

# Defence and Internal Security Modernization Fund

March 1, 2021

The 15th Finance Commission has recommended constitution of a dedicated non-lapsable Modernisation Fund for Defence and Internal Security (MFDIS) to bridge the gap between projected budgetary requirements and allocation for defence and internal security. As per the Commission, the proceeds will be utilised for capital investment for modernisation of defence services, capital investment for the Central Armed Police Forces (CAPF) and modernisation of State police forces as projected by the MHA and a small component as welfare fund for soldiers and paramilitary personnel.

**In news:** Non-lapsable modernisation fund for defence, internal security mooted

**Placing it in syllabus:** Internal Security

## Dimensions

- What is it?
- Recommendations of Finance Commission on its funding
- Importance of such a fund
- Hindrances

## Content:

### What is it?

- The 15th Finance Commission has recommended the constitution of a dedicated **Modernisation Fund for Defence and Internal Security (MFDIS)**.
- This will be a **non-lapsable fund** under the Public Accounts
- It will be used to bridge the gap between projected budgetary requirements and allocation for defence and

internal security.

- The fund shall have the standard notified rules for its administration, public reporting, and audit by the Comptroller and Auditor General.

***The proceeds of the fund will be utilised for the following three purposes:***

- capital investment for modernisation of defence services;
- capital investment for CAPFs and modernisation of state police forces, as projected by **Ministry of Home Affairs (MHA)**; and
- a small component as welfare fund for Indian soldiers and paramilitary personnel

**Recommendations of Finance Commission on its funding:**

***This Fund will have four specific sources of incremental funding:***

- (i) transfers from **Consolidated Fund of India**; (Budgetary Allocation)
- (ii) disinvestment proceeds of **DPSEs**;
- (iii) proceeds from the monetisation of surplus defence land, including realisation of arrears of payment for defence land used by State Governments and for public projects and cost recovered of encroached land; and
- (iv) proceeds of receipts from defence land likely to be transferred to State Governments and for public projects in future.

***The 15th Finance Commission has made the following recommendations for funding of MFDIS in 2021-26 period:***

- The fund will have an estimated corpus of Rs 2.4 lakh crore over the five years (2021-26).
- Of this, Rs 1.5 lakh crore will be transferred from the

Consolidated Fund of India.

- the Union Government will provide the identified amounts for each year in the Union Budget on an annual basis
- Rest of the amount will be generated from measures such as disinvestment of defence public sector enterprises, and monetisation of defence lands.
- The maximum size of the recommended fund is Rs. 51,000 crores per annum.
- Any amount exceeding the above limit shall be deposited into the Consolidated Fund.
- This amount shall be maintained in the Public Account and shall be operated through the extant procedures for operating such accounts.
- The unutilised amount from the normal budgetary allocations to the Ministry of Defence (MoD) and MHA for capital expenditure shall not be part of the Fund and should be governed as per the principles of the annual budget process.
- The fund may be operated by a suitably empowered **High Powered Committee (HPC)** notified by the Union Government. This may be headed by the Cabinet Secretary and consist of the Secretaries of Defence, Home and Expenditure and the Chief of Defence Staff
- The HPC would also allocate Rs. 1,000 crore per annum for the welfare of families of defence and CAPF personnel who sacrifice their lives in frontline duties.
- The Commission has also recommended that of the total amount, the MoD would be entitled to Rs 1,88,354 crore or 79 per cent of the MFDIS. The remaining amount will be under the MHA's disposal to fund capital expenditure related to internal security.
- The Commission has been categorical in recommending that any **under-utilized capital budget from the annual budgets of MoD would not be part of the proposed fund.**

## **Importance of such a fund:**

- Modernisation of the defence and internal security apparatus is a continuous process, based on threat perception, operational challenges and technological advances
- MFDIS fulfils the long-standing demand of the Ministry of Defense for a non-lapsable multi-year defense modernization fund.
- It would boost the military's modernization and acquisition plans. So far, bureaucratic delays in clearing the capital expenditure have led to surrendering large sums of money allocated for defence each year.
- It will also help to address the severe resource constraints being faced by the Defence and Home Affairs ministries in their modernization efforts.
- It will augment the welfare of families of defence and CAPF personnel who sacrifice their lives for the nation.
- Police personnel will benefit from the improved communication systems and technology upgradation made from this fund.
- Redeveloping and improving the residential facilities for police will also boost welfare of security personnel.

## **Hindrances**

### ***Dependence on defence imports:***

- India's import dependence for many defence subsystems such as AESA radar, Focal Plane Array, Passive night vision devices, Single crystal blades for engines of aircrafts, carbon fibres required for ALH, air to air missiles, Ring Laser Gyro, stealth or seeker technology is in around 90%.
- The 15th Finance Commission has also urged the MoD to

reduce dependence on defence import.

- In this respect, the Commission has recommended to the Ministry of Finance (MoF) to incentivize the MoD to work on a time-bound action plan for progressive increase in the share of indigenous arms in India's defence procurement.
- The Commission hopes that a calibrated roadmap should enable the MoD to source not more than 30 per cent of its arms requirement from the foreign vendors by the end of 2025-26.

### ***Delays in Procurement:***

- the services need to tighten and shorten their cycle time for acquisition, cut down on interminable delay in time taken for trials

### ***Supporting Mechanisms for Modernisation:***

- Timely modernization of defence services is not predicated only on availability of funds alone but putting in place a complex mechanism of acquisition (Buy), Buy & Make by DPSUs and energizing slow moving (Make) option.
- Only a strong political will bring all stakeholders together in our quest for higher indigenization instead of mouthing rhetoric of Atma Nirbhar Bharat.

### ***Ballooning Manpower Costs***

- The manpower cost, the major elements of which are salaries and pension, has increased significantly from less than 50 per cent of the MoD's budget to over 60 per cent in a time span of 10 years ending 2020-21.
- During the same period, the share of modernization expenditure has declined from 27 percent to 19 percent.

**Mould your thought:** What is the Modernisation Fund for Defence and Internal Security (MFDIS)? Evaluate the need for such a

fund in India.

***Approach to the answer:***

- Introduction
- Discuss 15th FC recommendations and MFDIS fund
- Write about the problems of defence modernisation in India
- Discuss how MFDIS alleviates these problems
- Mention the hindrances to MFDIS
- Conclusion