

GOVERNMENT OF INDIA
MINISTRY OF DEFENCE
DEPARTMENT OF DEFENCE
LOK SABHA

STARRED QUESTION NO.364

TO BE ANSWERED ON THE 11TH AUGUST, 2017

MODERNISATION OF ARMED FORCES

*364. DR. MANOJ RAJORIA:
SHRI E.T. MOHAMMED BASHEER:

Will the Minister of DEFENCE जिकक ea=h
be pleased to state:

- (a) the budget estimates, revised estimates and actual expenditure on modernization of armed forces during the last five years and the current year;
- (b) whether there has been an underutilization of the allocated funds for modernization of armed forces during the said period and if so, the details thereof and the reasons therefor;
- (c) the details of investment made in the production of military equipment during the last three years and the current year;
- (d) the mechanism put in place for auditing the allocated amount for the purpose along with the defence agreements signed for procurement of defence equipment during the said period;
- (e) the percentage of funds allocated for modernization of armed forces spent on buying indigenous equipment; and
- (f) the steps taken by the Government for modernisation of armed forces to improve weaponry like tanks and missiles and to reduce the dependence on imported equipment along with the contribution to the defence sector under "Make in India" for the purpose?

A N S W E R

MINISTER OF DEFENCE

जिकक ea=h

(SHRI ARUN JAITLEY)

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(a) to (f): A Statement is laid on the Table of the House.

**STATEMENT REFERRED TO IN REPLY TO PARTS (a) TO (f) OF LOK SABHA
STARRED QUESTION NO. 364 FOR ANSWER ON 11.8.2017**

(a) & (b): Details of funds allocated and utilized under Capital Acquisition for the last five years and current year is as under:-

(Rs. in crores)

Year	Budget Estimates (A)	Revised Estimates (B)	Modified Appropriation (C)	Actuals Expenditure (D)	Excess(+)/ Saving(-) (D-C)
2012-13	66003.14	57395.46	57944.37	58768.86	824.49
2013-14	73444.59	66406.41	66201.92	66850.30	648.38
2014-15	75148.03	66151.73	65706.04	65862.38	156.34
2015-16	77406.69	65400.00	61699.39	62235.54	536.15
2016-17	69898.51	62619.36	64853.86	69280.17	4426.31
2017-18	69473.41		--	33553.21*	

*As on 31st July, 2017

The above figures indicate that with reference to Modified Appropriation (MA) there has been no underutilization of expenditure under Capital Acquisition segment in each of the last five years.

(c) The details of Capital Investment made by the PSUs and OFB in the production of military equipment are as under:

(Rs. in crore)

2014-15	2015-16	2016-17	2017-18 (upto June, 2017)
2533.63	2913.39	3437.83	500.18

(d) & (e): Modernization of Armed Forces is a continuous process undertaken as per the extant Defence Procurement Procedure (DPP) to keep the Forces in a state of readiness to meet operational and security challenges. Government is taking measures for modernization of the Armed Forces, through inducting of new equipment and upgrading of existing equipment and systems. The modernization projects are progressed as per approved Services Capital Acquisition Plans (SCAP) and Annual Acquisition Plans (AAP) in terms of the extant DPP.

During the last three financial year and current year (upto 30.06.2017), 99 contracts involving Rs.1,07,580.47 Crore have been signed with Indian vendors and 61 contracts involving Rs.1,23,142.30 Crore have been signed with foreign vendors for capital procurement of defence equipment for Armed Forces such as Aircraft, Helicopters, Rockets, Artillery gen, Missiles, Simulators and Ammunition.

Government is taking steps to promote indigenization and self-reliance in the defence sector. These measures include according priority and preference to procurement from Indian vendors and liberalization of the licensing regime. Government has also promulgated the policy on Strategic Partnership in the Defence Sector intended to institutionalize a transparent and objective mechanism to encourage broader participation of the private sector in manufacture of major defence platforms and equipment.

Ministry of Defence is undertaking the following two types of Audit:

- i) **Internal Audit**: It is conducted by Defence Accounts Department while performing function of payment and accounting of all Defence expenditure. In certain cases this is pre-audit i.e. before release of payment and in other post-audit i.e. after payments have been made. Internal Audit is clearly intertwined with the payment and accounting functions of Defence Account Department. The major findings of the Internal Audit are highlighted in the Internal Audit report issued by CGDA.
 - ii) **External Audit**: This is the statutory audit done by Controller and Auditor General (C&AG) as in the case of other Ministries/Departments. This is periodic and conducted as per Audit calendar of C&AG.
- (f) Defence Production Policy promulgated by the Government, aims at achieving substantive self-reliance in the design, development and production of equipment, weapon systems, platforms required for defence in as early a time as frame possible, creating conditions conducive for private industry to play an active role in this endeavour; enhancing potential of SMEs in indigenisation and broadening the defence R&D base of the country.

In view of the above and ~~M~~ake in India initiative of the Government, several policy measures have been taken by the Government which are briefly described as below:-

- i. **Industrial Licensing**: The Defence Products List for the purpose of issuing Industrial Licences (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.

- ii. **Defence Exports**: Defence Exports Strategy outlining the various steps to be taken, has been formulated and put up in public domain along with List of military stores to make the process transparent & clear. The Standard Operating Procedure (SOP) for the issue of No Objection Certificate (NOC) for export of military stores has been revised and put on the website. Under the revised SOP, the requirement of End User Certificate (EUC) to be countersigned/ stamped by the Government authorities has been done away with for the export of parts, components, sub-systems etc. Recognizing the need for promotion of defence exports to make the Indian defence industry economically sustainable.
- iii. **Defence Offsets**: Offset implementation process has 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 with certain conditionalities.
- iv. **Foreign Direct Investment (FDI)**: Foreign Direct Investment (FDI) Policy under which Foreign Investment Cap is allowed through automatic route upto 49% and Government route beyond 49% wherever it is likely to result in access to modern technology or for other reasons to be recorded.
- v. **Level-Playing Field**: Issues related to level-playing field between Indian vs. Foreign Manufacturers and public sector vs private sector have also been addressed. Exchange Rate Variation protection has been made applicable for Indian Private sector at par with Public Sector Undertakings for all categories of capital acquisitions. The preferential treatment given to Defence Public Sector Undertakings in excise duty/ custom duty has been discontinued. As per the revised policy, all Indian industries (public and private) are subject to the same kind of excise and custom duty levies.
- vi. **'Make' Procedure**: The Make Procedure has been revised to promote indigenous design, development and manufacture of defence equipment/platform required by the armed forces with a view to achieve self-reliance. The new procedure will give a tremendous boost to manufacturing

of indigenously designed products through collaborative process with Indian industry. It also provides for enhanced government funding and preference to MSMEs for certain categories of projects. The main objective is to ensure that the Make procedure is unambiguous and transparent.

- vii. **Buy (Indian-IDD) in DDP-2016**: One of the notable features of DPP-2016 is the introduction of a new procurement category Buy(Indian-IDD). This category refers to procurement from Indian vendors of products that are indigenously designed, developed and manufactured, and have at least 40% indigenous content. If the product is not designed and developed indigenously, it will have to have 60 percent indigenous content. The ~~Buy~~ (Indian) category, in which the product is to be procured from Indian vendors, will now require to have an indigenous content of 40%, instead of the 30% present requirement. Preference has been provided to procurement under ~~Buy~~ (Indian-IDD) ~~Buy~~ (Indian) and ~~Buy and Make~~ (Indian) categories of capital acquisition over ~~Buy & Make~~ ~~Buy~~ (Global) categories.
- viii. **Outsourcing and Vendor Development Guidelines**: To promote the participation of private sector, Outsourcing and Vendor Development Guidelines for DPSUs and OFB have been formulated and circulated to them. 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.
