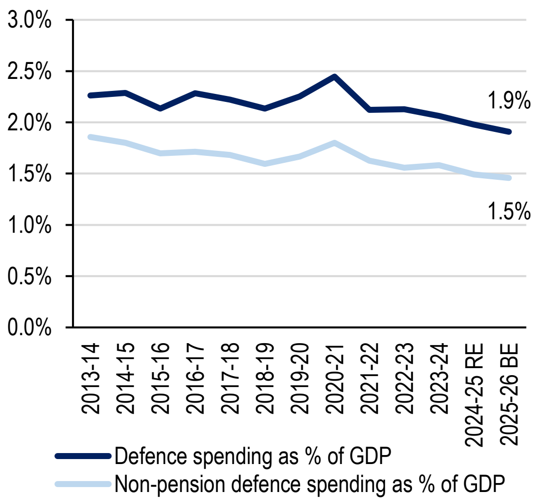
Figure 1: Share of defence expenditure in Centre's expenditure has decreased



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 2025-26, India is estimated to spend 1.9% of its GDP on defence.

Figure 2: Defence expenditure has declined as percentage of GDP



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

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. According to the

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Ministry of Defence, spending 3% of India's GDP on the defence sector will lead to much higher allocations which the defence services may not be able to absorb.[1] If India were to spend 3% of GDP on the defence budget in 2025-26, it would have had to allocate Rs 10.7 lakh crore. Assuming no change in the total budgeted expenditure, this would have been 21% of the Centre's proposed spending in 2025-26. As per the Stockholm International Peace Research Institute (SIPRI), India's military spending was the fourth highest in 2023 at 84 billion dollars.[3] This includes spending on paramilitary forces. In 2023, India's military expenditure among the top five countries was higher than only China as a share of GDP. However, China's larger economy implies that it spends over 3.5 times as much as India on its military in absolute terms.

Table 1: Top military spenders in 2023

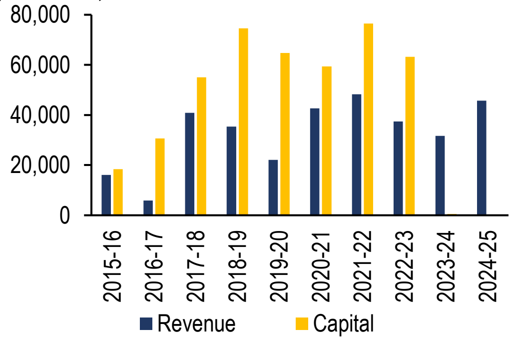
Country	Expenditure (USD billion)	Expenditure (% of GDP)
US	916	3.4%
China	296	1.7%
Russia	109	5.9%
India	84	2.4%
Saudi Arabia	76	7.1%
Pakistan*	9	2.8%

Note: India's military spending includes expenditure on paramilitary forces. *Pakistan was ranked 30 in military spending in 2023.
Sources: SIPRI Military Expenditure Database; PRS.

Allocation of capital budget improves for armed services

Funds are allocated to the armed forces based on their projections submitted during the budget-making stage. Over the years, there has been a shortfall in budget allocation to the armed forces as compared to their projected needs both under revenue and capital heads. Between 2015-16 and 2024-25, the money allocated to the armed forces was 20% lower than their projected needs. In the past, this shortfall has been higher for the capital budget as compared to the revenue budget. However, in 2023-24 and 2024-25, the allocation for the capital budget of the armed forces has been in line with their projections.

Figure 3: Shortfall in allocation versus projection (Rs crore)



Sources: 20th Report and 37th Report, Standing Committee on Defence, 17th Lok Sabha; 2nd Report, Standing Committee on Defence, 18th Lok Sabha; PRS.

Year of Reforms 2025

The Ministry of Defence has decided to observe 2025 as the 'Year of Reforms'.[4] According to the Ministry, this would aim to transform the armed forces into a technologically-advanced and combat-ready force. The areas identified for focused intervention in 2025 include: (i) bolstering jointness and integration to facilitate setting up of integrated theatre commands, (ii) focusing on new domains such as cyber and space, artificial intelligence, and robotics, (iii) simplifying acquisition procedures, and (iv) facilitating technology transfer and knowledge sharing between the defence sector and civil industries.[4]

Composition of the defence budget

In 2025-26, the central government has allocated Rs 6,81,210 crore for the Ministry of Defence which is 6% higher as compared to the revised estimate of 2024-25 (see Table 2). Within the defence budget, expenditure on salaries is estimated to increase by 3% while that on pension is seen increasing by 2%. Salaries and pension account for 50% of the estimated spending on defence in 2025-26. Note that expenditure on salaries could be an underestimate as detailed breakup for revenue expenditure on Rashtriya Rifles, National Cadet Corps, and the Agnipath cadre is not available. Capital outlay, which includes spending on acquisition of arms, ammunition, and other equipment, is estimated to increase by 13% in 2025-26 as compared to the revised estimate of 2024-25. However, capital outlay at the revised estimate stage in 2024-25 is expected to be 6% lower as compared to the budget estimate. Other expenses include spending on transportation, Rashtriya Rifles, Agnipath scheme, and other establishment expenditure of the Ministry.

Table 2: Defence budget allocation (Rs crore)

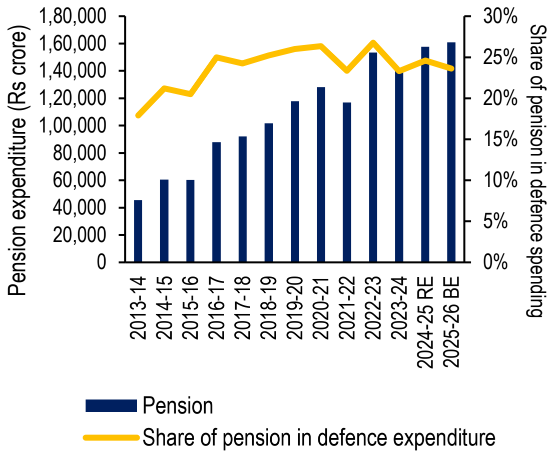
Major Head	Actuals 2023-24	RE 2024-25	BE 2025-26	% change 2024-25 RE to 2025-26 BE
Salaries	1,72,496	1,72,760	1,77,923	3%
Capital Outlay	1,64,559	1,70,485	1,92,388	13%
Pension	1,42,093	1,57,681	1,60,795	2%
Maintenance	87,722	86,191	90,923	5%
Other Expenses	42,634	53,943	59,181	10%
Total	**6,09,504**	**6,41,060**	**6,81,210**	**6%**

Note: Salaries include pay and allowances of the armed forces, auxiliary forces, civilians, research and development, and salary expenditure of the civil estimates. 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 2025-26; 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). It covers payment of service pension, gratuity, family pension, disability pension, commuted value of pension, and leave encashment. Between 2013-14 and 2025-26, defence pension has increased at an annual rate of 11%. This has been higher than the annual growth in total defence expenditure at 9%. Consequently, a substantial share of the defence budget has been spent on pension. In 2025-26, 24% of the total defence budget is estimated to be spent on pension.

Figure 4: Spending on defence pension



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

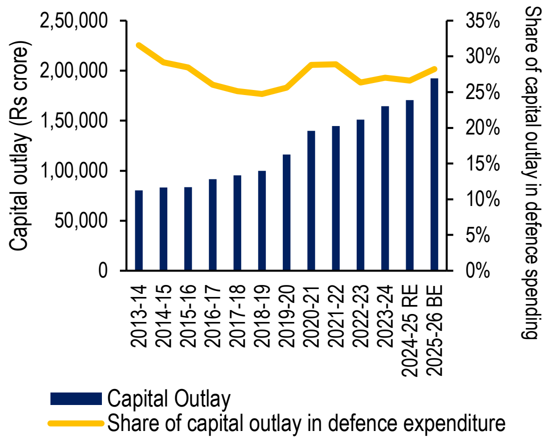
In November 2015, the government decided to implement One Rank One Pension (OROP) with benefits effective from July 1, 2014.[5] Under this framework, soldiers of the same rank who have retired after serving for the same length of service receive the same pension. This applies irrespective of the date and year of retirement. Pension under OROP is revised after every five years.[5]

The 15th Finance Commission had recommended that the Ministry should take steps to reduce salaries and pension liabilities.[6] In June 2022, the Union Cabinet approved the Agnipath scheme for recruitment to the armed forces.[7] Candidates recruited under the scheme will serve for four years and will form a separate rank under the armed forces, known as Agniveers. While the stated aim of the policy is to enhance the youthful profile of the armed forces, it may also help in reducing pension expenditure in the long term. This is because up to 25% of the personnel from each batch of Agniveers will be enrolled in regular cadre of the armed forces. The remaining Agniveers who are not absorbed into the regular cadre will leave the armed forces after four years with a Seva Nidhi package of Rs 11.7 lakh.[7] They will not be entitled to receive pension.

Capital outlay has remained below 30% of the defence budget

The share of the defence budget spent on capital outlay has decreased in recent years. 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 2024-25 less than 30% of the defence budget involved spending on capital outlay. In 2025-26, the Ministry is estimated to spend 28% of its budgeted expenditure on capital outlay.

Figure 5: Spending on capital outlay



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

In a memorandum submitted to the 15th Finance Commission, the Ministry of Defence had sought adequate funding through alternate sources for meeting its increasing requirements.[6] The Ministry had pointed out that budgetary allocations have declined over the years and are inadequate to fund large defence acquisitions.[6] 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).[6] The Ministry highlighted 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.[6] Allocation for capital acquisition has improved in recent years (see Page 2).

A long-standing recommendation for defence capital funding has been the creation of a non-lapsable fund. The interim budget for 2004-05 recognised the need for setting up such a fund as defence acquisitions often extend over multiple years.[8] It proposed the creation of a non-lapsable Defence Modernisation Fund with a corpus of Rs 25,000 crore. In 2017, the Standing Committee on Defence noted that creation of a non-lapsable defence capital fund account was imperative for improving the operational preparedness of the armed forces.[9] The 15th Finance Commission also recommended the creation of a Modernisation Fund for Defence and Internal Security which would be non-lapsable in nature.[6]

The central government has maintained that Constitutional provisions do not allow for creation of such a non-lapsable fund.[10] The central government has also opposed the creation of such a fund in the Public Account without a source of matching receipts from taxes, cesses, or other levies.[9] According to the Ministry of Defence, a separate mechanism is being worked out by the Ministry of Finance to operationalise a non-lapsable defence modernisation fund.[10] Note that the 15th Finance Commission had suggested four sources for financing the defence modernisation fund.[6] These sources include: (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.[6]

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 since 2019-20.

Table 3: 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.[11] The Committee observed that inadequate allocation for committed liabilities could lead to default on contractual obligations.[11] It observed that if India were to default on payments, it will not go down well in international markets.[11] The Committee has recommended the Ministry to create a dedicated fund for committed liabilities and new schemes.[12] 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.[12]

Analysis of service budgets

In 2025-26, revenue expenditure on the army is estimated to increase by 5% over the revised estimate of 2024-25 while for air force and navy it is seen to be increasing by 8% each. Note that revenue expenditure on pension of the armed forces is higher by around Rs 8,000 crore in 2025-26 (see Table 4). This is due to a recovery of Rs 8,000 crore from deposit account to meet pension expenditure in 2025-26. However, its disaggregated impact on the pension expenditure of the three defence services is not provided.

Table 4: Budget allocation for armed forces (Rs crore)

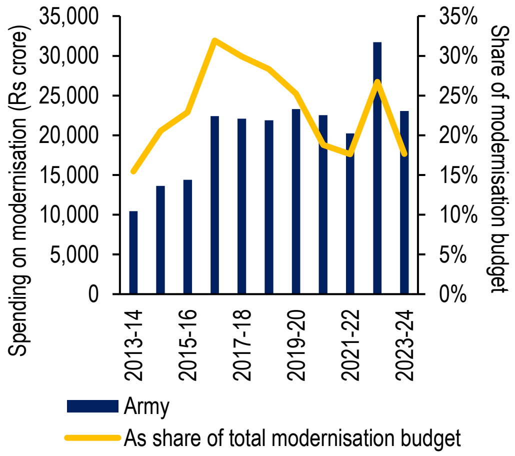
Major Head	Actuals 2023-24	RE 2024-25	BE 2025-26	% change 2024-25 RE to 2025-26 BE
Army Revenue	3,15,849	3,35,295	3,51,345	5%
Navy Revenue	45,420	48,320	52,290	8%
Air Force Revenue	66,803	65,744	71,254	8%
Capital Outlay	1,44,259	1,48,386	1,68,565	14%
Other	37,173	43,315	37,756	-13%
Total	**6,09,504**	**6,41,060**	**6,81,210**	**6%**

Note: Army includes Jammu and Kashmir Light Infantry and Navy includes Coast Guard. Capital Outlay includes capital spending on coast guard. RE is revised estimate and BE is budget estimate.
Sources: Expenditure Budget, Union Budget 2025-26; PRS.

Army

The Army is the largest of the three forces, both in terms of its budget as well as the number of personnel. As of January 2022, the Army had an authorised strength of around 13 lakh personnel (including officers and soldiers).[13] Due to the large number of personnel, Army has consistently spent over 80% of their budget on revenue items.

Figure 6: Spending by Army on modernisation



Sources: Union Budget Documents; PRS.

The Standing Committee on Defence (2023) was informed by Army representatives that modern armed forces should have 30% new generation equipment, 40% current generation equipment, and 30% older generation equipment.[14] Against this, the Indian Army currently has 15% new generation equipment, 40% current generation equipment, and 45% older generation equipment.[14] The Committee recommended that the budget allocated to the Army should cater to the induction of state-of-the-art weapon systems. The Committee also recommended increasing Army's capital budget to ensure India's deterrence capacity in dealing with two hostile neighbouring countries.[14]

Modernisation involves acquisition of state-of-the art technologies and weapons systems to upgrade and augment defence capabilities of the forces. According to the Ministry, more than 500 schemes have been planned for the Army to acquire potent fighting capability over the next 15 years.[15] These include acquisition schemes for battlefield awareness, command and control, and sustenance and support.[15] The government is also implementing a program for the indigenous production of ammunition for the Army.[15] As of December 2024, around 90% of the Army's ammunition variants have been indigenised.

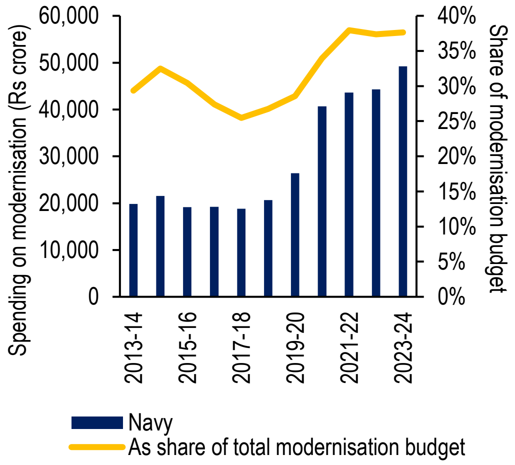
Provision of clothing and equipment: Troops in high-altitude areas such as Siachen are provided with high-altitude clothing and equipment. This enables them to withstand the harsh weather conditions. CAG (2020) had observed delay of up to four years in procuring such clothing and equipment.[16] The audit also observed an acute shortage of snow goggles. Troops were also not issued multi-purpose boots from November 2015 to September 2016.[16] Old versions of various items such as face mask, jacket, and sleeping bags were provided to the troops.[16] Within the defence budget, expenditure on stores indicates the spending on replacement of weapons, ration, fuel, clothing and other necessities. In 2025-26, the central government has allocated Rs 28,654 crore on expenditure towards stores which is 14% of the Army's budgeted revenue expenditure.

Navy

There are two types of threats to India's maritime peace and security which the Navy seeks to mitigate.[17] These are threats from: (i) traditional sources such as China and Pakistan and (ii) non-traditional sources such as piracy and drug trafficking.[17] There has been a significant increase in Navy's expenditure on modernisation since 2020-21. Currently, there are 65 ships and submarines under construction which will be inducted into the Indian Navy.[17]

Certain acquisitions by the Navy have witnessed significant delays. For instance, under Project-75, six submarines were to be inducted in the Navy by December 2017.[17] After multiple extensions, the timeline for inducting these submarines was extended to December 2024.[17] The final submarine was commissioned in January 2025.[18] There is also a shortfall of planes and helicopters with the Navy for reconnaissance and transport.[14] The Standing Committee on Defence (2023) recommended that planned procurements should be completed as per the schedule to boost India's naval presence in the Indian Ocean Region.[14]

Figure 7: Spending by Navy on modernisation

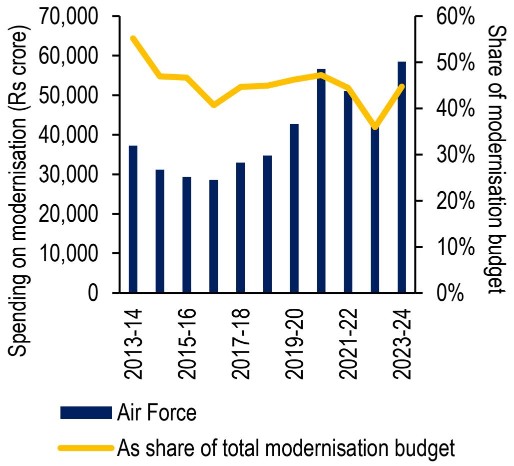


Sources: Union Budget Documents; PRS.

Air Force

The Air Force has consistently accounted for the largest share of the spending on modernisation by the three forces. However, the funds allocated for modernisation may not be sufficient for the needs of the Air Force.

Figure 8: Spending by Air Force on modernisation



Sources: Union Budget Documents; PRS.

Delay in developing indigenous fighter aircraft: In 1983, the central government had sanctioned the design, development, and manufacture of a light combat aircraft (LCA) over eight to ten years.[19] The LCA was to replace the ageing and obsolete MiG-21 and MiG-27 fleets with the Air Force.[19] Due to various technical issues the timeline of the project was extended several times. The first version of the LCA was inducted into the Air Force in 2016.[20]

The authorised strength of the Air Force is currently 42 fighter squadrons.[14] As against the authorised strength, the Air Force currently has 31 active fighter squadrons.[14] The Standing Committee on Defence (2023) noted that the Air Force needed at least 180 fighter aircrafts under the present circumstances.[14] The strength of the fighter squadron may further be depleted once the ageing fleets of MiG 21 and other aircrafts are phased out from service.

The Standing Committee noted that there has been a significant delay in the supply of LCA from Hindustan Aeronautics Limited. It recommended that if there are delays in the indigenous manufacture of multi-role fighter aircraft, the government should consider over the counter purchase of fifth generation fighter aircraft.[14] The Committee further noted that the capital funding provided to the Air Force was insufficient for buying large number of fighter aircrafts. It recommended that procurement of aircrafts should not be delayed due to lack of adequate funds.[14]

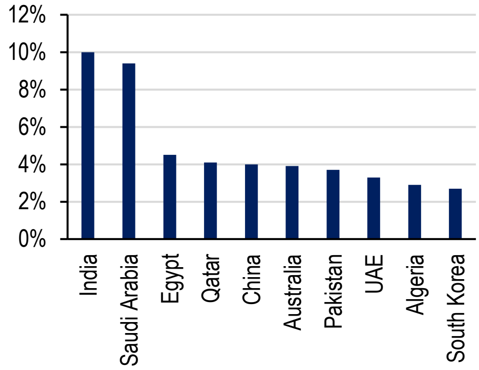
The Air Force has also signed a contract worth over Rs 5,000 crore with Hindustan Aeronautics Limited for procuring engines for the MiG-29 aircraft.[15] These engines seek to sustain the operational capability of the MiG-29 fleet for the next 15 years.[15] The CAG (2024) has observed delays in the upgradation of aircrafts in the past. In March 2008, the Ministry had signed a contract for upgrading a certain class of aircraft.[21] As against the original schedule of completing the upgradation by 2014, it could only be completed by 2022.[21]

Issues to consider

India continues to be the largest importer of arms in the world, however, share of foreign sources in defence modernisation reduces

According to data maintained by SIPRI, India was the largest importer of arms between 2013 and 2023, followed by Saudi Arabia, Egypt, and Qatar. India accounted for 10% of the total volume of arms imported in the period from 2013 to 2023. In 2023-24 and 2024-25 (up to September 2024), 271 capital acquisition contracts were signed for the defence forces out of which six contracts were signed with foreign vendors.[22] These vendors were from Russia and USA and the major items of import included assault rifles and missiles.[22]

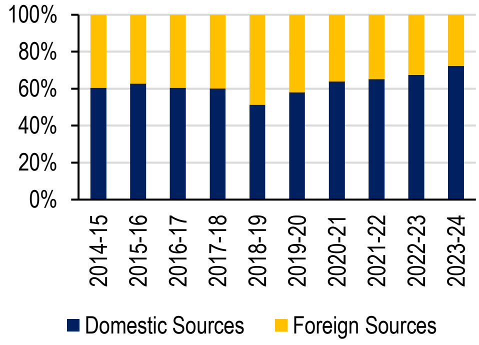
Figure 9: Top 10 importers of arms between 2013-2023 (as % of global imports)



Sources: SIPRI; PRS.

Between 2014-15 and 2022-23, the defence forces spent over 30% of their total modernisation expenditure on procurement from foreign sources. In 2023-24, 28% of the total modernisation expenditure was incurred on procurement from foreign sources. The Standing Committee on Defence (2023) had recommended the Ministry to take measures so that the public and private sector can domestically manufacture defence equipment.[23] This can involve extending concessions to domestic companies at various levels so that they can cater to domestic defence needs and also improve exports of such equipment.[23] The Estimates Committee (2018) had 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.[24]

Figure 10: Share of domestic and foreign sources in defence modernisation expenditure



Sources: 3rd Report, Standing Committee on Defence, December 17, 2024; PRS.

Acquisition of defence equipment: According to the Ministry, the acquisition of defence equipment can take between 19 to 26 months.[22] The Standing Committee (2024) noted that this was a stretched timeline in terms of the strategic risks involved.[22] This can lead to the technology, that is being acquired, becoming obsolete which can adversely impact India's security. Changing geopolitical relations can also impact acquisitions through traditional channels and allies.[22] The Committee recommended that the Ministry should identify ways to accelerate defence procurement.[22]

The Defence Acquisition Procedure (DAP), 2020 seeks to enhance indigenous content in the manufacturing of defence equipment.[25] 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.[25] In November 2023, the DAP was amended to provide for at least 50% indigenous content (for material, components, and software) in all procurement categories.[26] According to the Ministry, the DAP is likely to be revamped in 2025 to make it more amenable for requirements of the defence services.[15]

For reducing imports, the Ministry has also released five positive indigenisation lists.[27] These lists include 5,012 defence equipment which are placed under import embargo in a staggered manner. According to the Department of Defence Production, so far, 61% of the items notified across the five lists have been indigenised.[27] Between January and November 2024, the Defence Acquisition Council and the Defence Procurement Board approved 40 capital acquisition proposals.[15] These proposals are worth over four lakh crore rupees and around 95% of this amount will be procured domestically.[15] Some of the items which have been approved for procurement include: (i) combat vehicles, (ii) Dornier-228 aircraft, (iii) anti-tank mines, and (iv) air defence radars.[15]

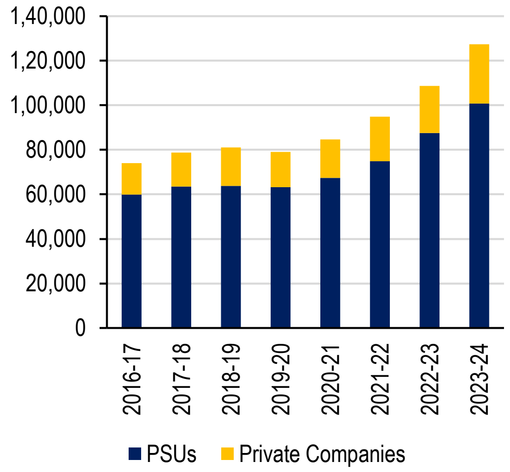
Defence production increases, however, issues reported with quality

India's domestic defence production has increased at an annual rate of 8% between 2016-17 and 2023-24. In 2023-24, domestic defence production was Rs 1.27 lakh crore. The share of PSUs in domestic defence production has consistently been around 80% since 2016-17. The Ministry aims to achieve indigenous defence production of three lakh crore rupees by 2028-29.[15,28] To achieve this target, domestic defence production would have to increase by an annual rate of 19% over 2023-24. Till February 3, 2025, defence production was Rs 55,946 crore in 2024-25.

In 2021, the production units of the Ordnance Factory Board were converted into seven new defence PSUs.[29] These seven PSUs are engaged in the production of different items for the defence services such as: (i) ammunition and explosives, (ii) vehicles, (iii) weapons and equipment, and (iv) parachutes. Between 2021-22 and 2024-25, the Ministry has provided Rs 5,757 crore to these DPSUs for modernisation and another Rs 5,000 crore as emergency authorisation fund.[30] Financial assistance to the new DPSUs will be provided till 2026-27.[30]

In the past, issues have been observed with the quality of equipment produced by ordnance factories. In a CAG audit, the Army reported a significant number of accidents involving certain small arms manufactured by the ordnance factories between 2015-16 and 2019-20.[31] The nature of defects observed in the accidents were due to quality issues with components and non-conformity of input material with specifications.[31] CAG also noted that the small arms factories operated with high overhead costs which increased their unit production costs.[31] Between 2016-17 and 2018-19, the armed forces had to rely on importing small arms as research and development projects for these weapons failed to meet their objectives.

Figure 11: India's defence production (Rs crore)



Source: Department of Defence Production; PRS.

Defence exports have increased but India's share in global exports miniscule

Between 2016-17 and 2023-24, defence exports have increased at an annual growth rate of 46%. This has largely been driven by the increase in defence exports by private companies (see Table 5). Note that the growth in India's defence exports has happened over a low base in 2016-17 when India exported defence goods worth Rs 1,522 crore.[32] In 2023-24, India's defence exports were at Rs 21,083 crore.[33] India exports items such as missiles, radars, armoured vehicles, and ammunitions to more than 85 countries.[32]

Table 5: Private sector plays major role in defence exports (Rs crore)

Year	Exports by Private Companies	Total Exports	Share of Private Companies
2016-17	194	1,522	13%
2017-18	3,163	4,682	68%
2018-19	9,813	10,746	91%
2019-20	8,008	9,116	88%
2020-21	7,271	8,435	86%
2021-22	5,965	12,815	47%
2022-23	9,051	15,918	57%
2023-24	13,119	21,083	62%

Sources: Department of Defence Production; PRS.

The central government aims to achieve defence exports worth Rs 35,000 crore by 2025 and Rs 50,000 crore by 2028-29.[34,35] For achieving defence exports worth Rs 35,000 crore by the end of 2024-25, exports would have to grow by 66% over 2023-24. While defence exports have increased, India accounts for a miniscule share of global volume of arms exports. According to SIPRI, between 2016 and 2023, India accounted for 0.2% of volume of arms exported globally. In this period, USA, Russia, and France accounted for 39%, 15%, and 9% of the total volume of global arms exports.[36]

In the past, the need for DPSUs to invest more in research and development has been flagged.[37] This would help them to develop indigenous products and also improve their export potential.[37] DPSUs also face significant competition in exports. Some of the challenges faced by DPSUs include: (i) price competition in international markets, (ii) rapid technological advancements, and (iii) supply chain disruptions due to geopolitical events.[37]

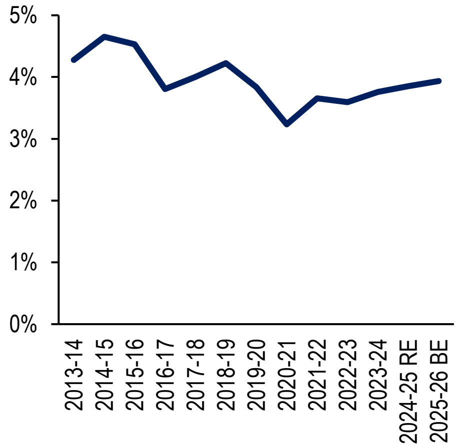
Share of defence budget spent on R&D has decreased in recent years; several projects marred by delays

The Defence Research and Development Organisation (DRDO) is involved in the production of strategic and tactical military hardware in areas such as aeronautics, armaments, combat vehicles, and missiles.[38] In recent years, the share of the defence budget allocated for research and development has decreased. In 2014-15, 4.7% of the total defence budget was allocated for research and development. In 2020-21, this ratio decreased to 3.2% and is seen to be increasing to 3.9% as per budget estimates of 2025-26. Between 2013-14 and 2025-26, spending on defence related research and development is estimated to increase at an annual rate of 8%.

The Standing Committee on Defence (2023) noted that research and development is a robust and modern defence mechanism.[39] This involves providing funds for in-house projects of DRDO along with outsourcing of defence research and development. The Committee recommended providing adequate funds to DRDO for its ongoing and future projects.[39]

In addition to decrease in research and development funding, several projects undertaken by DRDO have been marred by delays. In an analysis of 178 DRDO projects, CAG observed that 119 projects did not adhere to the original timeline.[38] In 49 projects, the additional time taken was more the original schedule which was envisaged. Projects have been declared as successful despite them not meeting one or more key objectives and parameters.[38] The Standing Committee on Defence noted that delay in completion of DRDO projects has become frequent. These lead to cost overruns and deprive the armed forces of critical capabilities.[38] The Committee recommended: (i) revisiting DRDO's internal review mechanisms, and (ii) ensuring the presence of technical personnel in the review mechanism.[39]

Figure 12: Share of defence budget spent on R&D (in %)



Source: 42nd Report; Standing Committee on Defence, 17th Lok Sabha; Union Budget Documents (various years); PRS.

Measures to promote research: DRDO has undertaken certain measures to promote indigenous defence research. Under the Technology Development Fund, grants are provided to Indian companies and institutions to develop defence and dual use technology.[40] So far, 78 projects have been sanctioned under the scheme involving a commitment of Rs 333 crore.[15] Other initiatives by DRDO to support domestic research include: (i) free access to DRDO patents for Indian industries, (ii) transfer of technology to private and public enterprises, and (iii) support to academia for research in certain identified areas.[15]

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