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STANDING COMMITTEE ON DEFENCE
(2018-19)

(SIXTEENTH LOK SABHA)

MINISTRY OF DEFENCE

[Action Taken by the Government on the Observations/Recommendations contained in the Forty-second Report (16th Lok Sabha) on 'Demands for Grants of the Ministry of Defence for the year 2018-19 on Capital Outlay on Defence Services, Procurement Policy and Defence Planning (Demand No. 21)']

FORTY-EIGHTH REPORT

LOK SABHA SECRETARIAT

NEW DELHI

January, 2019 / Pausa, 1940 (Saka)

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Presented to Lok Sabha on 7.1.2019

Laid in Rajya Sabha on 7.1.2019

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SHRI KALRAJ MISHRA - CHAIRPERSON

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4. Shri Shrirang Appa Barne
5. Col Sona Ram Chaudhary VSM (Retd)
6. Shri H D Devegowda
7. Shri Jayadev Galla
8. Shri Sher Singh Ghubaya
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15. Shri A P Jithender Reddy
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17. Smt Mala Rajya Laxmi Shah
18. Shri Dharambir Singh
19. Smt Pratyusha Rajeshwari Singh
20. Shri Rakesh Singh

Rajya Sabha

21. Shri K R Arjunan
22. Dr Ashok Bajpai
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25. Shri Soumya R Patnaik
26. Shri G V L Narasimha Rao
27. Shri Sanjay Raut
28. Smt Ambika Soni
29. Shri Ram Nath Thakur
30. Lt. Gen. Dr D P Vats

* Shri Thupstan Chhewang resigned w.e.f. 13.12.2018

SECRETARIAT

1.	Smt. Kalpana Sharma	-	Joint Secretary
2.	Shri Srinivasulu Gunda	-	Director
3.	Smt. Jyochnamayi Sinha	-	Additional Director
4.	Smt. Preeti Negi	-	Senior Committee Assistant

INTRODUCTION

I, the Chairperson of the Standing Committee on Defence (2018-19), having been authorised by the Committee, present this Forty-eighth Report on Action Taken by the Government on the Observations/Recommendations contained in the Forty-second Report (16th Lok Sabha) on 'Demands for Grants of the Ministry of Defence for the year 2018-19 on Capital Outlay on Defence Services, Procurement Policy and Defence Planning (Demand No. 21)'.

2. The Forty-second Report was presented to Lok Sabha / laid in Rajya Sabha on 13.3.2018. It contained 46 Observations/Recommendations. The Ministry of Defence furnished Action Taken Replies on all the Observations/Recommendations in September, 2018.

3. The Report was considered and adopted by the Committee at their Sitting held on 4.1.2019.

4. For facility of reference and convenience, Observations/Recommendations of the Committee have been printed in bold letters in the Report.

5. An analysis of action taken by the Government on the Observations/Recommendations contained in the Forty-second Report of the Standing Committee on Defence (16^{th} lok Sabha) is given in Appendix II.

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New Delhi;
<u>4 January, 2019</u>
14 Pausa, 1940 (Saka)

Kalraj Mishra,
Chairperson,
Standing Committee on Defence

REPORT

CHAPTER I

This report of the Standing Committee on Defence deals with action taken by the Government on the Observations/Recommendations contained in the Forty-second Report (16th Lok Sabha) on 'Demands for Grants of the Ministry of Defence for the year 2018-19 on Capital Outlay on Defence Services, Procurement Policy and Defence Planning (Demand No. 21)' which was presented to Lok Sabha/ laid in Rajya Sabha on 13 March, 2018.

2. The Committee's Forty-second Report (16th Lok Sabha) contained 46 Observations/Recommendations on the following aspects:-

Para No.	**Subject**
1	Allocations under Capital Budget Head
2-7	Analysis of Capital Budget allocated to the services for 2018-19
8	Ratio of Capital and Revenue Outlay
9-10	Underspending
11-15	Capital Acquisitions - Creation of 'Roll on' and 'Non-Lapsable Fund'
18	Committed Liabilities and New Schemes
19-20	Defence Procurement Procedure 2016
21-22	Long Gestation Period in Procurement
23	Probity, Accountability and Transparency in Defence Procurement
24-26	Dependence on foreign suppliers for military hardware
27-28	Import content in equipment produced, and developed by DRDO, Ordnance Factories and DPSUs
29-32	Make-in-India policy and Self Reliance in Defence production
33	Strategic Partnership for various platforms from the Private Sector Industry
34-38	Offset Clause
39	Foreign Direct Investment (FDI)
40-42	Defence Planning
43-44	Long Term Integrated Perspective Plan (LTIPP)
45-46	Married Accommodation Project (MAP)

3. **Action Taken Replies have been received from the Government in respect of all the Observations/Recommendations contained in the Report. The replies have been examined and categorised as follows:-**

(i) (a) Observations/Recommendations which have been accepted by the Government:

Para Nos. 8, 9, 10, 21, 22, 23, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45 and 46

(26 Recommendations)

These may be included in Chapter II(A) of the Draft Report.

(b) Observations/Recommendations which have been accepted by the Government and to be commented upon:

Para Nos. 24, 25 and 26

(03 Recommendations)

These may be included in Chapter II(B) of the Draft Report.

(ii) Observations/Recommendations which the Committee do not desire to pursue in view of the replies received from the Government:

(02Recommendations)

Para Nos. 19 and 20

(iii) Observations/Recommendations in respect of which replies of Government have not been accepted by the Committee and which require reiteration and to be commented upon:

Para Nos. 1, 2, 3, 4, 5, 6, 7, 11, 12, 13, 14, 15, 16, 17 and 18

(15 Recommendations)

These may be included in Chapter IV of the Draft Report.

(iv) Observations/Recommendations in respect of which Government have furnished interim replies:

Nil may be shown in Chapter V of the Draft Report **(00 Recommendation)**

4. **The Committee desire that the Ministry's response to the comments made in Chapter I of this Report be furnished to them at the earliest and in any case not later than three months of the presentation of this Report.**

A. <u>Allocations under Capital Budget Head</u>

Recommendation (Para No. 1)

5. The Committee had recommended as under:

'The Committee note that an amount of Rs. 93,982.13 crore has been allocated to the Ministry of Defence for Capital Outlay on Defence Services in Budget Estimates (BE) 2018-19. An amount of Rs. 74,115.99 crore and Rs. 9,318.05 crore, respectively, has been allocated for Capital Acquisition (including DGOF supplies) and Land and Works of the three Services (including Married Accommodation Projects) for 2018-19. An amount of Rs. 10,548.09 crore has been granted for Defence Research and Development Organisation (DRDO), Directorate General of Ordnance Factories (DGOF) and other Defence Departments for 2018-19. The allocation at BE for 2017-18 was Rs. 86,488.01 crore, which remained same at Revised Estimates (RE) stage. The difference between BE 2018-19 and BE 2017-18 is Rs. 7,494.12 crore. The Committee opine that keeping in view the likely cost escalation due to inflation, this increase of Rs. 7,494.12 crore from last year is quite minimal to meet requirements of Capital acquisition and other works planned for 2018-19. Therefore, the Committee would like the Ministry of Defence to strongly put its case before the Ministry of Finance for adequate allocation of funds, commensurate with the requirement of Modernization and acquisition plans for 2018-19.

6. The Ministry in its Action Taken Reply has stated as under:

'This Ministry had forwarded the projected requirements made by the Services amounting to Rs. 1,72,203.30 Crore under Capital Budget for FY 2018-19 to M/o Finance for favourable consideration. The said projected amount included amount of Rs. 1,10,043.78 Crore for Committed Liability and of Rs. 31,434.88 Crore for New Schemes. In response, M/o Finance conveyed ceiling of Rs. 93,982.13 Crore under Capital Budget. This Ministry is bound by the budgetary ceilings conveyed by M/o Finance. The reduced allocations were passed on uniformly among all the Services. The Committee may however be assured that projections / requirements of the Services under Capital Head will be forwarded to Ministry of Finance for favourable consideration at Supplementary/RE stage.'

7. The Committee note that the Ministry of Defence projected requirement of Rs. 1,72,203.30 Crore, which included Rs. 1,10,043.78 Crore for Committed Liability and Rs. 31,434.88 Crore for New Schemes, under Capital Budget for Financial Year 2018-19. However, Rs. 93,982.13 Crore only were allocated under Capital Budget for FY 2018-19 by the Ministry of Finance. The allocation under Capital Budget not only fell far short of projections by MoD but the allocation does not even cover committed liabilities. The shortfall in Capital Budget *vis-a-vis* the committed liability was Rs. 16,061.65 Crore. The Committee fail to understand the reasoning behind this allocation where the amount allocated under Capital Budget 2018-19 does not even fulfill the Ministry of Defence's obligations towards committed liabilities. The Committee apprehend that reduced allocation might lead to postponement of payments to its vendors for committed liabilities which in turn may result in litigation and additional interest burden. Moreover, the shortfall in funds leaves no scope for providing any impetus to modernization process for the Defence services. The Committee, therefore, had fervently urged the Ministry to ensure that the allocations to the Services under the Capital Head be appropriately increased at the Revised estimate stage so as to enable our Services to fulfill their Committed Liabilities and meet the requirements of exemplary operational preparedness.

The Committee have been apprised that the Ministry is bound by the budgetary ceiling conveyed by Ministry of Finance. Therefore, the reduced allocations have been passed on uniformly among all the Services. This reflects the compromises made in the modernization process of Defence services thereby negatively impacting their capabilities. Now the Ministry will forward the requirements of the services under Capital Head to the Ministry of Finance for favourable consideration at supplementary/Revised Estimates stage. The Committee strongly feel that this is an annual routine nature of exercise done by the Ministry of Defence. The Committee desire that the Ministry of Defence should proactively take up this matter at Ministerial level to avoid default in payment of committed liabilities and the results yielded in this respect may be apprised to them while furnishing further action taken replies.

B. Analysis of Capital Budget allocated to the Services for 2018-19

Recommendation (Para Nos. 2-7)

8. The Committee had recommended as under:

'The details of Service-wise projections and allocations made under Capital and Revenue heads for 2018-19 are as follows:

(Rs. in Crore)

Service	Revenue		Capital		Total Allocation (Revenue + Capital)
	Projection	Allocation	Projection	Allocation	
Army	1,51,814.73	1,27,059.51	44,572.63	26,815.71	1,53,875.22
Navy	20,188.25	16,618.88	35,695.41	20,003.71	36,622.59
Joint Staff	3,559.50	2,952.49	2,237.03	844.45	3,796.94
Air Force	35,260.79	28,821.27	77,694.74	35,770.17	64,591.44

The Committee observe there is huge shortfall in projected and allocated amounts in Capital head for the Services in 2018-19. The shortfall stands at Rs.17,756.92 crore, Rs.15,691.70 crore,Rs.1,392.58 crore and Rs.41,924.57 crore for Army, Navy, Joint Staff and Air Force, respectively.

The Vice Chief of Army Staff (VCOAS), in his candid submission before the Committee, claimed that the marginal increase in Capital Budget allocation for Army had dashed their hopes as it was barely enough to cater to the rise in expenses on account of inflation, and did not even cater for the taxes. He further stated that allocation for modernization in 2018-19 was insufficient to cater for Committed Liabilities, ongoing schemes, 'Make in India' projects, infrastructural development, policy of strategic partnership of foreign and Indian companies and procurement of arms and ammunition.

The Committee were particularly alarmed to note from his oral evidence that although the Ministry of Defence had delegated financial powers upto Rs.14,097 crore to the VCOAS towards security related issues, there was no separate allocation for this in the Capital Budget allocation in 2018-19. Hence, the Ministry is left with no other option but to reduce resources for security of military stations or compromise on other acquisitions.

In their Power-point presentation before the Committee, the representatives of Navy also enunciated the impact of low allocations of Capital budget for Navy viz constrained progress of New Schemes and ability to conclude contracts, delay in induction of critical capabilities and attendant cost overruns, impact on progress of infrastructure projects and mitigation of shortage of accommodation, and setback to pace of modernization of Indian Navy.

The Committee are aghast to note this dismal scenario where the representatives of the Services have themselves frankly explained the negative repercussions on our Defence preparedness due to inadequate allocation in Capital head. Therefore, the Committee fervently urge the Ministry of Defence to ensure that the allocations to the Services be suitably enhanced at the Revised estimate stage so as to enable our Services to meet the requirements of highest level of operational readiness. The Committee, in wake of recent attacks on military stations and accommodations, recommend that separate budget may be provided to the Services for ensuring security of the military establishments.'

9. The Ministry in its Action Taken Reply has stated as under:

'The recommendation of the Committee has been noted and it may be assured that projections/ requirements of the Services under Capital Head will be forwarded to Ministry of Finance for favourable consideration at RE 18-19 stage. Further, the available resources will be optimally utilized based on prioritized requirements of the Services and all efforts will be made to ensure that critical requirements of Services are duly addressed.'

10. The Committee in their 42nd Report had observed huge gap between the amounts projected and allocated for Capital Head for the Services during the year 2018-19. The Committee were also perturbed to observe the submission by the three Services' representatives on the negative impact due to the marginal increase in allocation at BE 2018-19. In this regard the Ministry in its action taken replies has stated that the matter would be forwarded to the Ministry of Finance for favourable consideration at RE stage of 2018-19 and the available resources would be optimally utilized based on priorities. However, keeping in view the past trends of allocations at RE stage, the Committee suggest that the issue may be taken up at the highest echelons of the Government to have positive outcome thereon. The Committee may be apprised of the response of the Ministry of Finance.

The Committee, in the wake of past attacks on military stations and accommodations, also had recommended in their original Report that separate budget be provided to the Defence Services for ensuring security of the military establishments. However, the Ministry's Action Taken reply is silent on this aspect. The Committee desire that action taken regarding separate budgetary allocation for security of military establishments may be intimated to them at the earliest.

C. Capital Acquisitions - Creation of 'Roll on' and 'Non Lapsable Fund'

Recommendation (Para Nos. 11-15)

11. The Committee had recommended as under:

'The Committee have, in their reports presented earlier, emphasised on the allocations being of 'Roll on' and 'Non-Lapsable' in nature. However, The Ministry of Defence in the information furnished to the Committee on the subject matter in the past had, in general, not favoured the proposal for constituting a Non-lapsable Defence Capital Fund Account, ostensibly on the plea that there had been no occasion in the last five years where any substantial amounts were available as surplus for rolling over. The Committee are glad to note that the Ministry of Defence reviewed its stated position in 2017 and admitted that the utility of creation of a non-lapsable, roll over fund for Capital could not be completely negated as the same would help in eliminating the prevailing uncertainty in providing adequate funds for various defence capability development and infrastructure projects.

As per the information furnished by the Ministry, a proposal for creation of Non-lapsable Capital Fund Account was sent to the Ministry of Defence after obtaining approval of Hon'ble Raksha Mantri, but the same was not agreed to by the Ministry of Finance stating following reasons:

- Adequate budget provision is made available to Ministry of Defence to finance the capital requirements of Defence Services;
- Balances available in the non-lapsable funds will not be available to Ministry of Defence automatically. It requires Parliament's sanction through Demands for Grants of Ministry of Defence for being spent on Defence Capital Expenditure. Hence, mere creation of non-lapsable funds yields no additional advantage to Ministry of Defence and could rather induce complacency in incurring expenditure;
- Funds in the Public Account are generally created with dedicated receipts for being financed. In this case, there are no such dedicated receipts for financing the corpus of the reserve fund proposed to be created in the Public Account;
- Creating a corpus out of general revenues could lead to unnecessary parting of funds and make them unavailable for other essential expenditure. Thus, non- lapsable funds result in sub-optimal utilization. Standing Committee on Finance (16thLok Sabha), in its 2nd Report on Demands for Grants of Ministry of Finance for the year 2014-15, recommended that the unutilized funds/funds kept idle for more than two years may be transferred to Consolidated Fund of India so that these funds could be utilized for other prioritized schemes; and

- Moving general revenue out of Consolidated Fund and parking in corpus fund is against the spirit being Article 266(1) of the Constitution. Giving go ahead in one case could raise competing demands from other Ministries.

The Committee are disappointed to note that the Ministry of Finance has not agreed to the proposal of creating a 'Non-lapsable Defence Capital Fund Account. The Committee would like to draw the attention of the Ministry of Finance to the fact that in the last few years, the allocations for the Ministry of Defence under the 'Capital' head have inevitably been lesser than the projection. To illustrate, against a projection of Rs.1,60,199.81 crore for Capital Budget in 2018-19, only Rs.83,434.04 crore have been allocated at the BE 2018-19 for the Defence Services (Army, Navy, Joint Staff and Air Force), a shortfall of Rs.76,765.77 crore. The representatives of the Ministry of Defence and the Services, during oral evidence, also deposed about the depressing scenario of our Defence sector due to non-allocation of adequate funds in Capital Budget for 2018-19.Therefore, the Committee feel that the contention of the Ministry of Finance that the desired objectives of Ministry of Defence towards meeting its contractual liabilities, acquisitions and defence modernization can be achieved through normal budgetary mechanism is not corroborated by the facts.

Further, Defence procurement and acquisition is a complicated process involving long gestation periods and funds allocated for capital acquisition in a particular financial year are not necessarily consumed in that year and ultimately have to be surrendered by the Ministry of Defence. The intention of the Committee in recommending having a Non-Lapsable Capital fund account for Defence modernization is primarily for ensuring that the money allocated for a particular item is spent on the specified item only, not necessarily in the same Financial year. The Ministry of Finance needs to note that creation of Non-Lapsable Fund meant for the Ministry of Defence is not to cater for facilities, perks or social schemes but an imperative need for enhancement and heightened operational preparedness of our Defence Forces. Hence, there would be no issue relating to raising competing demands from other Ministries.

The Ministry of Finance gave the reasoning that balances available in the non-lapsable fund will not be available to Ministry of Defence automatically as it requires Parliament's sanction through Demands for Grants of Ministry of Defence for being spent on Defence Capital Expenditure. Further, moving the general revenues out of the Consolidated Fund and parking in a ‘corpus fund’ is against the spirit of Article 266(1) of the Constitution. The Committee, in this context, would like to emphasize that even if certain financial rules and regulations have to be amended for creation of a 'Non-lapsable Defence Capital Fund Account 'to meet the requirements of our Defence forces, it can, and should be done in the interest of the Nation without getting embroiled in complicated financial discourse. Moreover, creation of such a fund would also ensure that procurement of equipments, arms and ammunition for our Defence Forces which are in the pipeline and in the stage of fructification is not delayed because of lack of money and due to technicalities of rules and regulations. Hence, the

Committee would like the Ministry of Finance to shun their rigid stance on the issue of creation of a 'Non-lapsable Defence Capital Fund Account' and come up with a solution in consultation with the Ministry of Defence and apprise the Committee in due course.'

12. The Ministry in its Action Taken Reply has stated as under:

'As per recommendations of the Committee, the matter has been taken up with Ministry of Finance.'

13. The Committee, in their Reports presented on earlier occasions, have relentlessly advocated for making the Capital allocations for Defence acquisition on 'Roll on' and 'Non-Lapsable' basis. They presented their Thirty-Second Report (Sixteenth Lok Sabha) on 'Creation of Non-Lapsable Capital Fund Account, instead of the Present System' to Lok Sabha on 10th August, 2017 and laid in Rajya Sabha on 9th August, 2017. The Report on action taken by the Government on the Observations/Recommendations contained in the Thirty-Second Report is also being presented in Winter Session of this Lok Sabha.

14. The gist of the Committee's recommendations in regard to creation of Non-Lapsable Defence Capital Fund Account, as contained in their earlier Reports presented, is given below:

a) **As per Ministry of Defence's own admission, utility of creation of a non-lapsable, roll over fund for Capital cannot be completely negated as the same would help in eliminating the prevailing uncertainty in providing adequate funds for various defence capability development and infrastructure projects;**
b) **Defence procurement and acquisition is a complicated process involving long gestation periods and funds allocated for capital acquisition in a particular financial year are not necessarily consumed in that year and ultimately have to be surrendered by the Ministry of Defence. The intention of the Committee in recommending having a Non-Lapsable Capital fund account for Defence modernization is primarily for ensuring that the money**

allocated for a particular item is spent on the specified item only, not necessarily in the same Financial year; and

c) **Creation of such a fund would also ensure that procurement of equipments, arms and ammunition for our Defence Forces which are in the pipeline and in the stage of fructification is not delayed because of lack of money due to technicalities of rules and regulations.**

15. The Committee also noted the reluctance of the Ministry of Finance to create 'Non-Lapsable Capital Fund' *inter alia* due to unnecessary parking of funds making them unavailable for other essential expenditure leading to suboptimal utilization of resources, absence of dedicated receipts to create a reserve fund, violation of the spirit of article 266(1) of the Constitution, competing demands from other Ministries, provision of adequate resources to defence capital needs, etc.. However, referring to the existence of Non-Lapsable Central Pool of Resources for the North Eastern Region, the Committee favoured creation of Non- Lapsable Defence Capital Fund. The very fact that the allocation of resources under Capital Budget for the year 2018-19 (BE) which is not even sufficient to cover committed liabilities leaving alone new projects and other capital requirements strengthens the Committee's case for creation of such a fund. The Committee, therefore, would like the Ministries of Defence and Finance to make earnest and fruitful efforts for creation of Non-Lapsable Defence Capital Fund Account and apprise the Committee in due course.

D. Committed Liabilities and New Schemes

Recommendation (Para Nos. 16-18)

16. The Committee had recommended as under:

'Committed Liability refers to payments anticipated during a financial year in respect of contracts concluded in previous years. Under the Defence Services Estimates, Committed Liabilities constitute a significant element in respect of the Capital acquisition segment, since one project may span several financial years. As such, it is important to track the element of Committed Liabilities that hold first charge on the budget allocation. New Schemes include new projects/proposals, which are at various stages of approval and are likely to be implemented in near future. The Committee have learnt that in the Defence Services Estimates, there is no separate allocation of funds for Committed Liabilities and New Schemes. Projection for Capital Acquisition made to the Ministry of Finance includes both Committed Liabilities and New Schemes.

The representatives of the Ministry of Defence and Services, deposing before the Committee during examination of demands for Grants for the year 2018-19, explained the process of prioritisation of Committed Liabilities and New Schemes according to availability of funds. After receiving the allocation of funds by the Ministry of Finance, the Ministry of Defence communicates this financial ceiling to the Service Headquarters. The Service Headquarters, in consultation with the Defence Secretary, Financial Advisor and other competent authorities, decide the urgent and critical capabilities to be acquired with the available funds. While deciding the priority, factors which are kept in mind are, impact on modernisation and payment to be made to foreign vendor defaulting of which could attract penal interest as well as legal action.

The Ministry, in its written reply, has submitted that the schemes were reprioritized to ensure that urgent and critical capabilities are acquired without any compromise to operational preparedness of the Defence Services. However, the oral evidence tendered by the representatives of the Ministry of Defence and Services belies this claim of the Ministry as they themselves deposed before the Committee that lack of sufficient funds in Capital Head would lead to elimination of some priority acquisition cases and new schemes. Further, the reduced allocation in committed payments may lead to possibility of additional interest and litigation. Therefore, the Committee recommend that adequate allocations should be made for Committed Liabilities and New Schemes in order to ensure that the modernization process of the Defence Forces is not halted for want of funds.'

17. The Ministry in its Action Taken Reply has stated as under:

'For BE 2017-18, this Ministry had projected a requirement of Rs. 1,18,946.40 crore under Capital Acquisition head, however an amount of Rs. 69,473.41 crore was allocated based on ceilings conveyed by Ministry of Finance.

Funds allocated under Capital Budget are first assigned for Committed Liabilities as these payments cannot be avoided. The funds for New Schemes are catered through Capital Acquisition Head of Capital Budget. It may be added that re-prioritisation is done to ensure that critical requirements of Services are adequately addressed.'

18. The Committee in their previous recommendation (para 7) in this Report have already expressed their concern on negative repercussions of shortage of funds for Committed Liabilities and New Schemes for the Services. Although the

Ministry has submitted that re-prioritisation of funds allocated under Capital Budget is done to ensure that critical requirements of Services are adequately addressed, the Committee wonder how long such stopgap measures will be employed for fulfilling needs of our Defence Services. Therefore, the Committee strongly recommend that Capital Budget should be increased so as to commensurate with the projection of the Services.

F. <u>Dependence on foreign suppliers for military hardware</u>

Recommendation (Para Nos. 24-26)

19. The Committee had recommended as under:

'Capital procurement of Defence equipment from Indian and foreign vendors is carried out as per provisions of the Defence Procurement Procedure. Defence equipment is being imported from various countries as per the operational requirements of Armed Forces. The Committee have been informed that 187 contracts with total value of Rs.2,40,814.22 crore signed during last three years and current year (upto 30.11.2017) include 119 contracts signed with Indian vendors involving Rs.1,16,522.89 crore and 68 contracts with foreign vendors involving Rs.1,24,291.33 crore. The major Defence equipment imported during last three years and current year include rockets, simulator and component level repair facility for Tanks from Russia; Laser Designation Pods, radars, Pods for aircraft, Radios, Weapons for 'garuds' and missiles from Israel; aircraft, helicopters, missiles, artillery guns and simulators from USA, and aircraft, ammunition, Bimodular Charge System (BMCS) high Zone Modules of Artillery Guns from France.

The Ministry supplied the following data to the Committee detailing expenditure of the Forces on specific accounts year-wise, from 2009-10 to 2016-17.

(Rs. in crores)

Financial year	Expenditure of the Forces with Respective Reasons		
	Army (for direct payments to foreign vendors for capital acquisitions)	Navy (for import of military equipment)	Air Force (for import of weaponry from foreign vendors)

2009-10	1659.36	4576.83	4226.28
2010-11	800.39	4746.88	4364.82
2011-12	424.82	6532.37	15258.11
2012-13	884.84	5968.80	19220.95
2013-14	1365.71	12577.81	20927.55
2014-15	3452.61	6884.00	14655.75
2015-16	3004.91	6939.76	12477.45
2016-17	5263.00	6624.02	16613.24

The Committee note that during the 12th Plan (2012-13 to 2016-17), 107 contracts involving Rs.1,50,507.38 crore were signed with foreign vendors for capital procurement of defence equipment.

The Ministry has submitted that Government is taking necessary measures for building of defence capabilities to safeguard the sovereignty, territorial integrity and security of the country. To this end, capital procurement of defence equipment is undertaken from various domestic as well as foreign vendors as per the extant Defence Procurement Procedure (DPP), based on threat perception, operational challenges and technological changes and to keep the Armed Forces in a state of readiness to meet the entire spectrum of security challenges. The Committee understand that owing to lack of requisite level of core competence and technology in domestic defence sector and geo-political threats to the Nation, the import of defence equipments becomes imminent. The Government has taken a lot of measures to encourage indigenous defence base but it will take some time for them to come up to the required level. Hence, the Committee invoke the Ministry of Defence, the Services, DRDO, OFB, DPSUs, Indian vendors and other concerned agencies to take urgent and concerted steps and leave no stone unturned in seeing that import of arms and equipment is gradually decreased and India sheds its tag of largest defence importer in the world.'

20. The Ministry in its Action Taken Reply has stated as under:

'(A) Defence Acquisition:

The Capital Procurement of defence equipment is a complex and time consuming process. It is however, the endeavor of the Service HQrs and Ministry of Defence that the procurement of equipment is carried out from indigenous sources as far as possible.

It is only when the equipment is not available in the country and all possible means of fresh production or joint production in the country are exhausted that Global sources are approached for procurement.

The Capital procurement of defence equipment is carried out as per Defence Procurement Procedure 2016 (DPP-2016). DPP 2016 gives strong support to "Make in India" by according topmost priority to 'Buy Indian (Designed, Developed and Manufactured) (IDDM)' and 'Buy Indian' Category. Government is pursuing initiatives to achieve higher level of indigenization and self-reliance in the defence sector by harnessing the capabilities of the public and private sector industries in the country. These measures include according priority and preference to procurement from Indian Vendor and liberalization of the licensing regime.

During the last four financial years, 128 contracts have been signed with Indian vendors and 76 contracts have been signed with foreign vendor for capital procurement of Defence equipment for Armed Forces.

Further, newly introduced Strategic Partnership (SP) Model, simplified version of Make II process and Design and Development (DD) projects by DRDO/DPSUs/OFB under the provisions of Para 72 of Chapter 2 in DPP 2016, have given further impetus to self-reliance to defence production while catering for absorption of niche technologies. In terms of prioritization, the new category of Buy (Indian-IDDM), which would also be used for procurement of all locally designed and developed items under the revamped 'Make' procedures, is placed above the existing 'Buy (Indian)' category which, in turn, is placed above the other categories, namely the 'Buy and Make (Indian)', 'Buy and Make' and 'Buy (Global)', in that order. The intent is to promote in-house design capacity and higher localization, two critical aspects, which, if implemented in the right spirit, could deepen the role of domestic industry in defence production.

The goal of self-reliance mandates the sustenance and expansion of an indigenous defence industry, backed by robust R&D. The latest to enter are the private industry bringing in their own brand of expertise. Indigenously developed products can either be productionised as complete equipment or integrated with imported items.

Recent Initiatives: In addition, numerous initiatives related to indigenous procurement process are underway. Some of the major ones are listed below:-

(a) <u>Simplified Make-II Procedure</u>: The 'MAKE' procedure of DPP-2016 is intended to promote indigenization in design and development of defence equipment. The 'MAKE' procedure classifies the projects under two categories as Make-I and Make-II, with the former being government funded and the latter self-funded by the private industry. The MoD in January 2018 announced a highly simplified procedure for the MAKE-II category of projects. All MAKE-II projects currently underway are required to be aligned to the new MAKE-II procedure.

(b) Strategic Partnership (SP) Model:

(I) The SP model for purchase of defence system has been approved by Defence Acquisition Council (DAC) on 20 May 2017 to be included as new Chapter-VI in DPP-2016. This chapter envisages identification and nomination of Indian Strategic Partners for development & production of critical and complex weapon platforms for the defence forces. Initially four segments have been identified for selection of Strategic Partners:

(i) Single engine fighter aircraft.
(ii) Helicopters.
(iii) Submarines.
(iv) Armoured Fighting Vehicles/ Main Battle Tanks.

(II) The SP model is aligned with the overall Make-in-India initiative of the Government. This model encourages Transfer of Technology (ToT) to Indian companies and production of complex weapon system, thereby improving the defence-industrial ecosystem in India, Prospective SPs and OEMs will be shortlisted through separate but concurrent processes after Defence Acquisition Council (DAC) approval. Once the independent processes of Short listing of Original Equipment Manufacturers and Shortlisting of Strategic Partners are completed, RFPs for a segment would be issued to the shortlisted Strategic Partners after DAC approval. A two-stage bidding system would be followed. No project as on date has been processed under this model.

Army Design Bureau (ADB): ADB has been constituted as part of Perspective Planning Directorate since August 2016 and is functioning skeletally till approval of Cabinet Committee on Security Note for its raising is formally granted by Ministry of Defence. The ADB follows up on the technological & equipment requirements for force modernization and capability building vision as given in various documents approved by the Ministry of Defence viz Long Term Integrated Perspective Plan 2012-2027 and the Technology Perspective and Capability Roadmap.

Likely Impact: The ADB acts as a single point of contact with indigenous Indian Defence Industry & Academia. It assists in facilitating the co-ordinates of various

R&D efforts undertaken, identify opportunities and gaps in technology and equipment which can be taken up for indigenization and provides useful inputs to assist in better understanding of Army's requirement to the Industry & Academia. It supports research work in various Academic Institutions by providing financial support to projects undertaken through Army Technology Board and Technology Development Fund. These actions will assist in development of indigenously developed technological base and strengthen the overall capability of domestic defence industry. The impact of these actions will be felt in the mid-term when the indigenously developed technology is exploited and integrated into new systems identified for procurement thereby improving self-reliance in the Defence Sector.

(B) Defence Production:

The strengthening of defence-industrial base of the country is a continuous process and is undertaken by the Government periodically based on the requirements, viability, availability of resources etc. In regard to these factors, currently, the defence industrial base under the Government sector consists of 41 Ordnance Factory units and manufacturing units of 9 Defence Public Sector Undertakings. In addition to this, in the private sector, till April, 2018, 224 Indian Companies have been issued 368 licenses for manufacturing in Defence sector, out of which, 70 licensed companies covering 114 licenses have reported commencement of production.

Recently, it has been decided to establish two Defence Industrial corridors, one in Tamil Nadu and the other in Uttar Pradesh. A detailed Project Report (DPR) will be prepared for setting up of these corridors. Based on the DPR, the proposal for setting up of defence industrial production corridors covering all aspects namely, timelines, details of expenditure etc. would be decided. In regard to the Defence corridor in Tamil Nadu, five industrial meets have already been held. In Uttar Pradesh, four such meets have already taken place at Jhansi.

(C) Research and Development:

Defence Research & Development Organisation (DRDO) is developing a number of systems for the Services; which will be produced by the Indian industry. 14 such systems costing Rs. 85383.31 crore after undergoing various trials have been granted Acceptance of Necessity (AoN) and approved for induction in the Armed Forces. List of systems designed and developed by DRDO and approved for induction in the last two years is attached below:

DAC approvals for Systems Developed by DRDO: 2016-2017

Major systems developed by DRDO and approved by DAC for induction in the Services during the last two years include:

Sl. No.	System/Equipment	Service	Qty	Cost (crore)
1.	The following sub-systems are approved to be developed by DRDO in "Nomination of Weapon and Sensors for P-17A Ship on Single Vendor Basis" on 11 March, 2016:	IN	-	-
	LRSAM and MF Star		07	Rs. 8054.83
	Surface to Surface Missile System		07	Rs. 960.12
	EW System Shakti with Nayan COMINT		07	Rs. 1061.83
	HUMSA NG with training gear including XBT, UWT & XCDT		07	Rs. 570.22
	Indigenous ASW Complex (IAC) MoD C		07	Rs. 183.68
	Total cost of systems for P-17A to be developed by DRDO			Rs. 10830.68
2.	Procurement of 83 Light Combat Aircraft (LCA) Mk 1A for IAF on 07 November 2016	IAF	73 LCA Tejas Mk 1A Fighter and 10 LCA Tejas Mk 1 Twin Seater	Rs. 49797.50
3.	Varunastra torpedo on 7 Nov 2016	IN	63	Rs. 1249.84
4.	Cdr T1 Sight for T-90 (IM) S/SK on 07 Nov 2016	IA	464	Rs. 375.00
5.	Modernised NBC Protection system for BMP 2/2K on 23 Dec 2016	IA	1504	Rs. 1265.13
6.	Low Level Light weight Radar (LLLR) Mk-II on 23 Dec 2016	IA	53	Rs. 419.00
7.	Multi Mission Maritime Aircraft on 23 Dec 2016	ICG	06	Rs. 7718.96

8.	Short Range Surface to Air Missile (SRSAM) System on 20 May 2017	IA	1980	Rs. 10000.00
9.	Upgradation of BMP-2 to BMP-2M (Armament Upgrade, Night Enablement & FCS) on 08 July 2017	IA	693	Rs. 2390.85
10.	Procurement of BMP-II based Carrier Command Post Tracked (CCPT) Vehicle for 155mm/52 Calibre Tracked (SP) Regiments on 08 July 2017	IA	43	Rs. 405.49
11.	Procurement of 08 x HUMSA Upgrade (UG) Sonars for IN Ships, along with One System for Valsura and One Simulator for ASW School on 27 Sep 2017	IN	08	Rs. 203.79
12.	Procurement of Bund Blasting Device Mark II on 31 Oct 2017	IA	502	Rs. 28.65
13.	Procurement of Mine Anti Personnel Blast NIPUN (NFM) on 31 Oct 2017	IA	6,97,079	Rs. 58.42
14.	Software Defined Radio (SDR) for Naval communication (NC) on 12 Dec 2017	IN	270	Rs. 640.00
Total Cost				Rs. 85383.31

21. The Committee are happy to learn that it has been decided to establish Defence Industrial corridors in Tamil Nadu and Uttar Pradesh. The Ministry has informed that based on the Detailed Project Report (DPR), the proposal for setting up of Defence Industrial production corridors covering all aspects namely, timelines, details of expenditure etc. would be decided. The Committee feel that it is a significant step under 'Make in India' initiative which will lead to a robust defence industrial base in our country and help India shed its tag of the largest importer of defence equipment in the world. Therefore, they desire that the work regarding said DPR and related aspects should be fast-tracked and all

agencies/stakeholders such as States, Defence Public Sector Undertakings, private investors etc., involved in this initiative, work in an efficient, effective and cooperative manner so that India emerges as a self-reliant design and manufacturing hub in Defence sector.

CHAPTER II

(A) OBSERVATIONS/RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Ratio of Capital and Revenue Outlay

Recommendation (Para No. 8)

The Committee note that 2012-13 onwards, the 'Capital' component of the budgetary allocation has consistently decreased in comparison to 'Revenue' component of the Budget. The overall 'Revenue' to 'Capital Ratio' of the budgetary allocation stands at 61:39, 61:39, 63:37, 65:35, 66:34 and 67:33 for 2012-13, 2013-14, 2014-15, 2015-16, 2016-17 and 2017-18 (RE), respectively. The Committee are given to understand that the Revenue allocation is provided to meet the obligatory charges, procurement of revenue stores including ration, fuel, ammunition, clothing, etc., essential maintenance requirements, repair and refit of ships, submarines and aircrafts, transportation, maintenance and repair of Defence buildings, etc. The Capital Outlay provides allocation for Land & Construction Works of the three Services and others, capital expenditure of various Defence Departments and for Capital Acquisitions of the Services, etc. Both Revenue and Capital expenditure play significant roles in operational preparedness of our Forces. However, the Committee are deeply anguished to note that with each year, the ratio of Revenue to Capital outlay is skewed in favour of Revenue component of the Budget. The Committee do understand that recent implementation of One Rank One Pension and Seventh Pay Commission would also have tipped the weighing scale in favor of Revenue head of the Budget. However, this skewed ratio of Revenue and Capital outlay has ominous foreboding for noble intentions and efforts of modernizing our Defence Forces. Therefore, the Committee recommend that allocations under Capital head need to be augmented suitably for improving the present ratio of Revenue and Capital outlay in favour of Capital head.

Reply of the Government

The higher growth in the revenue expenditure of the Services is mainly attributable to the fact that Army is manpower intensive with a large portion of its expenditure being devoted to Salaries. This skews the revenue-capital ratio in favour of revenue expenditure in an overall sense and for Army. For Air Force & Navy the ratio of Capital to Revenue is 53:47 and 55:45 respectively in BE 2018-19.

Underspending

Recommendation (Para Nos. 9 and 10)

The Committee, while examining the Demands for Grants, observed that the Capital expenditure has never remained under control and the allocated funds under Capital Head are never fully utilized. During the year 2011-12, Army was allocated final grant of Rs.14,957.16 crore but was able to utilise only Rs.14,947.82 crore. During the year 2013-14, Army was allocated Rs.15,038.63 crore as final grant, but it was able to utilise only Rs.14,433.29 crore. Again, in the year 2014-15, Army was allocated Rs.25,361.42crore at final grant stage but spent only Rs.18,586.73 crore.

The Committee are satisfied to note that due to certain reforms in the Defence Financial Management, delegation of financial powers, powers for Post Contract Management and operationalization of perimeter security aspects to the Service Headquarters, the Ministry of Defence have been able to fully utilise funds allocated in BE 2017-18. As a result of this healthy trend of expenditure achieved by the Ministry of Defence, no cut has been imposed by the Ministry of Finance at the Revised Estimates stage. The Committee sincerely hope that the Ministry continues to follow principles of financial propriety and discipline to ensure optimum utilization of funds and give no reason to the Ministry of Finance to reduce allocations to the Ministry of Defence at any stage.

Reply of the Government

The recommendations of the Committee are noted for compliance. Necessary instructions are issued from time to time for adherence to financial propriety and avoidance of underutilization of funds/ wasteful expenditure.

The Committee may be assured that all efforts will be made to ensure optimum utilization of scarce resources.

Long gestation period in procurements

Recommendation (Para Nos. 21 and 22)

As per the Ministry of Defence's submission, procurement is an ongoing process and the time taken varies from case to case due to inherent complexities and uniqueness. Capital and Revenue procurement cases are taken up by Ministry of Defence based on Annual Acquisition Plans for Capital and Annual Procurement Plan for Revenue and are processed as per delegation of financial powers. JS(Navy), JS(Air) and JS(Army) are the nodal points in Ministry of Defence for revenue procurements and three Joint Secretaries cum Acquisition Managers are the nodal points for capital procurements for each service respectively. Capital procurement cases upto Rs.150

crore are delegated to Service HQs and cases above Rs.150 crore are processed by Ministry of Defence. The delegation for revenue procurement is as per the 'Delegation of Financial Powers to Defence Services, 2016' and as per recent delegation of powers to Services.

The Committee note that main changes/improvements introduced in DPP 2016 for achieving timely, efficient and effective procurement are, reduction of timelines for completing procurement activities (Acceptance of Necessity to award of contract) from 80-117 to 70-94 weeks in multi vendor cases and from 92-137 weeks to 82-114 weeks in single vendor cases;reduction in Acceptance of Necessity (AoN) validity from 1 Year to 6 Months for 'Buy' cases and from 2 years to 1 year in 'Buy and Make Indian' cases; accompaniment of draft Request for Proposal with Statement of Case for AoN; processing of single vendor cases at the bid submission and Technical Evaluation Committee (TEC) stages with due justification with approval of DAC; rationalisation of time taken for Field Evaluation Trials by conducting trials in conditions where equipment is most likely to be deployed, increased use of certification and simulations in technical evaluation of equipment; direct bringing of cases with AoN of value more than Rs.150 crore before Services Capital Acquisition Plan Categorization Higher Committee (SCAPCHC); Fast Tracking of Procedure to cover urgent operational requirements relating to both foreseen and emergency situations and clear definition of objectives in Request for Information (RFI) process. The Committee note the amended provisions in extant DPP for speedy capital procurement of defence equipments and recommend that allocations to the Capital head are commensurate with the planned procurement, so that inspite of effective measures in theory, our forces are not deprived of state-of-the-art technology and hardware in reality.

Reply of the Government

The modernisation projects are progressed as per the approved Capital Acquisition plans and in terms of the extant DPP. Defence procurement planning is a three tiered mechanism viz. 15 years Long Term Integrated Perspective and Planning (LTIPP); 5 years Services Capital Acquisition Plans (SCAPs) and 2 years roll-on Annual Acquisition Plans. LTIPP and SCAP are approved by DAC and AAP is approved by DPB. The SCAP indicates the list of equipment to be acquired, keeping in view operational exigencies and the overall requirement of funds. AAP is formulated by HQ IDS in consultation with Service Headquarters based on their emergent requirements. The schemes are prioritized by Services themselves. AAP can be amended on account of national security requirements, operational urgencies, budgetary provisions or any other exigency based on recommendations made by SHQ/HQ IDS/Department of Defence/Defence (Finance).

Probity, Accountability and Transparency in Defence Procurement

Recommendation (Para Nos. 23)

The Committee have been informed that the main changes/improvement introduced in DPP 2016 for ensuring accountability and transparency in defence procurement cases are (i) execution of Pre-contract Integrity Pact (PCIP) for all cases above Rs.20 crore, (ii) alignment of guidelines for handling of complaints to Central Vigilance Commission/Department of Personnel and Training (DoPT) guidelines and Government policy, (iii) issuance of instructions for ascertaining vigilance status of L1 vendor before seeking Competent Financial Authority (CFA) approval, and (iv) notification of guidelines for penalties in business dealings with entities. Keeping in view the aspect of unfair practice in defence procurement deals causing inordinate delay and cost escalation, the Committee recommend that the Ministry remains constantly vigilant with a strong oversight and enforcement system to fight the malaise of corruption in defence deals.

Reply of the Government

As part of creation of a strong oversight and enforcement system in defence capital acquisition cases, Technical Oversight Committees are constituted for cases of value above Rs.300 Crore. Also, Ministry has appointed Independent External Monitors (IEMs) to look into any grievances/complaints of participating vendors with respect to any aspect of a procurement case. Vigilance status is obtained in respect of L-1 vendor before seeking CFA approval.

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

Recommendation (Para No. 27)

The Committee note that average import content in respect of Ordnance Factories products has been around 13%. In case of DPSUs, in case of Hindustan Aeronautics Limited (HAL), the import component in aircrafts and helicopters is said to range from 40 to 60 per cent; 36 to 47 per cent in case of equipment manufactured by Bharat Electronics Limited (BEL)from 2012-12 to 2016-17; and 16 to 26 percent in case of equipment manufactured by Bharat Earth Movers Limited (BEML) during last five years. Further, the import component of Ships manufactured by Hindustan Shipyard Limited (HSL) is informed to be 11 to 43 per cent during 2012-13 to 2016-17, 30 to 38 per cent for Goa Shipyard Limited (GSL) and 25 to 50 per cent in case of Warships and submarines manufactured by Mazagon Dock Shipbuilders Limited (MDL).

Reply of the Government

OFB: Average import content in respect of Ordnance Factories products has been around 13%. The import dependency of OFB is on those items only where are of perennial import nature and ToT has not been established from OEMs, however, OFB make continuous endeavours to bring down import contents in its products.

HAL: The import content in value terms for the platforms under manufacture at HAL is 40% to 60% and the import content by number of components, is 25% to 26%. The details are given below:

Platform	Import Content (% by number)	Import Content (% by value)
Su-30 MKI	25%	40%
LCA	25%	40%
ALH	25%	48%
Do-228	26%	60%

In case of Su-30MKI and Do-228, the indigenisation levels as defined in the Technology transfer agreements have been achieved. For LCA and ALH, which are indigenously developed platforms, the indigenisation levels are in accordance with the SOP frozen, which was in consideration with technology requirements and feasibility of indigenisation. Any further indigenisation is generally dependent on obsolescence management and changes in customer requirements.

BEL:BEL generally does not import fully finished Defence equipment. However, for the design, manufacture & supply of Defence equipment, the company resorts to imports only for some of the special components/raw materials, proprietary items/sub-systems etc., (input material) that are not being manufactured in the country. The import content during 2017-18 is around 42% (provisional) reflecting a significant reduction in import content as compared to previous year and BEL will continuously strive to further minimize this in the coming years. It is pertinent to mention here that major portion of BEL's turnover (around 90%) is generated from products based on indigenous technology.

Self-reliance continues to be the prime objective of the company to meet the strategic needs of the nation for which indigenization is one of the thrust areas. Over the years, BEL has been providing enhanced thrust to minimize the import content in its equipment/systems through in-house R&D efforts; Joint development with DRDO, National R&D Labs & Academia, Collaborative R&D with Indian Private vendors including MSMES, ToT based In-depth manufacturing from foreign OEMs, Import substitution of critical sub-systems through in-house/domestic vendor development, Outsourcing etc.

BEML: The import content in respect of BEML during the last five years is as under:

Year	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18 (prov)**
Import Content (Rs. in crore)	553.66	412.56	618.96	565.25	750.03
Net VoP (Rs. In crore)	2814.45	2599.93	2740.01	2623.90	3196.25
Import content as % of Net VoP	19.67	15.87	22.59	21.54	23.47

Efforts are being made by BEML to increase import substitution and indegenisation.

MDL: The import content (as a percentage of VOP) for the last 3 years & current year upto 3rd Qtr of 2017-18 is as follows:-

Year	2014-15	2015-18	2016-17	2017-18 (upto 3rd Qtr)
Import Content(% of VOP)	41.53%	47.69%	44.58%	41.81%

✓ Action taken by MDL to reduce Import content-

i) MDL has set-up the dedicated Indigenisation Department to boost the Government's 'Make-In-India' initiative and taken up the task of progressively increasing the indigenisation content in the Warships and Submarines.

ii) MDL has also drawn up a clear Road Map for Indigenisation which is a part of MDL's Long Term Perspective Plan that charts the course of the Shipyard over the next 15 years. The Indigenisation Road Map spells out MDL's efforts to encourage indigenisation, provides a flow chart depicting the entire process of indigenisation and also includes a list of Systems/Equipment/Items along with necessary technical details that MDL intends to indigenise in future. In addition, MDL Website also has a separate link for 'Make-In-India' which has all the relevant details.

iii) Reduction in FE content of equipment by incorporating the 'Indigenization clause' in tender itself.

iv) Further to that, MDL has taken 'Reduction in Import component as a percentage of Value of Production over previous year' as one of the parameter for MoU 2017-18 and also proposed in MoU 2018-19.

v) Owing to the consistent and dedicated efforts, MDL has been able to continuously reduce the import content at project level as under:-

Project	Year of completion of project	% Import
P15 Destroyers (Delhi Class)	2001	58%
P17 Frigates(Shivalik Class)	2012	48%
P15A Destroyers (Kolkata Class)	2016	41%

MDL has already set up a target of 28% import content in P15B Ships and 25% for P17A Class ships on completion of the projects.

vi) In case of Submarine Division, currently, approx. 99% procurement orders have already been placed for Project 75. Materials are procured from foreign / indigenous vendors as per contract. Due to lack of enough indigenous vendors for specialized equipment required for submarines, average import content is approx. 49.50% in project 75.

GSL: Following major Equipment/Items for new 5 CGOPV project are being indigenized & order on indigenous firms have been placed. With the concerted thrust on indigenisation content is expected to increase from 60% to 70% in new 5 CGOPV project over previously built CGOPV project completed in Nov, 2017.

S.No.	Equipment /Items	Indigenous Vendors for New CGOPVs
i.	Gearbox	Walchandnagar Industries Limited (WIL), Pune
ii.	Steering Gear System	GeetaEngg Works Pvt Ltd, Mumbai
iii.	Fin Stabilizer System	GSL in collaboration with Naiad Dynamics UK
iv.	Steel Plates	Essar Steel, Gujarat
v.	Doors (water & weather light)	Two local vendors ACGIL &ZuariEngg. Goa have been guided to get Type approval from class.
vi.	Gemini Boats	Aquarius Shipyard, Goa

HSL: Indigenisation is being promoted by HSL by sourcing equipment / machineries from domestic vendors wherever feasible and permitted. Details of import content of equipment procured during the last **six** years is as below:

Year	VoP (Rs crore)	Direct Import (Rs crore)	Import content as a % of VoP
2012-13	483.84	207.77	42.95
2013-14	453.40	123.10	27.15
2014-15	294.16	99.51	33.82
2015-16	593.29	159.63	26.90
2016-17	629.05	65.18	10.36
2017-18(up to 3rdQtr)	311.85	31.19	10.00

- ✓ Following efforts are being taken up by HSL in order to increase import substitution and thereby synchronising Defence Procurements with the ‘Make in India initiative:

    (a) Inclusion of the provisions contained in ‘Public Procurement (Preference to Make in India), Order 2017’ issued by Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry in HSL’s Purchase manual and its effective implementation.

    (b) Assurance of orders for future requirement in 5 years on the same Indian firm which executed import substitute order successfully, wherever orders are received from customer for series production.

    (c) Relaxation of norms (prior experience and prior turnover) for MSEs and Start-ups in all public procurements subject to meeting quality and technical specifications.

    (d) Alignment of payment terms i.e. provision of advance payment to MSEs.

    (e) Deemed registration of vendors (vendors registered in other Defence PSUs are to be considered as Deemed Registered).

Efforts are being made to identify Tier I and Tier II vendors, so as to facilitate development of import substitutes.

Recommendation (Para No. 28)

The Committee note the Ministry’s submission that import dependency of OFB is on those items only which are of perennial import nature and Transfer of Technology has not been established from Original Equipment Manufacturers. The Committee desire to be apprised of the reasons for substantial percentage of import content in equipments manufactured by DPSUs. Our Defence Public Sector Undertakings (DPSUs) and Ordnance Factories Board(OFB) are the backbone of indigenous Defence production. However, they have failed to be self-sufficient in defence production, which is corroborated by considerable import component used in the various equipments and systems developed by them. Therefore, the Committee feel that is high time that DPSUs and OFB took urgent and concerted steps to make India self-reliant in Defence production.

Reply of the Government

OFB is perusing a phased plan to reduce import dependence and to indigenize the items in association with Indian Industry and premier Government Academic Institutions. With the persistent monitoring and efforts, Ordnance Factories have achieved very high value of indigenous content of 87.03%

Make-in-India policy and Self-reliance in Defence Production

Recommendation (Para No. 29)

The Committee note that the ‘Make in India’ initiative of the Government is devised to transform India into a global design and manufacturing hub. ‘Make in India’ in defence sector is primarily driven by providing preference to procurement from Indian vendors under the Defence Procurement Procedure (DPP), promoting indigenous design, development and manufacture of defence equipment, and other policy measures such as simplification of Make procedure, introduction of simplified procedure for Make II sub-category, liberalization of the licensing regime and FDI policy by raising the cap on FDI in the defence sector, simplification of export procedure, streamlining of defence offset guidelines, creation of level playing field between public and private sector, formulation of outsourcing and vendor development guidelines, setting up of ‘Technology Development Fund’ to public and private sector industry especially Medium, Small and Micro Enterprises (MSME) etc. Moreover, the Government has notified the ‘Strategic Partnership (SP)’ Model which envisages establishment of long-term strategic partnerships with Indian entities through a transparent and competitive process, wherein they would tie up with global Original Equipment Manufacturers (OEMs) to seek technology transfers to set up domestic manufacturing infrastructure and supply chains.

Reply of the Government

Defence manufacturing is primarily driven by capital acquisition of defence equipment. The key objectives of the ‘Make in India’ initiative of the Government are pursued through several policy measures which include:-

i. A separate procedure for ‘Make-II’ sub-category has been notified wherein a number of industry friendly provisions such as relaxation of eligibility criterion, minimal documentation, provision for considering suo-motoproposals suggested by industry/individual etc., have been introduced.

ii. A Defence Investor Cell has been created in the Ministry to provide all necessary information including addressing queries related to investment opportunities, procedures and regulatory requirements for investment in the sector.

iii. The process for export clearance has been streamlined and made transparent & online.

iv. The strengthening of defence-industrial base of the country is a continuous process and is undertaken by the Government periodically based on the requirements, viability, availability of resources etc. Recently, it has been decided to establish two defence industrial corridors to serve as an engine of economic development and growth of defence industrial base in the country. While one corridor spans across Chennai, Hosur, Coimbatore, Salem and Tiruchirappalli in Tamil Nadu, the other extends across Aligarh, Agra, Jhansi, Kanpur, Chitrakoot and Lucknow in Uttar Pradesh (UP).

v. An innovation ecosystem for Defence titled Innovations for Defence Excellence (iDEX) has been launched on 12th April, 2018 by the Hon'ble PM during Def-expo India 2018. iDEXis aimed at creation of an ecosystem to foster innovation and technology development in Defence and Aerospace by engaging Industries including MSMEs, Start-ups, Individual Innovators, R&D institutes and Academia and provide them grants/funding and other support to carryout R&D which has potential for future adoption for Indian defence and aerospace needs.

vi. Offset guidelines have been made flexible by allowing change of Indian Offset Partners (IOPs) and offset components, even in signed contracts. Foreign Original Equipment Manufacturers (OEMs) are now not required to indicate the details of IOPs and products at the time of signing of contracts. ‘Services’ as an avenue of offset have been re-instated.

vii. To promote the participation of private sector, Outsourcing and Vendor Development Guidelines for DPSUs and OFB have been issued. The guidelines mandate each DPSU and OFB to have a short-term and long-term outsourcing and vendor development plan to gradually increase the outsourcing from private sector.

viii. Defence Procurement Procedure (DPP) has been revised in 2016. Specific provisions have been introduced for stimulating growth of the domestic defence industry.

ix. A new category of procurement ‘Buy {Indian-IDDM (Indigenously Designed, Developed and Manufactured)}’ has been introduced in DPP-2016 to promote indigenous design and development of defence equipment. This Category has been accorded top most priority for procurement of capital equipment. Besides this, preference is being given to ‘Buy (Indian)’ and ‘Buy and Make (Indian)’ categories of capital acquisition over ‘Buy (Global)’ & ‘Buy & Make (Global)’ categories.

x. Government has notified the ‘Strategic Partnership (SP)’ Model which envisages establishment of long-term strategic partnerships with Indian entities through a transparent and competitive process, wherein they would tie up with global Original Equipment Manufacturers (OEMs) to seek technology transfers to set up domestic manufacturing infrastructure and supply chains.

xi. The ‘Make’ Procedure has been simplified with provisions for funding of 90 % of development cost by the Government to Indian industry and reserving projects not exceeding development cost of Rs.10 Crore (Government funded) and Rs.3 Crore (Industry funded) for MSMEs.

xii. FDI Policy has been revised and under the revised policy, FDI is allowed under automatic route upto 49% and beyond 49% through Government route wherever it is likely to result in access to modern technology or for other reasons to be recorded.

xiii. The Defence Products List for the purpose of issuing Industrial Licenses (ILs) under IDR Act has been revised and most of the components, parts, sub-systems, testing equipment and production equipment have been removed from the list, so as to reduce the entry barriers for the industry, particularly small & medium segment. The initial validity of the Industrial Licence granted under the IDR Act has been increased from 03 years to 15 years with a provision to further extend it by 03 years on a case-to-case basis.

xiv. Government has set up the Technology Development Fund (TDF) to encourage participation of public/private industries especially MSMEs, through provision of grants, so as to create an eco–system for enhancing cutting edge technology capability for defence applications.

In accordance with the announcement in the General Budget 2018-19, the Government has brought out a draft industry friendly Defence Production Policy 2018, which is being finalized to promote domestic production by public sector, private sector and MSMEs.

Foreign Direct Investment (FDI) complements and supplements domestic investment and domestic companies are benefited by way of access to supplementary capital and state-of-art-technologies, resulting in employment generation and accelerated growth of the sector. FDI is a major driver of economic growth and a source of non-debt finance for the economic development of India. It has been the endeavour of the Government to put in place an enabling and investor friendly FDI policy. FDI Policy on Defence has been liberalized in a calibrated manner over the years. India incurs huge expenditure on imports of defence equipment as the domestic defence industry still needs to match up with the domestic requirements. The sector is capital intensive and requires advanced technologies. FDI in the sector can be one of the routes for the technology transfer, and thereby can help in increasing the production base, providing much needed impetus to manufacturing sector and job creation in India.

Since the opening of private sector participation in defence production in 2001, 348 Industrial Licences (ILs) covering 210 companies has been issued till February 2018 for manufacture of a wide range of defence items, out of which a total of 122 industrial licenses have been issued since the launch of the ‘Make in India’ initiative in September 2014.

Recommendation (Para No. 30)

As per the information provided by the Ministry, the budget allocation for 'Make in India' projects is made from the total acquisition of defence equipment requirements of the services. The proposals for capital acquisition in Defence Procurement Procedure (DPP) are categorized as 'Buy (Indian-IDDM)', 'Buy(Indian)' & 'Buy and Make(Indian)', with preference over 'Buy(Global)' category, to make the country self-reliant in defence production after deliberations in various Committee such as Services Capital Acquisition Categorization Committee (SCAPCC) and the Services Capital Acquisition Categorization Higher Committee (SCAPCHC) / Defence Procurement Board (DPB)/Defence Acquisition Council (DAC). There is no 'Make in India Project' category for procurement as per DPP. However, the objectives of 'Make in India' initiative of the government are pursued through procurements under 'Buy (Indian-IDDM)', 'Buy(Indian)', 'Buy and Make (Indian)' and 'Make' categories of capital procurement.

Reply of the Government

These are mere observations of the Committee based on the information provided by MoD. Therefore, no further action is envisioned.

Recommendation (Para No. 31)

The Director General, Acquisition also apprised the Committee of some innovative steps taken by the Ministry to promote Indian vendors. For instance, the Services would be willing to procure any useful ready product being offered by any Indian vendor despite not floating any requirement relating thereto, given the part that the product is successfully evaluated. Further, the negotiation procedure with the Indian vendors has been simplified.

Reply of the Government

These are kind observations of the Committee. Noted for guidance.

Recommendation (Para No. 32):

The Committee appreciates the various policy measures being taken by the Ministry of Defence to achieve substantive self-reliance in the Defence Sector and broaden Defence Research and Development base of the country. However, the Committee would like to adopt 'wait and watch' policy for kind of systems and technologies being developed by the Indian vendors as the Make in India policy is still in a nascent stage. Also, the Committee would like the Ministry to ignore any minor problems in terms of quality and technology, in the prototypes developed by the indigenous industry and encourages the Indian vendors to the extent possible without compromising on combat readiness. The Committee sincerely hope that eventually our indigenous industry will develop its core competence and offer our forces cutting edge technology and world class products.

Reply of the Government

The strengthening of defence-industrial base of the country is a continuous process and is undertaken by the Government periodically based on the requirements, viability, availability of resources etc. Consequent to the announcement of setting up of two Defence Industrial Corridors in the Budget Speech of 2018-19, Government has received three proposals from the states of Uttar Pradesh, Tamil Nadu and Telangana. Among these three states, Government has decided to set up two Defence Industrial Corridors, one in the state of Tamil Nadu and the other in the state of Uttar Pradesh. These are spanning across Chennai, Hosur, Coimbatore, Salem and Tiruchirappalli in Tamil Nadu and spanning across Aligarh, Agra, Jhansi, Kanpur, Chitrakoot and Lucknow in Uttar Pradesh (UP).

An innovation eco-system for Defence titled Innovations for Defence Excellence(iDEX) has beenlaunchedon12th April2018 bytheHon'blePMduringDef-expoIndia2018. iDEX is aimed at creation of an eco-system to foster innovation and technology development in Defence and Aerospace by engaging Industries including MSMEs, Start-ups, Individual Innovators, R&D institutes and Academia and provide them grants/funding and other support to carry out R&D which has good potential for future adoption for Indian defence and aerospace needs.

DRDO is working in close synchronization with all its stakeholders including private industries through its programmes/projects. Accordingly it has developed, built and upgraded its industrial partner base. Today over 1000 private industries and SMEs are vital partners in DRDO's development programmes apart from DPSUs and OFB, all of whom have played a crucial role in the development programmes of DRDO. About 20 major private industries are involved in the development like Astra Microwave Products, Bharat Forge, Dass Hitachi, Godrej & Boyce, Larsen & Toubro, Mahindra Defence, Tata Power, Wipro etc.

During the last four financial years (upto 31.01.2018), 121 contracts have been signed with Indian vendors and 71 contracts have been signed with foreign vendors for capital procurement of Defence equipment for Armed Forces. The Capital Budget and Expenditure for Armed Forces for the years 2014-15 to 2016-17 are given below:-

(Rs in Crore)

Year	Revised Estimates	Expenditure
2014-15	66151.73	65862.38
2015-16	65400.00	62235.54
2016-17	62619.36	69280.17

The Government is pursuing achievement of higher level of indigenisation and self-reliance in defence sector through measures including according preference to procurement from Indian vendors under the Defence Procurement Procedure (DPP), simplification of Make procedure, introduction of simplified procedure for Make II sub-category, liberalization of the licensing regime and FDI policy by raising the cap on FDI in the defence sector, simplification of export procedure, streamlining of defence offset guidelines etc. Recently, the Government has notified the 'Strategic Partnership (SP)' Model which envisages establishment of long-term strategic partnerships with Indian entities through a transparent and competitive process, wherein they would tie up with global Original Equipment Manufacturers (OEMs) to seek technology transfers to set up domestic manufacturing infrastructure and supply chains.

The domestic defence manufacturing in the country stands on a strong footing, and in the year 2017-18, the defence production in public sector in the country was worth Rs 58,759 crore approximately.

List of the important projects of DRDO completed/nearing completion in past three years which have active participation of private industries is enclosed.

- LCA Tejas
- AEW&C
- Varunastra
- Mareech
- Nakshatra
- Airborne Active Electronically Scanned Antenna for Surveillance of Primary & IFF Radar in AWACS(I) USHAS
- Integrated Costal Surveillance System (ICSS)
- Electro Optic Fire Control System for Naval Ships
- MPR
- Synthetic Aperture Radar for UAV
- Air Defence Fire Control Radar-ATULYA
- Low Level Transportable Radar (LLTR)
- 46m MLC-70 Modular Bridge
- ASB Glide
- Missile Launched Precision Guided Munitions (MLPGMs)
- WhAP
- Maritime Awareness (MDA) and Maritime Operational Knowledge System (MOKS)
- BMP Tele Operated & Autonomous Vehicle

- NBC Recce Vehicle
- NBC Drugs
- USHUS2 Submarine Sonar

<u>Strategic Partnership for various Platforms from the Private Sector Industry</u>

Recommendation (Para No. 33)

The Strategic Partnership Model has been promulgated as chapter VII of the Defence Procurement Procedure (DPP)-2016 with the main aim of enabling participation of Private Indian firms in 'Make in India' in Defence. Currently, cases of procurement are being progressed in three segments i.e. Submarine, Helicopter and Armoured fighting vehicles (FRCV case) in accordance with the procedure mentioned in the Chapter. In these three segments, Requests for Information (RFIs) have already been issued and responses received are under evaluation. Though the Strategic Partnership Model envisages encouraging Indian private entities to align with the Defence Sector, the Committee feel that they would require constant guidance of the Ministry of Defence in terms of infrastructure and technology. The Committee, therefore, recommend that the Ministry of Defence, along with DPSUs and OFs, extend all possible support to Private Indian firms to enable them to make meaningful contribution in laying a robust and credible base for nation's Defence industrial complex.

Reply of the Government

The observations of the Committee have been noted and will be kept in view when further procedure/guidelines are formulated by the Ministry of Defence.

<u>Offset Clause</u>

Recommendation (Para No. 34)

The Ministry of Defence (MoD) has mandated discharge of offset obligations by vendors under different categories of defence acquisitions with the primary objective of leveraging its capital acquisitions to develop the Indian Defence Industry by: (i) fostering development of internationally competitive enterprise; (ii) augmenting capacity for research, design and development related to defence products and services; and (iii) encouraging development of synergistic sectors like civil aerospace and internal security. The offset provisions apply to all Capital Acquisitions categorized as 'Buy (Global)', i.e. outright purchase from foreign/Indian vendor, or 'Buy and Make' category of capital acquisition where the estimated cost of the acquisition proposal is Rs. 2000 crore or more. They apply to Indian firms or their

Joint Ventures under ‘Buy (Global)’ procurements. Further, foreign vendors could consider creation of offset programmes in anticipation of future obligations through offset banking. The offset policy was introduced in 2005 and thereafter, has successively evolved to put emphasis on the capacity augmentation for Research, Design and Development related to Defence products and services by making it as a key policy objective. The policy further enlarged the scope of the avenues for discharge of offsets and included the option of provision of investment in kind in Indian enterprises in the form of equipment and /or Transfer of Technology.

Reply of the Government

Being matter of fact, no comments.

Recommendation (Para No. 35)

The Committee have been apprised that as on date, a total of 42 Defence offset contracts have been signed in MoD out of which 27 cases pertain to Indian Air Force and 04 cases of Indian Navy and 11 of Indian Army. The total offset obligations are estimated at approximately US$ 11.20 billion over a period from 2008-2024. The Committee would like to know the value of total offset obligations that have been realized till date.

Reply of the Government

Offset discharge claims reported by the vendors till December, 2017 is to the tune of approx. US$ 2.21 billion.

Recommendation (Para No. 36):

The Committee note that these offset contracts are under different stages of implementation by the foreign OEMs. Once executed, it is estimated that the respective contract shall cause, on account of offset provisions, generation of substantial business to Indian industries thus strengthening the defence industrial base. It shall also facilitate the Indian domestic industry to be a vital part of the supply chain of the major global defence industries reaping in more benefits. Further, due to liberalised banking provisions, the Original Equipment Manufacturers are expected to invest more in Indian Industries, spurring growth in the related areas with visible results in near future, and commensurate gains in coming years. This shall be independent of the existence or otherwise of any immediate main acquisition proposal.

Reply of the Government

It is observed from the offset discharge claims reported by the foreign vendors under various offset contracts that, they have entered into agreements with several private industries for implementation of their offset program. Once executed, this will help in reaping substantial business opportunity including integration of Indian industries to the global supply chain of the foreign OEMs.

Recommendation (Para No. 37):

The Committee are given to understand that the vendors have been expressing difficulties in providing the details of Indian offset partners, products and work share along with supporting documents in the technical offset proposal as per offset guidelines at Technical Offset Evaluation Committee (TOEC) stage, sighting that these activities would be undertaken number of years later which would then cause seeking changes to the contract. Another major challenge towards post contract management had been timely and meaningful disposal of contract amendment requests received from the vendors for change of IOP/Product etc. The resolution of these issues have been catered for by introducing an amendment to the offset guidelines with the approval of Defence Acquisition Council, whereby vendors have been given an option to provide details of IOPs and products even after signing of contracts, thereby making it more realistic. Further, the process for contract amendment has been made flexible by allowing change of Indian Offset Partners (IOPs) and offset components, for the signed contracts. The Committee appreciate the Ministry’s initiatives in resolving the problems being faced in execution of offset contracts and desire that the Ministry would constantly strive towards effective implementation of offset guidelines based on the inputs of vendors while also keeping in mind the interest of the nation.

Reply of the Government

The suggestions made by the Committee will be given utmost consideration.

Recommendation (Para No. 38)

The Committee have learnt that the offset guidelines provide for imposition of penalty in case of shortfalls in annual offset discharge by the vendor. In 11 offset contracts, penalty/interim penalty has been imposed on shortfalls in offset discharge by the vendor. The total penalty that has been imposed works out to approximately

US $ 38.19 Million. The Committee, in this context, recommend that the Ministry of Defence ensure that the penalties imposed on the defaulter vendors reasonably compensate for the losses incurred due to shortfall in discharge of offset obligations.

Reply of the Government

The Committee's recommendations have been duly noted.

Foreign Direct Investment (FDI)

Recommendation (Para No. 39)

The Committee note that the Government has reviewed the Foreign Direct Investment (FDI) Policy in Defence Sector in June 2016 thereby allowing FDI under automatic route upto 49% and beyond 49% wherever it is likely to result in access tomodern technology or for other reasons to be recorded. Further, Defence Industry is subjected to industrial license under Industries (Development & Regulation) Act, 1951 and manufacturing of small arms and ammunition under the Arms Act, 1959. The Ministry has claimed that by allowing higher FDI in the Defence Sector, the global companies having high-end technologies, can be encouraged to set up their manufacturing base in India in collaboration with Indian companies, thereby resulting in creation of employment opportunities, saving of foreign exchange and increasing indigenisation. Although the Ministry has submitted that the Defence Sector, being sensitive, carefully calibrated approach for foreign investment is being adopted. The Committee cannot refrain from advising the Ministry to institute ironclad measures to ensure that the security of our Nation is not jeopardized due to liberalized policy.

Reply of the Government

The Government has put in place a Security manual for private companies in defence manufacturing sector. As per conditions of licenses, the Licensed Defence Companies are required to follow detailed security guidelines applicable to them as per security instructions/architectures prescribed in "Security Manual for Licence Defence Industries" based on their categorisation. The Manual provides detailed guidelines on physical security/materials security/documents security/ information security, etc. The companies are also subjected to external security audit by Intelligence Agencies once in two years and cyber security audit by CERT-IN empanelled auditors once every year. The Chief Security Officer (CSO) of the investee/joint venture company should be resident Indian citizen.

Defence Planning

Recommendation (Para Nos. 40-42)

The Defence Five Year Plans are formulated to chalk out the necessary steps to maintain and augment defence capabilities in line with the RakshaMantri's Operational Directives, the Long Term Perspective Planning (LTPP) and the current threat perception. These plans help to estimate the outlay required to achieve the planned objective. The Committee observe that against the projection of Rs. 4,18,101.00 crore, the expenditure incurred during 10th Plan was Rs.3,57,893.42 crore. Further, against the projection of Rs. 6,48,750.16 crore, the expenditure incurred during 11th Plan was Rs. 6,72,714.63 crore, which was clearly a case of overspending. Again, in 12th Plan, the expenditure incurred was Rs. 10,81,644.89 crore against a projection of Rs.11,39,000.00.However, the Ministry of Defence has claimed that activities included in the Plans proceeded during the Plan period within the available budget allocations, and projections in respect of annual budgets were made in line with Five Year Plans and available allocations were prioritized accordingly.

The Committee note that although the 12th Plan was approved by the RakshaMantri, it was not concentrated to by the Ministry of Finance. As per the Ministry of Defence, while formulating guidelines for the 13th Defence Plan it was decided that the Plan may be sent to Ministry of Finance for information only and not for approval as such. The Ministry of Finance will be kept in loop about the requirements of the Defence Forces in the coming years. The Ministry of Defence has submitted that non approval of Defence Plan does not act as hindrance in implementation of Defence projects. Activities planned are likely to proceed according to available annual budget allocations. The Defence Plan serves only as a guide for formulating annual budgetary projections even without the formal approval or consent of the Ministry of Finance.

It escapes the Committee's understanding that in spite of their earlier recommendations, the Ministry does not deem it important to get the Defence Plans approved by the Ministry of Finance. It is quite evident that the claims of the Ministry of carrying planned activities and projects as per the available budget allocations and projections in respect of annual budgets made in line with Five Year Plans are belied by the trends of underspending and overspending during the Defence Five Year Plans. Moreover, seeking the consent of the Ministry of Finance seems to be a logical approach as the Ministry is the authority to allocate funds for Defence Plans. Hence, the Committee desire that the Ministry of Defence should shun the practice of not taking approval for the Defence plan by the Ministry of Finance. This would amount to a holistic and prudent budget planning.

Reply of the Government

It has been decided to set up a Defence Planning Committee comprising Defence Secretary, Foreign Secretary, and Secretary (Expenditure), among others, as members. The said committee would analyse and evaluate all relevant inputs relating to Defence Planning.

LONG TERM INTEGRATED PERSPECTIVE PLAN (LTIPP)

Recommendation (Para No. 43)

The Headquarters Integrated Defence Staff (HQIDS), in consultation with the Service Headquarters (SHQs), had evolved the 15 year Long Term Integrated Perspective Plan (LTIPP). Presently, LTIPP 2012-2027is in vogue and has been approved by the Defence Acquisition Council. Proposals for acquisition of Capital Assets flow out from the defence procurement planning process which covers the 15 year LTIPP, 5 year Services Capital Acquisition Plan (SCAP)and Annual Acquisition Plan (AAP). The LTIPP is translated into the SCAP, covering a five year period. The AAP of each service is a two year roll on plan for capital acquisition and consists of the schemes from the approved five year SCAP. Thus, LTIPP gets finally translated to short term plan (AAP) and the cases included in the AAP are progressed for acquisition as per the Defence Procurement Procedure. Progress of procurement cases is regularly reviewed in Service Headquarters and the Ministry of Defence. Amendments are made to the DPP, as and when required, to streamline the acquisition process. DPP-2016 focuses on institutionalizing, streamlining and simplifying defence procurement procedure to give a boost to 'Make in India' initiative of the Government of India, by promoting indigenous design, development and manufacturing of defence equipment, platforms, systems and sub-systems.

Recommendation (Para No. 44(i))

As per the Ministry, procurement cases included in the AAP are progressed as per DPP till finalization by signing of contracts/placement of indent. The Committee have been apprised that upto November, 2017, 33 contracts worth Rs. 33,517.88 crore have been signed in respect of the three Services. The Committee would like to know the details of delivery schedule, cost implications and management of availability of funds with regard to / these contracts. As evident from the data and information made available, the Committee would once again like to recall here that there appears to be a disjunct between the availability of resources and the Demands of the Armed Forces. This appears to be more so in the case of modernization schemes Also, there are issues relating to inter services resource allocation and effective prioritization of schemes within the services.

Combined Reply of the Government on Recommendation Nos. 43 &44(i)

Capital procurement of defence equipment is undertaken in accordance with the extant Defence Procurement Procedure (DPP-2016) which contains reduced timelines for completion of various stages of procurement. Government regularly monitors progress of on-going procurement projects so as to ensure that the Armed Forces are equipped to meet the entire spectrum of security challenges.

Contracts are signed after confirmation of availability of funds. The schedule of delivery of equipment is specified in each contract. The status of defence equipment contracted during 2016-17 is given below :-

- Brahmos Regt:- 219 Missiles and Ground support equipment have been delivered.
- Pinaka Rocket Launcher: The delivery of 1st lot of Rocket launcher has been completed.
- Ballistic Helmets : The contract for capital procurement of 1,58,279 ballistic helmets was signed on 16 December, 2016. Till date, Qty, 56,000 Normal helmets and 250 Cdr helmets have been delivered.
- Light Vehicles :- 1st lot of Qty 402 has been delivered.
- Critical Rolling Stock :- Delivery has been completed.
- Ultra LightHowitzer :-The delivery of 1st lot of ULH has been completed.
- Sniper Rifles :- The contract for procurement of Sniper rifles was signed on 19th Oct, 2016. The delivery has been completed.
- Weapons for Garuds :- The delivery has been completed.
- Power Ascenders for Garuds : The delivery has been completed.
- Upgraded Indigenous Forward Observer Simulators: - As per delivery schedule, the delivery of simulator has been completed in October,2017.
- Night vision Goggles :-The delivery for procurement of Night Vision Goggles for aircraft has been completed.
- Integrated Bridge System :- 1st system of Integrated Bridge System has been delivered.
- Navy Boats :- First boat has been supplied.

- Ships Data Network :- Main equipment of 1st system was delivered in Jan,2018.
- Remotely operated Vehicle :- The system was supplied in Sep, 2017.
- Towed Wire Antenna :- The contract is on schedule and the first system has been delivered.
- Medium Voltage Lab :- The facility has been inaugurated on 24 Jan, 18. Installation, testing , training and commissioning has been completed on 25 Mar, 2018.
- Diver Held Navigation System :- The system was supplied in Mar, 2017.
- Closed Circuit and Mix Gas Diving Sets : The system was supplied in Aug, 2017.

Capital procurement of defence equipment is continuous process undertaken for modernization of Armed forces to keep them in state of readiness to meet any eventuality. The present status of equipment contracted during 2017-18 is given below :-

- Advanced Light Helicopter (ALH):- As per delivery schedule, ALH has been delivered.
- Equipment for ECI Dept :- The system was delivered in Jan 2018.
- Expendable Aerial Targets :- 1st shipment delivered in April,2018.

The deliveries in respect of other equipment including aircraft, helicopters, missiles, artillery guns, rocket launcher, simulator and ammunition would commence as per the schedule specified in each contract.

The allocation of funds is based on the contracted payment schedule. The capital budget comprises Committed Liabilities (CL) and New capital procurement cases which are accorded priority. The reprioritization of new cases is carried out to align capital procurement as per allocation of fund under capital budget.

The capital budget and Expenditure for Armed forces for the last two years are given below :-

(Rs.in crore)

Year	Revised Estimates	Expenditure
2016-17	62619.36	69280.17
2017-18	86488.01	90460.26

Recommendation (Para No. 44)

The Committee also note in this regard that the Ninth Defence Plan was the last one to receive the approval of Cabinet Committee on Security. Thereafter, all the Defence plans have been formulated and evolved within the Ministry of Defence (MoD) and the Service Headquarters (SHQs) without any external inputs or approvals. In the light of these facts, the Committee feel that it would be a necessity for taking an overall view, covering aspects over and above the Service Headquarters priorities viz. by way of including foreign policy imperatives, resource availability and indigenous capability development. For meeting this end, the Committee would recommend the Government to consider establishing an institutional mechanism, with an appropriately senior person heading it. Such an institutional mechanism could preferably be on the lines of similar institutions in the Space/Atomic Energy Sectors.

With a clearly defined mandate, such an Institution, group or Committee could, in conjunction with the Defence Acquisition Council (DAC), factor in inputs from the Ministries of Finance and External Affairs, identifying 'Make in India' opportunities, fix long term financially sustainability priorities for Defence Acquisition etc. The institution could also evolve cogent national security doctrines and related operational directives for the consideration and approval by the RakshaMantri (RM) and the CCS. The Committee wish to be informed of the action /initiatives taken towards this end.

Reply of the Government

Government has recently set up a Defence Committee (DPC) to facilitate comprehensive and integrated planning for defence matters. The DPC is a permanent body under the chairmanship of the National Security Adviser (NSA), comprising the Chairman, Chief of the Staff Committee (COSC), the Service Chiefs, Defence Secretary, Foreign Secretary and Secretary (Expenditure), Ministry of finance as members.

The DPC would analyse and evaluate all relevant inputs relating to defence planning, inter alia, national defence and security priorities, foreign policy imperatives, operational directives and associated requirements, relevant strategic and security-related doctrines, defence acquisition and infrastructure development plans, including the 15-year Long Term Integrated Perspective Plan (LTIPP), defence technology and development of the Indian defence industry and global technological advancements.

Married Accommodation Project (MAP)

Recommendation (Para No. 45)

The Ministry has informed that the overall progress of MAP Phase II is 86.5% and has also provided details of station-wise progress of the project. During oral evidence of the representative of the Ministry of Defence, Director General, MAP assured the Committee that 97.5% completion rate of MAP Phase II would be achieved by March 2019. Further, planning for MAP Phase III has commenced, process for selection of consultants has started and the Cabinet Committee on Security Note for MAP Phase III is at the stage of inter-Ministerial consultations. The Committee strongly urge the Ministry to make serious efforts for timely completion of MAP Phase II and III so as to fulfill its avowed objective of eradicating the deficiency of married accommodation for service personnel.

Reply of the Government

All possible efforts are being made to complete MAP Phase II projects in consultation with users and Station Commanders. The project is being reviewed on monthly basis by the Additional Secretary. The contracts where the performance of contractors were not found satisfactory are being cancelled for completion through Risk and Cost Contracts. The CCS Note for MAP Phase III was submitted to the Ministry of Finance. They have raised some observations which are under examination in the Ministry.

Recommendation (Para No 46)

The Committee note that no formal study on quality of construction of the accommodation provided under MAP has been done by the Ministry of Defence. The Ministry informed that guidelines and provision for quality material and quality construction are contained in Contract Agreements. Moreover, quality checks are done at various levels of officers of Married Accommodation Project/ Military Engineering Service and the contractors and consultants rectify and defects observed by them. Further, Central Vigilance Commission (CVC) and Additional Directorate General Technical Examination (ADGTE) undertake the technical audit of the MAP construction at various stages of construction. Departmental action against the delinquent officials is also taken in cases where dereliction of duties is observed. The Committee feel that even though there is an institutionalized mechanism to monitor quality of construction of houses under MAP, the ground reality can only be checked by way of inputs of the residents of its dwelling units. Hence, the Committee recommend that the Ministry undertake a formal study/ survey of the occupants of houses constructed under MAP on the basis of parameters such as, quality of construction, building material, planning etc. and thereby guage their satisfaction regarding the dwelling units.

Reply of the Government

In addition to the instituionalised mechanism to monitor quality of construction of houses under MAP, regular feedback is being obtained from users regarding quality and their satisfaction. The issues raised by the users are being promptly addressed. The feedback has been overwhelmingly positive. Further, payments to the contractors are released by the Station Commanders only on complete satisfaction of users.

(B) OBSERVATIONS/RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT AND COMMENTED UPON:

Dependence on foreign suppliers for military hardware

Recommendation (Para Nos. 24-26)

Capital procurement of Defence equipment from Indian and foreign vendors is carried out as per provisions of the Defence Procurement Procedure. Defence equipment is being imported from various countries as per the operational requirements of Armed Forces. The Committee have been informed that 187 contracts with total value of Rs.2,40,814.22crore signed during last three years and current year (upto 30.11.2017) include 119 contracts signed with Indian vendors involving Rs.1,16,522.89crore and 68 contracts with foreign vendors involving Rs.1,24,291.33 crore. The major Defence equipment imported during last three years and current year include rockets, simulator and component level repair facility for Tanks from Russia; Laser Designation Pods, radars, Pods for aircraft, Radios, Weapons for 'garuds' and missiles from Israel; aircraft, helicopters, missiles, artillery guns and simulators from USA, and aircraft, ammunition, Bimodular Charge System (BMCS) high Zone Modules of Artillery Guns from France.

The Ministry supplied the following data to the Committee detailing expenditure of the Forces on specific accounts year-wise, from 2009-10 to 2016-17.

Financial year	(Rs. in crore)		
	Army (for direct payments to foreign vendors for capital acquisitions)	Navy (for import of military equipment)	Air Force (for import of weaponry from foreign vendors
2009-10	1659.36	4576.83	4226.28
2010-11	800.39	4746.88	4364.82
2011-12	424.82	6532.37	15258.11
2012-13	884.84	5968.80	19220.95
2013-14	1365.71	12577.81	20927.55
2014-15	3452.61	6884.00	14655.75
2015-16	3004.91	6939.76	12477.45
2016-17	5263.00	6624.02	16613.24

The Committee note that during the 12th Plan (2012-13 to 2016-17), 107 contracts involving Rs.1,50,507.38 crore were signed with foreign vendors for capital procurement of defence equipment.

The Ministry has submitted that Government is taking necessary measures for building of defence capabilities to safeguard the sovereignty, territorial integrity and security of the country. To this end, capital procurement of defence equipment is undertaken from various domestic as well as foreign vendors as per the extant Defence Procurement Procedure (DPP), based on threat perception, operational challenges and technological changes and to keep the Armed Forces in a state of readiness to meet the entire spectrum of security challenges. The Committee understand that owing to lack of requisite level of core competence and technology in domestic defence sector and geo-political threats to the Nation, the import of defenceequipments becomes imminent. The Government has taken a lot of measures to encourage indigenous defence base but it will take some time for them to come up to the required level. Hence, the Committee invoke the Ministry of Defence, the Services, DRDO, OFB, DPSUs, Indian vendors and other concerned agencies to take urgent and concerted steps and leave no stone unturned in seeing that import of arms and equipment is gradually decreased and India sheds its tag of largest defence importer in the world.

Reply of the Government

(A) Defence Acquisition:

The Capital Procurement of defence equipment is a complex and time consuming process. It is however, the endeavor of the Service HQrs and Ministry of Defence that the procurement of equipment is carried out from indigenous sources as far as possible.

It is only when the equipment is not available in the country and all possible means of fresh production or joint production in the country are exhausted that Global sources are approached for procurement.

The Capital procurement of defence equipment is carried out as per Defence Procurement Procedure 2016 (DPP-2016). DPP 2016 gives strong support to “Make in India” by according topmost priority to ‘Buy Indian (Designed, Developed and Manufactured) (IDDM)’ and ‘Buy Indian’ Category. Government is pursuing initiatives to achieve higher level of indigenization and self-reliance in the defence sector by harnessing the capabilities of the public and private sector industries in the country. These measures include according priority and preference to procurement from Indian Vendor and liberalization of the licensing regime.

During the last four financial years, 128 contracts have been signed with Indian vendors and 76 contracts have been signed with foreign vendor for capital procurement of Defence equipment for Armed Forces.

Further, newly introduced Strategic Partnership (SP) Model, simplified version of Make II process and Design and Development (DD) projects by DRDO/DPSUs/OFB under the provisions of Para 72 of Chapter 2 in DPP 2016, have given further impetus to self-reliance to defence production while catering for absorption of niche technologies. In terms of prioritization, the new category of Buy (Indian-IDDM), which would also be used for procurement of all locally designed and developed items under the revamped 'Make' procedures, is placed above the existing 'Buy (Indian)' category which, in turn, is placed above the other categories, namely the 'Buy and Make (Indian)', 'Buy and Make' and 'Buy (Global)', in that order. The intent is to promote in-house design capacity and higher localization, two critical aspects, which, if implemented in the right spirit, could deepen the role of domestic industry in defence production.

The goal of self-reliance mandates the sustenance and expansion of an indigenous defence industry, backed by robust R&D. The latest to enter are the private industry bringing in their own brand of expertise. Indigenously developed products can either be productionised as complete equipment or integrated with imported items.

Recent Initiatives: In addition, numerous initiatives related to indigenous procurement process are underway. Some of the major ones are listed below:-

(a) <u>Simplified Make-II Procedure</u>: The 'MAKE' procedure of DPP-2016 is intended to promote indigenization in design and development of defence equipment. The 'MAKE' procedure classifies the projects under two categories as Make-I and Make-II, with the former being government funded and the latter self-funded by the private industry. The MoD in January 2018 announced a highly simplified procedure for the MAKE-II category of projects. All MAKE-II projects currently underway are required to be aligned to the new MAKE-II procedure.

(b) <u>Strategic Partnership (SP) Model:</u>

(I) The SP model for purchase of defence system has been approved by Defence Acquisition Council (DAC) on 20 May 2017 to be included as new Chapter-VI in DPP-2016. This chapter envisages identification and nomination of Indian Strategic Partners for development & production of critical and complex weapon platforms for the defence forces. Initially four segments have been identified for selection of Strategic Partners:

(i) Single engine fighter aircraft.
(ii) Helicopters.

(iii) Submarines.
(iv) Armoured Fighting Vehicles/ Main Battle Tanks.

(II) The SP model is aligned with the overall Make-in-India initiative of the Government. This model encourages Transfer of Technology (ToT) to Indian companies and production of complex weapon system, thereby improving the defence-industrial ecosystem in India, Prospective SPs and OEMs will be shortlisted through separate but concurrent processes after Defence Acquisition Council (DAC) approval. Once the independent processes of Short listing of Original Equipment Manufacturers and Shortlisting of Strategic Partners are completed, RFPs for a segment would be issued to the shortlisted Strategic Partners after DAC approval. A two-stage bidding system would be followed. No project as on date has been processed under this model.

Army Design Bureau (ADB): ADB has been constituted as part of Perspective Planning Directorate since August 2016 and is functioning skeletally till approval of Cabinet Committee on Security Note for its raising is formally granted by Ministry of Defence. The ADB follows up on the technological & equipment requirements for force modernization and capability building vision as given in various documents approved by the Ministry of Defence viz Long Term Integrated Perspective Plan 2012-2027 and the Technology Perspective and Capability Roadmap.

Likely Impact: The ADB acts as a single point of contact with indigenous Indian Defence Industry & Academia. It assists in facilitating the co-ordinates of various R&D efforts undertaken, identify opportunities and gaps in technology and equipment which can be taken up for indigenization and provides useful inputs to assist in better understanding of Army's requirement to the Industry & Academia. It supports research work in various Academic Institutions by providing financial support to projects undertaken through Army Technology Board and Technology Development Fund. These actions will assist in development of indigenously developed technological base and strengthen the overall capability of domestic defence industry. The impact of these actions will be felt in the mid-term when the indigenously developed technology is exploited and integrated into new systems identified for procurement thereby improving self-reliance in the Defence Sector.

(B) Defence Production:

The strengthening of defence-industrial base of the country is a continuous process and is undertaken by the Government periodically based on the requirements, viability, availability of resources etc. In regard to these factors, currently, the defence industrial base under the Government sector consists of 41 Ordnance Factory units and manufacturing units of 9 Defence Public Sector Undertakings. In addition to this, in the private sector, till April, 2018, 224 Indian Companies have been issued 368 licenses for manufacturing in Defence sector, out of which, 70 licensed companies covering 114 licenses have reported commencement of production.

Recently, it has been decided to establish two Defence Industrial corridors, one in Tamil Nadu and the other in Uttar Pradesh. A detailed Project Report (DPR) will be prepared for setting up of these corridors. Based on the DPR, the proposal for setting up of defence industrial production corridors covering all aspects namely, timelines, details of expenditure etc. would be decided. In regard to the Defence corridor in Tamil Nadu, five industrial meets have already been held. In Uttar Pradesh, four such meets have already taken place at Jhansi.

(C) Research and Development:

Defence Research & Development Organisation (DRDO) is developing a number of systems for the Services; which will be produced by the Indian industry. 14 such systems costing Rs. 85383.31 crore after undergoing various trials have been granted Acceptance of Necessity (AoN) and approved for induction in the Armed Forces. List of systems designed and developed by DRDO and approved for induction in the last two years is attached below:

DAC approvals for Systems Developed by DRDO: 2016-2017

Major systems developed by DRDO and approved by DAC for induction in the Services during the last two years include:

Sl. No.	System/Equipment	Service	Qty	Cost (crore)
1.	The following sub-systems are approved to be developed by DRDO in “Nomination of Weapon and Sensors for P-17A Ship on Single Vendor Basis” on 11 March, 2016:	IN	-	-
	LRSAM and MF Star		07	Rs. 8054.83
	Surface to Surface Missile System		07	Rs. 960.12
	EW System Shakti with Nayan COMINT		07	Rs. 1061.83
	HUMSA NG with training gear including XBT, UWT & XCDT		07	Rs. 570.22
	Indigenous ASW Complex (IAC) MoD C		07	Rs. 183.68

	Total cost of systems for P-17A to be developed by DRDO			Rs. 10830.68
2.	Procurement of 83 Light Combat Aircraft (LCA) Mk 1A for IAF on 07 November 2016	IAF	73 LCA Tejas Mk 1A Fighter and 10 LCA Tejas Mk 1 Twin Seater	Rs. 49797.50
3.	Varunastra torpedo on 7 Nov 2016	IN	63	Rs. 1249.84
4.	Cdr T1 Sight for T-90 (IM) S/SK on 07 Nov 2016	IA	464	Rs. 375.00
5.	Modernised NBC Protection system for BMP 2/2K on 23 Dec 2016	IA	1504	Rs. 1265.13
6.	Low Level Light weight Radar (LLLR) Mk-II on 23 Dec 2016	IA	53	Rs. 419.00
7.	Multi Mission Maritime Aircraft on 23 Dec 2016	ICG	06	Rs. 7718.96
8.	Short Range Surface to Air Missile (SRSAM) System on 20 May 2017	IA	1980	Rs. 10000.00
9.	Upgradation of BMP-2 to BMP-2M (Armament Upgrade, Night Enablement & FCS) on 08 July 2017	IA	693	Rs. 2390.85
10.	Procurement of BMP-II based Carrier Command Post Tracked (CCPT) Vehicle for 155mm/52 Calibre Tracked (SP) Regiments on 08 July 2017	IA	43	Rs. 405.49
11.	Procurement of 08 x HUMSA Upgrade (UG) Sonars for IN Ships, along with One System for Valsura and One Simulator for ASW School on 27 Sep 2017	IN	08	Rs. 203.79
12.	Procurement of Bund Blasting Device Mark II on 31 Oct 2017	IA	502	Rs. 28.65

13.	Procurement of Mine Anti Personnel Blast NIPUN (NFM) on 31 Oct 2017	IA	6,97,079	Rs. 58.42
14.	Software Defined Radio (SDR) for Naval communication (NC) on 12 Dec 2017	IN	270	Rs. 640.00
Total Cost				Rs. 85383.31

(For comments of the Committee, please refer to Para No. 21 of Chapter-I of the Report)

CHAPTER III

OBSERVATIONS/RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE REPLIES RECEIVED FROM THE GOVERNMENT

Defence Procurement Procedure 2016

Recommendation (Para Nos. 19)

The policy for procurement of defence equipment for the Armed Forces aims to ensure timely procurement of military equipment, systems and platforms as required by the Armed Forces in terms of performance capabilities and quality standards, through optimum utilization of allocated budgetary resources. The policy also seeks to ensure that the highest degree of probity, public accountability, transparency, fair competition and level-playing field are achieved in the process of procurement. In addition, self-reliance in defence equipment production and acquisition is steadfastly pursued as a key aim of the policy. The policy is implemented through the mechanism of Defence Procurement Procedure (DPP).

Reply of the Government

These are mere observations of the Committee based on the information provided by MoD. Therefore, no further action is envisioned.

Recommendation (Para No.20)

As part of the implementation of the report of the Group of Ministers on reforming the National Security System, new Defence Procurement Management Structures and Systems were set up in the Ministry of Defence in 2001. In order to implement the provisions laid out in the new Defence Procurement Management Structures and Systems, the procedure for Defence Procurement dated 28 February 1992 was revised. The Defence Procurement Procedure-2002 (DPP-2002) was applicable for procurements flowing out of 'Buy' decision of Defence Acquisition Council (DAC). The scope of the same was enlarged in June 2003 to include procurements flowing out of 'Buy and Make' through Imported Transfer of Technology (ToT) decision. The Defence Procurement Procedure has since been revised in 2005, 2006, 2008, 2009, 2011, 2013 and 2016 enhancing the scope to include 'Make', 'Buy and Make (Indian)', 'Buy(Indian-IDDM)' categories, concept of 'Offsets' and Ship Building procedure. A new Chapter on Strategic Partnership in Defence sector has been incorporated in DPP-2016 in 2017 intending to institutionalise a transparent, objective and functional mechanism to encourage broader participation of the private sector, in addition to DPSUs/OFB, in the manufacture of Defence platforms and equipment such as aircraft, submarines, helicopters and armoured vehicles. It will serve to enhance competition, increase efficiencies, facilitate faster and more significant absorption of technology, create a tiered industrial ecosystem, ensure development of a wider skill base and trigger innovation, leading to reduction in dependence on imports and greater self-reliance in meeting national security objectives. While deposing before the Committee, the Defence Secretary admitted that the Ministry has not undertaken any impact analysis of DPP 2016, with a view to assessing the reduction of number of days taken in the procurement process, percentage of changes in the level of indigenization and 'Make in India' Projects etc. The Committee desire that the Ministry undertakes such analysis and apprise them accordingly in the Action Taken Note. The Committee trust that the amended Defence Procurement Procedure would bring forth the much needed structural and systemic changes necessary in the defence procurement and the Ministry would go the extra mile to implement the changes made in the Procedure.

Reply of the Government

It is evident that defence capital procurements involve a long gestation period. Therefore, keeping the complex nature of defence procurements, it would be premature to carry out such a study.

CHAPTER IV

OBSERVATIONS/RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION AND COMMENTED UPON:

Allocations under Capital Budget Head

Recommendation (Para No. 1)

The Committee note that an amount of Rs. 93,982.13 crore has been allocated to the Ministry of Defence for Capital Outlay on Defence Services in Budget Estimates (BE) 2018-19. An amount of Rs. 74,115.99 crore and Rs. 9,318.05 crore, respectively, has been allocated for Capital Acquisition (including DGOF supplies) and Land and Works of the three Services (including Married Accommodation Projects) for 2018-19. An amount of Rs. 10,548.09 crore has been granted for Defence Research and Development Organisation (DRDO), Directorate General of Ordnance Factories (DGOF) and other Defence Departments for 2018-19. The allocation at BE for 2017-18 was Rs. 86,488.01 crore, which remained same at Revised Estimates (RE) stage. The difference between BE 2018-19 and BE 2017-18 is Rs. 7,494.12 crore. The Committee opine that keeping in view the likely cost escalation due to inflation, this increase of Rs. 7,494.12 crore from last year is quite minimal to meet requirements of Capital acquisition and other works planned for 2018-19. Therefore, the Committee would like the Ministry of Defence to strongly put its case before the Ministry of Finance for adequate allocation of funds, commensurate with the requirement of Modernisation and acquisition plans for 2018-19.

Reply of the Government

This Ministry had forwarded the projected requirements made by the Services amounting to Rs. 1,72,203.30 Crore under Capital Budget for FY 2018-19 to M/o Finance for favourable consideration. The said projected amount included amount of Rs. 1,10,043.78 Crore for Committed Liability and of Rs. 31,434.88 Crore for New Schemes. In response, M/o Finance conveyed ceiling of Rs. 93,982.13 Crore under Capital Budget. This Ministry is bound by the budgetary ceilings conveyed by M/o Finance. The reduced allocations were passed on uniformly among all the Services. The Committee may however be assured that projections / requirements of the Services under Capital Head will be forwarded to Ministry of Finance for favourable consideration at Supplementary/RE stage.

(For comments of the Committee, please refer to Para No. 7 of Chapter-I of the Report)

Analysis of Capital Budget allocated to the Services for 2018-19

Recommendation (Para Nos. 2-7)

The details of Service-wise projections and allocations made under Capital and Revenue heads for 2018-19 are as follows:

(Rs. in crore)

Service	Revenue		Capital		Total Allocation (Revenue + Capital)
	Projection	Allocation	Projection	Allocation	
Army	1,51,814.73	1,27,059.51	44,572.63	26,815.71	1,53,875.22
Navy	20,188.25	16,618.88	35,695.41	20,003.71	36,622.59
Joint Staff	3,559.50	2,952.49	2,237.03	844.45	3,796.94
Air Force	35260.79	28,821.27	77,694.74	35,770.17	64,591.44

The Committee observe there is huge shortfall in projected and allocated amounts in Capital head for the Services in 2018-19. The shortfall stands at Rs.17,756.92 crore, Rs.15,691.70 crore,Rs.1,392.58 crore and Rs.41,924.57 crore for Army, Navy, Joint Staff and Air Force, respectively.

The Vice Chief of Army Staff (VCOAS), in his candid submission before the committee, claimed that the marginal increase in Capital Budget allocation for Army had dashed their hopes as it was barely enough to cater to the rise in expenses on account of inflation, and did not even cater for the taxes. He further stated that allocation for modernization in 2018-19 was insufficient to cater for Committed Liabilities, ongoing schemes, 'Make in India' projects, infrastructural development, policy of strategic partnership of foreign and Indian companies and procurement of arms and ammunition.

The Committee were particularly alarmed to note from his oral evidence that although the Ministry of Defence had delegated financial powers upto Rs.14,097 crore to the VCOAS towards security related issues, there was no separate allocation for this in the Capital Budget allocation in 2018-19. Hence, the Ministry is left with no other option but to reduce resources for security of military stations or compromise on other acquisitions.

In their Power-point presentation before the Committee, the representatives of Navy also enunciated the impact of low allocations of Capital budget for Navy viz constrained progress of New Schemes and ability to conclude contracts, delay in induction of critical capabilities and attendant cost overruns, impact on progress of infrastructure projects and mitigation of shortage of accommodation, and setback to pace of modernization of Indian Navy.

The Committee are aghast to note this dismal scenario where the representatives of the Services have themselves frankly explained the negative repercussions on our Defence preparedness due to inadequate allocation in Capital head. Therefore, the Committee fervently urge the Ministry of Defence to ensure that the allocations to the Services be suitably enhanced at the Revised estimate stage so as to enable our Services to meet the requirements of highest level of operational readiness. The Committee, in wake of recent attacks on military stations and accommodations, recommend that separate budget may be provided to the Services for ensuring security of the military establishments.

Reply of the Government

The recommendation of the Committee has been noted and it may be assured that projections/ requirements of the Services under Capital Head will be forwarded to Ministry of Finance for favourable consideration at RE 18-19 stage. Further, the available resources will be optimally utilized based on prioritized requirements of the Services and all efforts will be made to ensure that critical requirements of Services are duly addressed.

(For comments of the Committee, please refer to Para No. 10 of Chapter-I of the Report)

Capital Acquisitions - Creation of 'Roll On' and 'Non Lapsable Fund'

Recommendation (Para No. 11-15)

The Committee have, in their reports presented earlier, emphasised on the allocations being of 'Roll on' and 'Non-Lapsable’ in nature. However, The Ministry of Defence in the information furnished to the Committee on the subject matter in the past had, in general, not favoured the proposal for constituting a Non-lapsable Defence Capital Fund Account , ostensibly on the plea that there had been no occasion in the last five years where any substantial amounts were available as surplus for rolling over. The Committee are glad to note that the Ministry of Defence reviewed its stated position in 2017 and admitted that the utility of creation of a non-lapsable, roll over fund for Capital could not be completely negated as the same would help in eliminating the prevailing uncertainty in providing adequate funds for various defence capability development and infrastructure projects.

As per the information furnished by the Ministry, a proposal for creation of Non-lapsable Capital Fund Account was sent to the Ministry of Defence after obtaining approval of Hon’bleRakshaMantri, but the same was not agreed to by the Ministry of Finance stating following reasons:

- Adequate budget provision is made available to Ministry of Defence to finance the capital requirements of Defence Services;
- Balances available in the non-lapsable funds will not be available to Ministry of Defence automatically. It requires Parliament's sanction through Demands for Grants of Ministry of Defence for being spent on Defence Capital Expenditure. Hence, mere creation of non-lapsable funds yields no additional advantage to Ministry of Defence and could rather induce complacency in incurring expenditure;
- Funds in the Public Account are generally created with dedicated receipts for being financed. In this case, there are no such dedicated receipts for financing the corpus of the reserve fund proposed to be created in the Public Account;
- Creating a corpus out of general revenues could lead to unnecessary parting of funds and make them unavailable for other essential expenditure. Thus, non-lapsable funds result in sub-optimal utilization. Standing Committee on Finance (16thLok Sabha), in its 2nd Report on Demands for Grants of Ministry of Finance for the year 2014-15, recommended that the unutilized funds/funds kept idle for more than two years may be transferred to Consolidated Fund of India so that these funds could be utilized for other prioritized schemes; and
- Moving general revenue out of Consolidated Fund and parking in corpus fund is against the spirit being Article 266(1) of the Constitution. Giving go ahead in one case could raise competing demands from other Ministries.

The Committee are disappointed to note that the Ministry of Finance has not agreed to the proposal of creating a 'Non-lapsable Defence Capital Fund Account'. The Committee would like to draw the attention of the Ministry of Finance to the fact that in the last few years, the allocations for the Ministry of Defence under the 'Capital' head have inevitably been lesser than the projection. To illustrate, against a projection of Rs.1,60,199.81 crore for Capital Budget in 2018-19, only Rs.83,434.04 crore have been allocated at the BE 2018-19 for the Defence Services (Army, Navy, Joint Staff and Air Force), a shortfall of Rs.76,765.77 crore. The representatives of the Ministry of Defence and the Services, during oral evidence, also deposed about the depressing scenario of our Defence sector due to non-allocation of adequate funds in Capital Budget for 2018-19.Therefore, the Committee feel that the contention of the Ministry of Finance that the desired objectives of Ministry of Defence towards meeting its contractual liabilities, acquisitions and defence modernization can be achieved through normal budgetary mechanism is not corroborated by the facts.

Further, Defence procurement and acquisition is a complicated process involving long gestation periods and funds allocated for capital acquisition in a particular financial year are not necessarily consumed in that year and ultimately have to be surrendered by the Ministry of Defence. The intention of the Committee in recommending having a Non-Lapsable Capital fund account for Defence modernization is primarily for ensuring that the money allocated for a particular item is spent on the specified item only, not necessarily in the same Financial year. The Ministry of Finance needs to note that creation of Non-Lapsable Fund meant for the Ministry of Defence is not to cater for facilities, perks or social schemes but an imperative need for enhancement and heightened operational preparedness of our Defence Forces. Hence, there would be no issue relating to raising competing demands from other Ministries.

The Ministry of Finance gave the reasoning that balances available in the non-lapsable fund will not be available to Ministry of Defence automatically as it requires Parliament's sanction through Demands for Grants of Ministry of Defence for being spent on Defence Capital Expenditure. Further, moving the general revenues out of the Consolidated Fund and parking in a ‘corpus fund’ is against the spirit of Article 266(1) of the Constitution. The Committee, in this context, would like to emphasize that even if certain financial rules and regulations have to be amended for creation of a 'Non-lapsable Defence Capital Fund Account 'to meet the requirements of our Defence forces, it can, and should be done in the interest of the Nation without getting embroiled in complicated financial discourse. Moreover, creation of such a fund would also ensure that procurement of equipments, arms and ammunition for our Defence Forces which are in the pipeline and in the stage of fructification is not delayed because of lack of money and due to technicalities of rules and regulations. Hence, the Committee would like the Ministry of Finance to shun their rigid stance on the issue of creation of a 'Non-lapsable Defence Capital Fund Account' and come up with a solution in consultation with the Ministry of Defence and apprise the Committee in due course.

Reply of the Government

As per recommendations of the Committee, the matter has been taken up with Ministry of Finance.

(For comments of the Committee, please refer to Para Nos. 13, 14 and 15 of Chapter-I of the Report)

Committed Liabilities and New Schemes

Recommendation (Para Nos. 16-18)

Committed Liability refers to payments anticipated during a financial year in respect of contracts concluded in previous years. Under the Defence Services Estimates, Committed Liabilities constitute a significant element in respect of the Capital acquisition segment, since one project may span several financial years. As such, it is important to track the element of Committed Liabilities that hold first charge on the budget allocation. New Schemes include new projects/proposals, which are at various stages of approval and are likely to be implemented in near future. The Committee have learnt that in the Defence Services Estimates, there is no separate allocation of funds for Committed Liabilities and New Schemes. Projection for Capital Acquisition made to the Ministry of Finance includes both Committed Liabilities and New Schemes.

The representatives of the Ministry of Defence and Services, deposing before the Committee during examination of demands for Grants for the year 2018-19, explained the process of prioritisation of Committed Liabilities and New Schemes according to availability of funds. After receiving the allocation of funds by the Ministry of Finance, the Ministry of Defence communicates this financial ceiling to the Service Headquarters. The Service Headquarters, in consultation with the Defence Secretary, Financial Advisor and other competent authorities, decide the urgent and critical capabilities to be acquired with the available funds. While deciding the priority, factors which are kept in mind are, impact on modernisation and payment to be made to foreign vendor defaulting of which could attract penal interest as well as legal action.

The Ministry, in its written reply, has submitted that the schemes were reprioritized to ensure that urgent and critical capabilities are acquired without any compromise to operational preparedness of the Defence Services. However, the oral evidence tendered by the representatives of the Ministry of Defence and Services belies this claim of the Ministry as they themselves deposed before the Committee that lack of sufficient funds in Capital Head would lead to elimination of some priority acquisition cases and new schemes. Further, the reduced allocation in committed payments may lead to possibility of additional interest and litigation. Therefore, the Committee recommend that adequate allocations should be made for Committed Liabilities and New Schemes in order to ensure that the modernization process of the Defence Forces is not halted for want of funds.

Reply of the Government

For BE 2017-18, this Ministry had projected a requirement of Rs. 1,18,946.40 crore under Capital Acquisition head, however an amount of Rs. 69,473.41 crore was allocated based on ceilings conveyed by Ministry of Finance.

Funds allocated under Capital Budget are first assigned for Committed Liabilities as these payments cannot be avoided. The funds for New Schemes are catered through Capital Acquisition Head of Capital Budget. It may be added that re-prioritisation is done to ensure that critical requirements of Services are adequately addressed.

(For comments of the Committee, please refer to Para No. 18 of Chapter-I of the Report)

CHAPTER V

OBSERVATIONS/RECOMMENDATIONS IN RESPECT OF WHICH GOVERNMENT HAVE FURNISHED INTERIM REPLIES

-NIL-

New Delhi;	**Kalraj Mishra,**
4 January, 2019	**Chairperson,**
14 Pausa, 1940 (Saka)	**Standing Committee on Defence**

APPENDIX I

STANDING COMMITTEE ON DEFENCE

MINUTES OF THE THIRD SITTING OF THE STANDING COMMITTEE ON DEFENCE (2018-19)

The Committee sat on Friday, the 4th January, 2019 from 1500 hrs. to 1645 hrs. in Committee Room No. 'C', Parliament House Annexe, New Delhi.

PRESENT

Shri Kalraj Mishra - Chairperson

MEMBERS

LOK SABHA

2 Km Shobha Karandlaje
3 Smt Mala Rajya Laxmi Shah
4 Shri Dharambir Singh
5 Smt Pratyusha Rajeshwari Singh

RAJYA SABHA

6 Dr Ashok Bajpai
7 Shri Madhusudan Mistry
8 Shri Soumya R Patnaik
9 Shri G V L Narasimha Rao
10 Shri Ram Nath Thakur
11 Lt. Gen. Dr D P Vats

SECRETARIAT

1. Smt. Kalpana Sharma - Joint Secretary
2. Shri Srinivasulu Gunda - Director
3. Shri Rahul Singh - Deputy Secretary

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

(i) Action Taken by the Government on the Observations/Recommendations contained in the Fortieth Report (16th Lok Sabha) on ‘Demands for Grants of the Ministry of Defence for the year 2018-19 on 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 (Demand Nos. 19 and 22);

(ii) Action Taken by the Government on the Observations/Recommendations contained in the Forty-first Report (16th Lok Sabha) on ‘Demands for Grants of the Ministry of Defence for the year 2018-19 on Army, Navy and Air Force (Demand No. 20)’;

(iii) Action Taken by the Government on the Observations/ Recommendations contained in the Forty-second Report (16th Lok Sabha) on 'Demands for Grants of the Ministry of Defence for the year 2018-19 on Capital Outlay on Defence Services, Procurement Policy and Defence Planning (Demand No. 21)'; and

(iv) Action Taken by the Government on the Observations/ Recommendations contained in the Forty-third Report (16th Lok Sabha) on ‘Demands for Grants of the Ministry of Defence for the year 2018-19 pertaining to Revenue Budget of Ordnance Factories, Defence Research and Development Organisation, DGQA and NCC (Demand No. 20)’.

3. After deliberation, the Committee adopted the above Reports and authorized the Chairperson to finalize and present the Reports to Parliament on a convenient date alongwith the Reports on Action Taken by the Government on the Observations/ Recommendations contained in the Thirty-second Report (16th Lok Sabha) on 'Creation of Non-Lapsable Capital Fund Account, instead of the present system' and Action Taken by the Government on the Observations/ Recommendations contained in the Thirty-third Report (16th Lok Sabha) on 'Resettlement of Ex-Servicemen', which were already adopted by the Committee on 14.11.2018.

4. *******

The Committee then adjourned.

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

****Does not pertain to the Reports.

APPENDIX II

ANALYSIS OF THE ACTION TAKEN BY THE GOVERNMENT ON THE OBSERVATIONS/ RECOMMENDATIONS CONTAINED IN THE FORTY-SECOND REPORT (16TH LOK SABHA) ON 'DEMANDS FOR GRANTS OF THE MINISTRY OF DEFENCE FOR THE YEAR 2018-19 ON CAPITAL OUTLAY ON DEFENCE SERVICES, PROCUREMENT POLICY AND DEFENCE PLANNING (DEMAND NO. 21)'

1. Total number of recommendations **46**

2. Observations/Recommendations which have been accepted by the Government (please see Chapter II A):

Recommendation Nos. 8, 9, 10, 21, 22, 23, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45 and 46

Total : 26
Percentage: 57%

3 Observations/Recommendations which have been accepted by the Government and commented upon (please see Chapter II B):

Recommendation Nos. 24, 25 and 26

Total : 03

Percentage: 6%

4. Observations/Recommendations which the Committee do not desire to pursue in view of the replies received from the Government (please see Chapter III):

Recommendation Nos. 19 and 20

Total : 02
Percentage: 4%

5. Observations/Recommendations in respect of which replies of Government have not been accepted by the Committee and which require reiteration and to be commented upon (please see Chapter IV):
Recommendation Nos. 1, 2, 3, 4, 5, 6, 7, 11, 12, 13, 14, 15, 16, 17 and 18

Total : 15
Percentage: 33%

6. Observations/Recommendations in respect of which Government have furnished interim replies/replies awaited (please see Chapter V):

Nil

Total : 00
Percentage: 0%