<u>Defence: Good beginning but much works remains</u>

By Nitin A. Gokhale

In the four years of his tenure, Prime Minister Narendra Modi's political handling of the defence defence can at best be described as mixed. Somehow, the chutzpah he has displayed in executing a bolder foreign policy has been missing in initiating much-needed reforms in higher defence management.

Four defence ministers in four years is not something the Prime Minister would be proud of. Admittedly, there have been political compulsions forcing the frequent changes at the top. However, in terms of processes and procedures, it would be unfair to blame the Modi government alone for the mess in which the defence sector finds itself in mid-2018.

A combination of prolonged neglect and unstructured acquisition by the previous governments meant that the armed forces have been struggling to keep their arsenal up to date for the past 15 years or so. Critical shortages were never made up in time, leading up to a huge backlog difficult to be made up in shorter time frame.

The saga of procuring fighter jets for the Indian Air Force (IAF) is a case in point. The IAF first articulated the need to acquire 126 fighter jets by 2010 in 2001. In nine years, the IAF said, it would have to phase out the vintage MiG-21 series of aircraft and replacement should be procured by the end of the first decade of the 21st century. Thanks to the indecisiveness of two successive UPA governments, the procurements never happened. It was left to Modi and his most effective defence minister Manohar Parrikar to find a stop gap solution. The first of the combat jets first envisaged in 2001 will thus join the IAF in early 2019!

Fixing the dysfunctional procurement system apart, one of the Modi government's decision to fulfil one of its biggest election promise—granting the 45-year old demand of One rank One Pension to the armed forces in one go dealt a body blow to defence finances. It just added to the ballooning salary and pension bill, without commensurate political returns for the government. From a share of about 45 per cent of the MoD budget in 2014-15, today, the pay and pension bill in 2019 has risen to a whopping 56 per cent while the allocation for acquiring new weaponry (capital expenditure) has come down from 21 per cent in 2014-15 to a mere 18 per cent in current budget. In the budget for 2018-19, finance minister Arun Jaitley allocated Rs 4,04,365 crore (US $62.8 billion) for the Ministry of Defence (MoD). Of the MoD's total allocations, Rs 2,79,305 crore ($43.4 billion)--including revenue and capital-- was earmarked for India's defence budget, and the balance was distributed between MoD (Miscellaneous) (Rs 16,206 crore) and Defence Pensions (Rs 1,08,853 crore).

This high manpower cost is obviously unacceptable and the government will have to find ways to curtail this expenditure. One way of doing it is to right size the forces since pension is an obligation that the nation has to fulfil for supporting its former soldiers. In the government's internal discussions the limits to the fund available to the defence forces has been flagged time and again. The MoD budget is already 33 per cent of the capital expenditure of the government and 11.58 per cent of the overall expenditure, it has been pointed out. To expect more funds under the current circumstances is therefore impractical, military planners have concluded. The trick would therefore be to maximise the utilisation of available funds and reprioritise the areas of acquisition and modernisation.

The formation of Defence Planning Committee (DPC) under the chairmanship of National Security Adviser (NSA) Ajit Doval in April 2018 has therefore not come a day too soon. Mooted in the MoD and authorised by the Prime Minister, the DPC has evoked a mix response among commentators and strategic experts. Some have predictably slammed the move, calling it an attempt to stymie appointment of a Chief of Defence Staff (CDS) for the three services; others think the new body is just a stop gap arrangement to bring in better coordination among various arms of the government to revitalise the defence sector. Both opposing viewpoints miss the wood for the trees.

The DPC is much more than a body to just improve defence procurements or revitalise defence diplomacy. Its formation is part of a larger exercise ordered by the Prime Minister's Office (PMO) to review the existing structures that give inputs on vital national security issues and provide advice to the Cabinet Committee on Security (CCS), the highest decision-making body that finally approves crucial steps to protect India's national interests.

Simultaneously, the PMO had asked the National Security Advisory Board (NSAB) in 2017 to review the functioning of the National Security Council Secretariat (NSCS) and entrusted it with writing a National Security Strategy. The NSAB has recommended revamp of the NSCS some months ago, suggesting creation of new verticals to ensure focused attention to specific subjects. Four of those verticals--Policy and strategy, Planning and capability development, Defence diplomacy and Defence manufacturing—have been included in the DPC. The other verticals will continue to remain under the NCSC but with more specialisation built into their functioning. So for instance, two separate sections on space and cyber security will take on board on-field practitioners for real-time utilisation of their skills.

Of the four verticals entrusted to the DPC, the section on defence procurements has attracted the most attention in the public discussion so far because of recent revelations that majority of India's military arsenal is either outdated or is getting there quickly. As a consequence, the DPC is expected to first concentrate on repairing the dysfunctional procurement process and align future acquisitions with the quantum of funds that are likely to be available in the next few years. It is here that the inclusion of Secretary Expenditure from the Ministry of Finance in the DPC is welcome. While the Defence, Foreign and Home

Secretaries have always been part of committees and groups entrusted to deal with strategic issues, it is perhaps for the first time in recent years that a finance ministry official has been included in a high-powered committee dealing with issues of national security.

Defence Production policy

Even as the DPC hunkers down, there is a lot of restructuring and revamp happening within the MoD. The new draft Defence Production Policy (http://ddpmod.gov.in/sites/default/files/Draft%20Defence%20Production%20Policy%202018%20-%20for%20website.pdf), for instance. It may appear overly ambitious in its scope and vision. It says for example, "to reduce current dependence on imports and to achieve self-reliance in development and manufacture of following weapon systems/platforms latest by 2025: Fighter Aircraft, Medium Lift and Utility Helicopters, Warships, Land Combat Vehicles, Autonomous Weapon Systems, Missile Systems, Gun systems, Small Arms, Ammunition and Explosives, Surveillance Systems, Electronic Warfare (EW) Systems, Communication Systems and Night Fighting Enablers." Given the experience so far, a seven-year time line to design, develop and manufacture the above mentioned platforms is a tough ask.

A closer scrutiny however reveals that a deliberate roadmap is being evolved to make India one of the top five defence and aerospace hubs in the world that can create and support jobs for two to three million people by 2025. Hindustan Aeronautics Ltd (HAL), India's only aeronautical company, is already making the Light Combat Aircraft (LCA). But it will need major financial and technological boost (may be even a strategic tie-up with an aerospace major), to meet the ambitious objective, even partially.

Aiming to achieve a turnover of over 26 billion dollars in the Indian defence sector by 2025, the Department of Defence Production under the Ministry of Defence (MoD) has proposed several major changes in rules and regulations that have so far governed the sector in accordance with the 2011 Defence Production Policy.

One significant new proposal is to allow 74 per cent Foreign Direct Investment (FDI) via the automatic route in niche technology areas. If implemented, major Defence and Aerospace players across the world are likely to make big plans for India since the current 49 per cent limit has so far failed to attract any major investment. The world's large aerospace companies—hoping to corner big business from the Indian Air Force (IAF)—are sure to look at this option more seriously since the enhanced limit will give them the necessary controlling stake in the proposed manufacturing facilities in India. While the planned new acquisition of combat aircraft for the IAF could be long drawn out process, military aviation majors could potentially look to establish assembly lines in India and export their products across the world.

The draft policy's suggestion to include investment linked option under the offset guidelines will also likely ease the process of discharging offsets. Currently, nearly 20 billion dollars worth of offsets are pending execution because of various reasons. However, the final policy guidelines must make sure to impose limits to foreign investment in Indian companies as part of the offset obligations. Otherwise there's a danger of smaller Indian entities being bought out by bigger players with deeper pockets.

One more welcome feature in the proposed offset changes is to allow Indian offset partners to export parts and accessories developed/manufactured under the offset discharge programme. If implemented, it will provide one more revenue stream for the Indian offset partners.

At the same time, the draft policy recognizes the need to limit the role of the state-run defence sector units to niche areas while simultaneously proposing several measures to boost participation of Indian MSMEs and innovators. Already over 250 'non-core' items earlier manufactured and supplied by the Ordnance Factory Board (OFB) and Defence Public Sector Units (DPSUs) have been taken away and given to private sector. One would have however liked more clarity on steps to revamp and revitalize (and may be partially privatise) the OFB facilities and DPSU units.

The policy does talk about some steps to improve productivity in OFB and DPSUs, the government is unlikely to take any drastic step to shake up or downsize these facilities in the immediate future, fearing backlash from unions and well-entrenched interests since over 100,000 people are employed in these units. The draft policy states: "OFB/DPSUs will be encouraged to increase productivity and timely execution of orders by addressing issues of high inventory handling, greater vendor outsourcing, improving skill levels, overall programme management etc…Ordnance Factories will be professionalized to make them competitive and improve their productivity." It also adds that "Disinvestment of minority stake in DPSUs will be pursued."

On another front, increasing defence exports from India is a laudable objective but given that so far, Indian products have not found much favour outside the country, the aim is difficult to fulfill in the suggested timeframe, although one must acknowledge that in the past couple of years, exports have shown an upward trend.

Overall, the new draft policy is a leap of faith that will need 'all of government approach,' to succeed. Let's hope for the sake of the country and the armed forces that further liberalization and improving the ease of doing business in defence will make that objective achievable.

BANG FOR THE BUCK

Even as policies and guidelines get finalized to revitalize the Indian defence sector, many new initiatives and systems have been introduced to utilize current fund allotment to its full extent. So, in 2017-18, for the first time since the Kargil conflict in 1999, the Indian Army's ammunition stock, inventory of spares and maintenance of existing critical equipment is up to date, thanks to a combination of emergency procurement and revamped management system.

In late 2016, the Army signed 19 major contracts worth Rs 11,000 crore to replenish about 10 different types of ammunition. Deliveries in three of the bigger contracts have been completed and 13 others are on the verge of being fulfilled by end of 2018. Similarly, the Indian Air Force and Indian Navy too bought ammunition and spares worth over Rs 10,000 crores to make up for years of neglect and indecision.

Additionally, over 75 contracts to buy and stock crucial spares for different equipment worth over Rs 15,000 crore (to be spent over the next four years) have been signed by the Army in 2017-18. These two measures alone have ensured that ammunition stock is up to date and almost 95 per cent of crucial equipment and platforms like Type A vehicles (armoured personnel carriers, army air defence platforms), all guns, UAVs and LORROS--Long-Range Reconnaissance and Observation System--and even general vehicles are on road that is they are serviced and ready for use whenever required. Earlier, at least 40 per cent of these platforms used to be 'off-road (that is they were unserviceable).'

Similarly, a decision to establish two MRO (maintenance, repair and overhaul) hubs for the Army's fleet of Advance Light Helicopters (ALH) at Mamun (in North India) and Missamari (Assam) has ensured that at least 65 to 70 per cent of the fleet is now available to fly any time against just about 30 to 35 per cent before 2015 because the helicopters had to be sent to Bangalore or the maintenance staff had to travel the long distance to the bases spread across Northern and Eastern Commands.

Decentralization of financial powers and emphasis on sourcing more equipment and stores from indigenous sources, thanks to the decision made by former defence minister Manohar Parrikar and continued to be supported by the incumbent minister Nirmala Sitharaman, has resulted in improved efficiency.

For example, earlier even a simple decision to buy light utility vehicles for the Army had to go to the MoD which meant the entire process used to take a minimum of two years. Now thanks to decentralization, service HQs are able to procure them in six months!

Similarly, the decision to source 'non-core' items from the local suppliers rather them buying them through the Ordnance Factory Board (OFB) as was done earlier, is resulting in massive saving. Over 80 items like berets, caps, socks, belts, sweaters, sports shoes etc are now being directly bought from the market. Earlier, OFB used to source these items from the market and used to sell it to the forces at a higher price. For instance, the common combat uniform worn by all the troops was costing the organization four times the market cost! Today thanks to direct sourcing, best quality light rucksacks, knives, sports shoes, track suits and uniform, is being made available to the troops at a much lesser cost.

The beginning of the turnaround dates back to end-September 2016, in the immediate aftermath of the Uri attack and the subsequent surgical strikes inside Pakistan-Occupied Kashmir (PoK). A thorough stock taking then revealed that some of the critical ammunition was down to less than a day's stock and some others were dangerously low. For instance, Anti-tank ammunition called armour-piercing, fin-stabilised, discarding sabot (APFSDS) was completely out of stock, while ammunition for Smerch system and Konkurs missiles was down to two days of supply.

So teams were dispatched to friendly countries with authorization to sign contracts on the spot. Simultaneously, all the three vice chiefs were authorized to ensure that all ammunition and spares needed to fight ten days of intense war is always kept in stock. Called the 10i (ten days of intense war fighting) scheme, the three vice chiefs have made sure between September 2016 and now, all the procurements have been done to meet that requirement. From here on, all measures to build on the long term plan to equip the military for a 30-day war, will continue apace. Although the Army Vice-Chief has flagged the meager allotment in the coming financial year which may impede or slow down the 30i plan, the MoD is confident that wherever required money will be made available.

While the utilization of revenue budget has been exemplary over the past three-four years, the military is still faced with huge shortfall in its funds for capital or new acquisitions, as highlighted by the Parliamentary Standing Committee on Defence in its latest report. The government will have to find ways to augment the necessary budget if it wants to ensure that the military remains in top shape and ready for the twin challenges it faces from Pakistan and China.

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