The Reality of Aid
An Independent Review of Poverty Reduction and Development Assistance

RealityCheck

NOVEMBER 2014

Development Cooperation in South Asia:

A story of emerging donors and IFI conditionalities

Issue Prepared by IBON International and the Reality of Aid-Asia Pacific

RealityCheck

NOVEMBER 2014

contents

about this issue

This Reality Check focuses on the opportunities and challenges in development cooperation in South Asia - with the rise of India as an emerging donor, and with IFI conditionalities continuously undermining recipient countries' democratic ownership.

This issue is prepared by:

IBON International

Reality of Aid - Asia Pacific

The Reality of Aid

ACKNOWLEDGEMENT

This Reality Check would not be made possible without the valuable contributions from ROA-AP members, particularly the South Asian Network for Social and Agricultural Development (SANSAD), Voluntary Action Network India (VANI), and Coastal Association for Social Transformation Trust Bangladesh (COASTBD). Gratitude must also be extended to the Reality of Aid Global and IBON International for their support.

Cover and Inside Photos from: tribune.com.pk
blog.oxfamamerica.org
efareport.files.wordpress.com
greencotton.wordpress.com
kractivist.files.wordpress.com
projectunify.net
rba.gov.au
thehindu.com

Cover Design and Layout by: Darius Galang

Secretariat
3rd Floor IBON Center
114 Timog Avenue, Quezon City
1103 Philippines
Tel: (632) 927 7060 to 62 local 201
Fax: (632) 927 6981
E-mail: secretariat@realityofaid.org
Website: http://www.realityofaid.org

RealityCheck
NOVEMBER 2014

Development Cooperation in South Asia: A story of emerging donors and IFI conditionalities

EDITOR'S NOTE

Development cooperation has a critical role to play in the attainment of the development goals of developing countries, especially when it is deployed effectively in an accountable manner as part of a broader development strategy. It can make a lasting difference in helping people lift themselves out of poverty.

Democratic ownership of the development agenda, including determining the usage of all forms of aid, has progressively been identified as a major determinant of development effectiveness. Notwithstanding significant achievements in development cooperation made in Paris, Accra and Busan High Level Forums on Aid Effectiveness, conditionalities continue to pose enormous challenges to the application of democratic ownership as these limit the policy space available for recipient countries to determine their own poverty reduction strategies, and undermine citizens' rights in decision-making processes and national sovereignty.

The development cooperation landscape in South Asia has undoubtedly changed, with the rise of India as an emerging donor. The main destination of Indian assistance are India's South Asian neighbors – Afghanistan, Bangladesh, Bhutan, Maldives, Sri Lanka, to name a few. India's development assistance to developing countries is continuously growing, amidst worsening poverty and inequality in the country.

South-South development cooperation (SSDC) is said to veer away from traditional North-South relations. Southern providers are reluctant to be categorized as donors, and invoke the principles of solidarity, equality, and mutual benefit as the central tenet of SSDC. This does not mean, however, that SSDC is without challenges. Principles of democratic ownership, transparency and accountability, need to be upheld if SSDC is to contribute to development effectiveness.

The Reality Check is the official newsletter of the Reality of Aid Network. It is designed to highlight current issues in development cooperation written from a regional perspective but with global significance. Asia Pacific's 2014 Reality Check focuses on the issues and challenges in development cooperation in South Asia by featuring country studies and analyses from member organizations in the sub-region.

Erin Palomares
Asia Pacific Coordinator
Reality of Aid Network

India as a donor country

by Voluntary Action Network India (VANI)

Introduction

It is puzzling that India, which has a large domestic constituency of people suffering from underdevelopment, chronic poverty and mal-governance, is emerging as an important aid donor. With the intention of learning why poor countries provide foreign aid, economic analyses as well as motives behind such decisions are also relevant in this regard. Commercial and political self-interests dominate India's aid allocation. The importance of political interests is found to be significantly larger for India than for all DAC donors. Moreover, we find that countries that are closer geographically are favored, and that countries at a similar developmental stage are more likely to enter India's aid program.[1]

A Donor despite the odds

India, widely seen as one of the success stories of globalization, has significantly accelerated its economic growth since the inception of economic reforms in 1991 (Basu and Maertens 2007; Basu 2008; Panagariya 2010). The country is one of the fastest growing economies in the world and host to some of the largest foreign investment inflows in recent years (UNCTAD 2010). Yet, for many, India's progress since its independence 65 years ago is disappointing. Despite rapid economic growth over the last decade, some areas in India continue to be severely underdeveloped (Banerjee 2010). India has a large domestic constituency of people suffering from underdevelopment, chronic poverty, and mal-governance. According to the

1 *World Bank Aid Trend Analysis Report 2011*

World Bank's (2011) estimates, 37% of the Indian population is below the poverty line of $1.25 a day. Moreover, India ranks below its neighbours Bangladesh, Bhutan, Nepal, Pakistan, and Sri Lanka in terms of life expectancy, access to sanitation, infant immunization, and underweight children. It also ranks below Bangladesh, Bhutan, and Sri Lanka in controlling the infant mortality rate (Dreze and Sen 2011), below Sri Lanka in terms of the literacy rate and access to education (UNESCO 2011), below Nepal in the GHI 2011 (Global Hunger Index), and below Bangladesh with respect to controlling literacy among female youths (Dreze and Sen 2011).

Therefore, it is not surprising to note that despite its rapid economic growth in recent years, India is still one of the recipients of development aid. In 2011, the total net official development assistance received by India from all donor countries was about $3.502 billion, of which $2.578 billion was in the form of net bilateral aid flows from countries organized in the DAC (Development Assistance Committee) (OECD 2012).[2] At $630 million, India is still the single largest recipient of development aid from the UK (OECD 2012). That being said, it is puzzling to note that India itself is an aid donor.[3] In fact, Indian engagement in delivering foreign aid goes back to the 1950s, with its primary target being to provide development assistance to neighboring countries. Traditionally, Indian foreign aid has focused on technical assistance. Ever since it began in 1964, the ITEC (Indian Technical and Economic Cooperation), India's flagship external assistance program, has provided training, education, and technical expertise to about thousands of NGO personnel, scholars, and leaders from developing countries (Agrawal 2007).

Over the last few years, aid from India has diversified and gained prominence. During the economic reforms period spanning from 1992 to 2009, official foreign assistance provided under the umbrella of the MEA (Ministry of External Affairs) amounted to 18,950 crore rupees ($ 4,473 million) according to its annual reports (MEA 1993-2010). The ministry allocated 2359 crore rupees ($444 million) to aid-related activities in the 2009 financial year alone (MEA 2010). According to Manning (2006: 375), India, together with China, is one of the two 'heavyweights' among the non-DAC donors. India's increased commitment to providing development aid is reflected in the government's decision to set up a separate agency by 2012 in order to oversee the aid allocation process (Patel 2011).

In contrast with the extensive empirical literature on the allocation of development aid from Western donor countries (e.g., Alesina and Dollar 2000), studies on development assistance provided by non-DAC donors lack rigorous empirical analysis. Notable exceptions are Neumayer (2003a, 2004) on Arab aid, Dreher and Fuchs (2011) on China's foreign assistance, and Dreher et al. (2011) on aid from donors outside the DAC in general (excluding India).[4] Concerning India's foreign aid in particular, little attempt has been made understand determinants of India's aid allocation decisions. This study aims to fill this gap in the literature. A better understanding of the factors driving India's aid allocation decisions may offer important insights into

2 Moreover, India also receives a substantial amount of aid from international NGOs. For example, in 2010, the Bill & Melinda Gates Foundation committed US$ 100 million to India (OECD 2012).
3 Note that India avoids the term "donor". It rather perceives itself as a partner in South-South cooperation (see Chaturvedi 2008 for a discussion)
4 Given that India is poorer in terms of income per capita than any of the donors covered in Dreher et al. (2011), India serves as an excellent case to study the behaviour of "needy" donors.

why poor countries serve as donors of foreign aid to other developing countries.

India claims that its aid is more need-oriented than aid from richer donor countries as its economic and political structure is closer to that of other developing countries. However, many suspect that India might be increasingly using foreign aid as an instrument to gain access to overseas markets for its goods and services, pave the way for Indian investment abroad, and secure access to natural resources (e.g., Agrawal 2007; Kragelund 2008). Another argument put forward is that Indian aid is extensively used as a foreign policy tool to expand the country's geopolitical and diplomatic influence (e.g., Agrawal 2007). The consensus in the literature is that political and commercial interests are important determinants of aid allocation for the DAC group of "rich" donors (e.g., Alesina and Dollar 2000; Neumayer 2005; Kuziemko and Werker 2006), as well as for multilateral organizations (e.g., Kilby 2006; Dreher et al. 2009). Not only do we also expect to find this for the "needy" donor India, we expect these relationships to be even more pronounced. We argue that India has more incentives to provide politically and commercially motivated aid since the country lags behind DAC donors in terms of economic development.

Commercial and political self-interests dominate India's aid allocation. The importance of political interests, proxied by the voting alignment between donor and recipient in the UN, is found to be significantly larger for India than for all DAC donors. Moreover, we find that countries which are closer geographically are favoured and that countries at a similar developmental stage are more likely to enter India's aid program.

To facilitate the implementation of the Jakarta Commitment, the government and donors established the Aid for Development Effectiveness Secretariat (A4DES), under the control of the National Development Planning Agency (BAPPENAS). It has been 3 years since the establishment of A4DES; the Secretariat is acting more as a mechanism among the senior officials of the ministries than as a forum for donor harmonization and policy dialogue among development actors (government, donors, business sectors and CSOs).

India's aid disbursements suffered a large decline during the early 1990s, a period marred by balance-of-payments problems. However, from the mid-1990s onwards, there has been a surge in disbursements of development aid. Though there were ups and downs, which could be attributed to political instability in the 1990s and to the Global Financial Crisis starting in 2008, India's aid budget shows an increasing trend during the economic reforms period that started in 1991. More precisely, India's aid budget rose from 13.4 crore Indian rupees (about $40.3 million in constant 2000 prices) in 1966, to 2,917.4 crore rupees ($362.8 million in constant 2000 prices) in 2010, which is roughly 0.04% of India's GDP. This amount, which only captures MEA aid, is comparable to Austria's total ODA ($395.2 million in constant 2000 prices) and amounts to about two-thirds of Italy's total bilateral ODA ($547 million in constant 2000 prices).[5]

In addition to the MEA, India provides concessional finance via its Exim Bank. The sum of all financial flows provided by the Exim Bank between 2005 and 2009 and registered on AidData (Findley et al. 2009) amounts to $2.45 billion (in constant 2000

5 A comparison with the non-DAC donors covered in Dreher et al. (2011: 1952) underlines that India is one of the most important providers of development assistance outside the DAC.

prices). In contrast with MEA aid, the largest share of Exim Bank loans (73.2%) was allocated to Sub-Saharan African countries. Although Sinha and Hubbard (2011) find that most credits satisfy the criteria of a grant element of at least 25%, they conclude that Indian LOCs do not qualify as ODA as defined by the OECD. Since the credit lines are extended for the purpose of export promotion, these flows meet the criteria of officially supported export credits instead.[6]

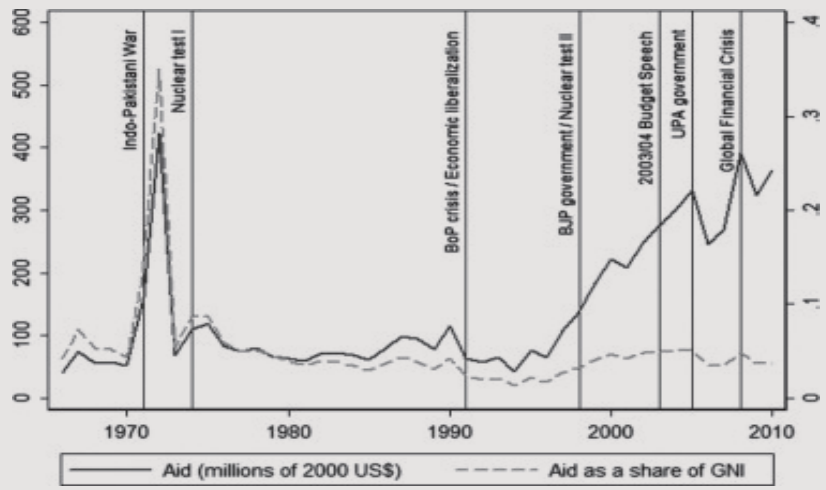


Table 1. *Aid provided by the MEA in millions of constant 2000 US$ (1966-2010)*
(Source: Ministry of External Affairs Web site, Government of India)
Notes: *BJP: Bharatiya Janata Party; UPA: United Progressive Alliance led by Indian National Congress*

Considering India's development assistance for other countries besides its neighbors, the above table reflects the evolution of India's aid assistance to both Africa and Latin American countries. While the figures do not signify a huge percentage of the entire aid outflow, it is evident of the change in dimension of India's foreign policy. India's presence in Africa and Latin America projects its slow rise in power.

On May 2011, India announced a $5-billion pledge in aid to Africa where such amount is equivalent to its healthcare budget during the second India-Africa Summit at Addis Ababa, Ethiopia. The partnership is seen as a vehicle to realizing the MDGs though capacity building and expertise sharing. This is part of the India-Africa Development Partnership, which became official upon inception of the ITEC in 1964. Since then, Africa has become one of India's most significant partners in development.

In terms of its aid to Latin American countries, while it appears marginal, still forms part of the India's aid-related expenditure with breakdown: 60% for training of civil servants, engineers and public-sector managers; 30% for provision concessional export credits (lines of credit) to enable foreign governments to purchase Indian equipment and services; and 10% for project-related activities such as feasibility studies and deploying technical experts from India (Agrawal 2007). Within the principle of the SSC, India being an emerging donor and contemplative of its massive urban transformation, while lacking in resources, can contribute valuably in terms of capacity, experience and knowledge to share. Its inclusion, in view of the numerous developmental challenges, is introspective as an international responsibility. India's assistance not only in terms of economic and technical is considered as a responsibility and not charity. [7]

6 According to Sinha and Hubbard, the grant element varies between 41.25% for Heavily Indebted Poor Countries (HIPC) and 17.11% to 24.56% for middle income countries with medium to high levels of debt.
7 RIS Discussion Paper: India and Africa: Development Partnership, Ambassador Shyam Saran, December 2012

Principal destination of India's aid and loan programmes (excluding lines of credit), current USD million

Country/region	2009/2010	Country/region	2010/2011	Country/region	2011/2012
Bhutan	235.01	Bhutan	311.01	Bhutan	366.43
Afghanistan	51.81	Afghanistan	55.96	Afghanistan	52.35
Nepal	27.08	Nepal	27.08	Maldives	49.28
African countries	22.56	African countries	27.08	Nepal	27.08
Mongolia	22.56	Sri Lanka	16.25	African countries	22.38
Sri Lanka	14.44	Myanmar	16.25	Sri Lanka	24.01
Myanmar	9.93	Eurasian countries	5.42	Myanmar	20.18
Eurasian countries	3.61	Maldives	1.99	Eurasian countries	5.42
Bangladesh	0.68	Latin American countries	0.72	Bangladesh	1.44
Maldives	0.63	Bangaldesh	0.54	Latin American countries	0.36
Latin American countries	0.36	Others	64.32	Mongolia	0.09
Others	37.10			Others	48.84
Total	425.77		526.60		617.85

Table 2. *Source: Government of India, Ministry of External Affairs, Annual Reports 2009/10, 2010/11, 2011/12*

India's ODA Policy

Aid has been used to foster friendly trade and economic relations with other nations. India, like other countries, provides aid for various reasons: political, economic, diplomatic and security, among others. Taking into account India's experience besides its increasing economic significance in the global platform, the country launched the SDP (Small Development Project) to support successful small-scale programs to ensure economic deliverables, especially in the education, health and infrastructure segments. Specifically, the objectives of SDP is that its projects should be able to meet local needs which are managed by local communities and institutions with a view of saving costs on project implementation. SDP, which aims to instill local ownership of the program, was launched in Nepal in 2003 and since then replicating such model in Sri Lanka and Afghanistan.[8]

Based on a report published in 2010 by C.J. Bijoy (India: Transiting to a Global Donor), India's ODA is a mix of project assistance, purchase subsidies, lines of credit, travel costs, and technical training costs incurred by the Indian government where India's development assistance stretches far and wide from Central Asia to the Pacific islands to Southeast Asia. Along with China, Saudi Arabia, the UAE, Venezuela, Korea, Kuwait, and Brazil, countries which do not belong to the OECD DAC, India is one of the five Key Partners of OECD. Whereas the cooperation with other non-members takes place on a subject-by-subject basis, rather than on the basis of an OECD-wide strategy, the relationship with the Key Partners is comprehensive and is on an 'enhanced engagement' basis. OECD sees its Key Partners' contribution to its work as sustained and all-inclusive where promotion of direct and active participation from these countries is considered the central element of the partnership.

According to OECD, the actual mix and sequencing of the elements is determined by mutual interest.[9] While India has been promoting the SSC since the 1950s, with an initial focus of granting aid and technological expertise to its neighbors and then expanding to African countries in the 60s albeit limited resources, it has been operating with a guiding

8 Aid from India, coming to a country near you, The Hindu Article by Sachin Chaturvedi , 5 September 2012, http://www.thehindu.com/opinion/op-ed/aid-from-india-coming-to-a-country-near-you/article3859607.ece
9 OECD Members and Partners, http://www.oecd.org/about/membersandpartners/

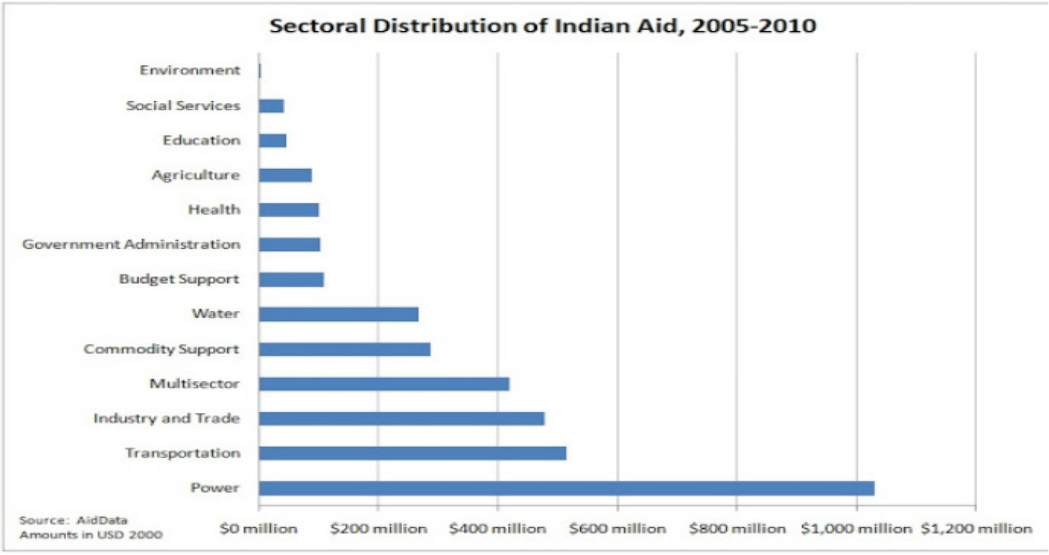


Table 3. *India's Outflow of Development Assistance (1990-2011)*
Source: AidData; Amounts in USD

principle that is external to the existing structures and frameworks of the traditional donor-recipient including the norms of OECD. India's development cooperation policy is based on a holistic approach (including trade and investments) and comprises two main pillars: i) economic co-operation, focusing on trade and technology flows among developing countries, including the removal of discrimination in institutional and regulatory frameworks; and ii) technical cooperation, focusing on technical capacity building through training, exchanges of experts and sharing of experience and know-how.[10]

Further to the report above cited, Bijoy listed key observations regarding the trend of India's aid:

- India's aid is conceived as an important foreign- policy instrument largely for self-interest.

- India's development assistance lacks a strict well-defined set of clear objectives, and approach with clear definitions, accounting and monitoring.

- There is the shift from the rather simple imports-exports to a more organized diverse interactions consisting of government support, joint ventures, official lines of credit, and export guarantees. There is an increased emphasis on providing budget support to recipient governments, especially in the form of debt relief. Grants are increasingly being advocated because of growing concern with the debt problems of poor countries and the recognition that many types of aid (particularly in the social sectors) yield returns only in the long term.

- India attaches far less conditionality to its grants and also gives beneficiaries a greater voice in the process. India's assistance is focused on promoting goodwill, long-term economic development and promoting influence rather than exporting skilled manpower and repatriating profits. It

10 Trade-Related South-South Co-Operation: India, OECD document, http://www.oecd.org/dac/aidfortrade/South-South_India.pdf

focused mostly on promoting local capacity. However, there are indications that India is moving from exerting soft to hard power. The goodwill generated could very well get diluted with India emerging as a major donor.

- Assistance given for political or economic purposes can be a highly effective means to improve relations. However, it can become counter-productive if the assistance is wrong.

- The debt cancellation helps many African governments to be able to borrow money on international financial markets.

- A large part of India's development assistance to Africa is more an export subsidy scheme for its surplus goods. The trend is towards catalysing trade, access to extractive resources and political influence rather than facilitating economic and social development. A large share of the loans provided is not on concessional terms and is tied to the procurement of goods and services in the donor country. While India refuses to accept tied bilateral aid from others, ironically a large proportion of its own loan programs are tied. This accumulates negative feeling towards the donors.

- Development assistance linked to trade and investment is criticized as new mercantilism. The recipient countries consider this as positive as it offers considerable freedom for economic and commercial partnership. The emerging donors are also becoming 'development partners'.

- India's Africa assistance seems to correlate with African countries with significant Indian diaspora such as Tanzania and Kenya.

- While the DAC donors are moving towards untied financial aid, the majority of the non-DAC aid is becoming tied reducing the overall efficiency of aid. India is also not eager to adopt DAC standards in aid.

- The share of technical cooperation has risen. Technical cooperation per se does not achieve greater self-reliance in the recipient countries. It is a form of assistance largely controlled by the donors. It tends to generate considerable economic benefits for the consulting industry in the donor country. Most technical cooperation is provided in kind. It takes the form of personnel or administrative costs accruing to donor-appointed agents. The personnel receiving highly technical skills form a small elite group, often receiving better pay and work conditions that demoralize local service. Personnel expenditure forms the bulk of the expenditure as high as 40%.

One of the main challenges in documenting the aggregate aid provision of India is the lack of sufficient information. Researchers resort to estimation and gathering of information from different sources. Foreign aid given to developing countries is "delivered through a myriad of aid channels" as such it is difficult to quantify the total figures (Walz and Ramachandran, 2010: 19). To date, India has not published data on the financial terms of its foreign aid using the DAC methodology as well systematic statistics like annual amounts provided and detailed breakdown of this aid in terms of recipient countries and sectoral distribution.

However, the MEA in January 2012 has set up the DPA (Development Partnership Administration) for the provision of a structural framework in dispensing aid. The

structural framework covers the effective handling of India's aid projects through the stages of concept, launch, execution, and completion. India has identified that development partnership should be centered on the needs identified by the partner country where DPA's role would be to accommodate as many requests received that are both technically and financially possible. In its current state, the DPA has three divisions: 1) DPA I deals with project appraisal and lines of credit; 2) DPA II deals with capacity building schemes, disaster relief and Indian Technical and Economic Cooperation Program; and 3) DPA III deals with project implementation. With close cooperation with its development partner countries, through DPA, the Indian government expects effective and efficient handling of all aid projects from conception to completion.

Prior to the creation of DPA, India didn't have a single agency responsible for the administration of its aid. The main government bodies involved then were the MEA, the Ministry of Finance and the Exim Bank. The LOCs (Lines of Credit) that form 30% of India's overall aid-related expenditure, is channeled through the Exim Bank.

For LOCs, offers are made by the Exim Bank to the recipient governments/ their designated agencies where such offer needs to be accepted and the LOC Agreements signed.[11]

The top 20 country recipients of LOCs from the Exim Bank are a combination of countries from South Asia and Africa. The concessional lending and technical assistance provided through the LOC is mostly focused on infrastructure development. In the first half of 2012, the Exim Bank reports a total of 157 operative LOCs worth $8.2 billion, a spike from the 2010 new LOCs extended worth $3 billion (with breakdown: 53% for Africa, 28% for South Asia, 2% for Latin America, and 4% for other countries). LOCs mostly finance specific infrastructure projects in developing countries that are delivered by Indian companies in sectors such as electricity, energy, irrigation, and transport.[12] The type of technical assistance being provided by India is through triangular cooperation where Indian institutions give training to nominees from partner countries by way of funding from donor countries or multilateral institutions. India sees this tripartite collaboration as an effective method of promoting development by leveraging the best attributes of the

Top 20 recipients of Exim Bank's operative lines of credit (as of 6 June 2012), USD million

Country/region	USD m
1. Sri Lanka (6)	1,216
2. Bangladesh (1)	1,000
3. Ethiopia (6)	705
4. Africa, multiple countries (12)	630
5. Sudan (6)	567
6. Nepal (2)	350
7. D.R. Congo (4)	269
8. Mali (7)	267
9. Myanmar (7)	247
10. Iran (1)	200
11. Mozambique (8)	173
12. Ghana (5)	149
15. Senegal (8)	137
13. Russia (2)	125
14. Syria (2)	125
16. Lao PDR (3)	123
17. Zambia (4)	115
18. Cote d'Ivoire (4)	112
19. Angola (5)	108
20. Chad (2)	90

Table 4. *Source: Trade-Related South-South Co-Operation: India, OECD document http://www.oecd.org/dac/aidfortrade/South-South_India.pdf*

11 Exim Bank of India Web site, www.eximbankindia.com
12 Based on the 6 June 2012 operative lines of credit data from the Exim Bank Web site http://www.eximbankindia.com/loc.asp

tripartite as it complements India's efforts on a bilateral basis.[13]

The LOC Pipeline indicates the offers made by the Exim Bank to the various governments, however these agreements are yet to be signed. While Myanmar has the highest LOC line up, it appears that majority of the credit have been offered to African nations which are directed at the development of different industrial facets.

Roadmap for Future

India's participation in the SSC is bilaterally supplemented and complemented by its regional cooperation efforts and increasingly proactive engagements in various multilateral forums. As it currently stands, India lacks structured methods and frameworks for effective deployment of assistance. India has coined itself to be a development partner not only to its neighbors but to the far reaching South. The SSC has historically been a development partnership which included trade, investment and technology transfer, and in most recent years there have been an enhanced flow of trade and investment within and between the nations of the South (Chaturvedi 2012), this translates to 20% of global trade and almost 50% of developing country trade (data from UN Conference on Trade and Development 2011).

EXIM BANK'S PIPELINE LOCs
(Updated as of January 14, 2013)

S. No.	Borrower	Purpose	Credit Amount (USD mn)
1	Government of Nigeria	Various projects in Nigeria	100.00
2	Government of Vietnam	Hydro power project	19.50
3	Government of Cape Verde	Technology Park Project	5.00
4	Government of Comoros	Installation of an 18 MW power project in Moroni, the capital city of Comoros	41.60
5	Government of Gabon	Rehabilitation and up gradation of the broadcasting facilities	67.19
6	Government of Tanzania	Bio diesel project	35.00
7	Government of Burkina Faso	Low cost housing and economical buildings project in Burkina Faso	22.50
8	Myanma Foreign Trade Bank, Myanmar	17 ongoing irrigation schemes and 9 rehabilitation schemes in the irrigation project in Myanmar	247.20
9	Government of Angola	Supply of Tractors	23.00
10	Government of Mozambique	Rural drinking water project extension	19.72
11	Government of Zimbabwe	Up-gradation of Deka Pumping Station and River Water Intake System in Zimbabwe	28.60
12	Government of Afghanistan	Export of goods and services and project exports	50.00

Table 5. Source: Reserve Bank of India, Annual Financial Survey Report: 2012-13

With the creation of DPA, India should now be able to articulate its development cooperation agenda in a well-defined manner where its unique model of 'development compact' depict diversity in engagement though trade and investment, technology transfer finance through credit lines and capacity building by means of a flagship program. India's aid assistance program is mostly dedicated in creating technical capacities and the provision of production support. As a new entrant, India is faced by some shortcomings such as institutional problems, inadequate

13 GOI (Government of India) (2009), India's response to the OECD/WTO Questionnaire for South-South Co-operation, Paris: OECD www.oecd.org/dataoecd/43/39/43149339.pdf

system for monitoring and evaluation, and a more transparent decision making process with regard to aid size and agreements with partners. As part of the SSC, India's profile is constant in its history of being a developing nation with domestic socio-economic challenges however willing to share their experiences with other countries (Chaturvedi 2012).

Apart from a more structured approach to aid provision and resulting M&E (monitoring and evaluation) of the projects, India would be able to leverage from engaging bilaterally with other groups such as the DAC to benefit from the expertise on project impact analysis and other practices to improve quality of delivery and better assessment of mechanisms utilized in projects. India should go beyond its primary focus of economic infrastructure and the productive sectors to develop a more detailed and robust database to help identify areas of concern when scrutinizing outgoing development assistance (Chaturvedi 2012).

REFERENCES

Agarwal, J. P. (1980), Determinants of Foreign Direct Investment: A Survey, Weltwirtschaftliches Archiv, 116, pp. 739773.

Alesina, Alberto and David Dollar, 2000, Who Gives Foreign Aid to Whom and Why? Journal of Economic Growth 5, 1: 33-63.

Basu, Kaushik and Annemie Maertens, 2007, The Pattern and Causes of Economic Growth in India, Oxford Review of Economic Policy 23, 2: 143-67.

Basu, Kaushik, 2008, The Enigma of India's Arrival: A Review of Arvind Virmani's Propelling India: From Socialist Stagnation to Global Power, Journal of Economic Literature 46, 2: 396406.

Dreher, Axel and Andreas Fuchs, 2011, Rogue Aid? The Determinants of China's Aid Allocation, Courant Research Centre 'Poverty, Equity and Growth' Discussion Paper 93. University of Goettingen, Germany.

Dreher, Axel, Jan-Egbert Sturm and James Vreeland, 2009, Development Aid and International Politics: Does membership on the UN Security Council influence World Bank decisions? Journal of Development Economics 88, 1: 1-18.

Dreze, Jean and Amartya Sen, 2011, Putting Growth in Its Place, Outlook, November 14, available at: http://www.outlookindia.com/article.aspx?278843 (accessed June 2013).

Kilby, Christopher, 2006, Donor Influence in Multilateral Development Banks: The Case of the Asian Development Bank, Review of International Organizations 1, 2: 173-195.

Kragelund, Peter, 2008, The Return of Non-DAC Donors to Africa: New Prospects for African Development? Development Policy Review 26, 5: 555584.

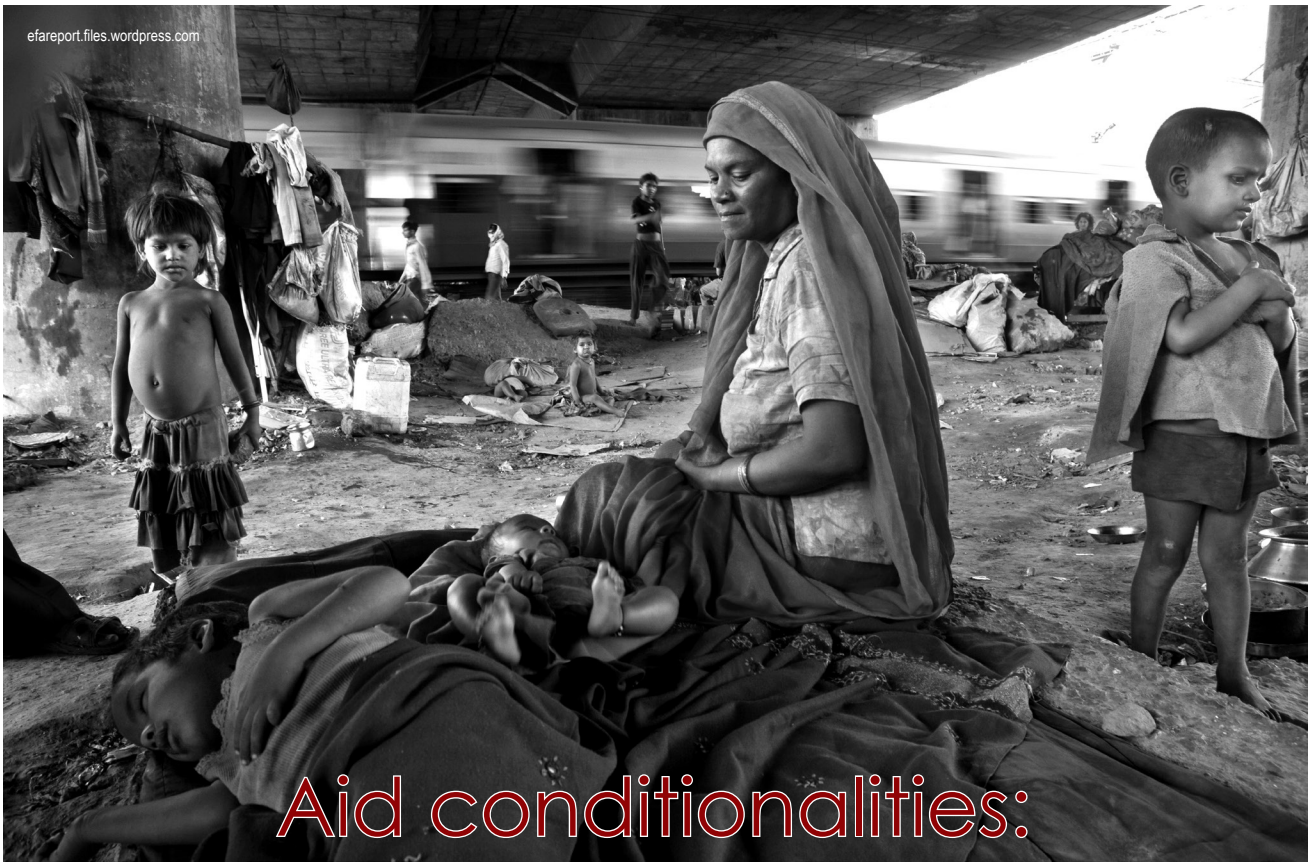
Kuziemko, Ilyana and Eric Werker, 2006, How Much is a Seat on the Security Council Worth? Foreign Aid and Bribery at the United Nations, Journal of Political Economy 114, 5: 905-30.

Neumayer, Eric, 2003a, What Factors Determine the Allocation of Aid by Arab Countries and Multilateral Agencies? Journal of Development Studies 39, 4: 134-47.

Neumayer, Eric, 2004, Arab-related Bilateral and Multilateral Sources of Development Finance: Issues, Trends, and the Way Forward, World Economy 27, 2: 281-300.

Neumayer, Eric, 2005, Is the Allocation of Food Aid Free from Donor Interest Bias? Journal of Development Studies 41, 3: 394-411.

Panagariya, Arvind, 2010, India: The Emerging Giant, Oxford University Press: USA.



Aid conditionalities: Who pays? Who benefits?

by Coastal Association for Social Transformation Trust (CoastBD)

Trend of existing economic growth and aid requirement in Bangladesh

In spite of endless challenges, Bangladesh has made remarkable economic progress over the last few decades. Foremost the country succeeds in expanding its economy and income levels with a growing trend well beyond the subsistent levels. Per capita income of US$300 in 1990 jumped up to US$1050 in 2013 according to the government's recent statement.

Despite achieving remarkable economic progress, Bangladesh still remains a Least Developed Country (LDC) with substantial poverty (31% according to the latest government estimate), socio-economic inequality & deprivation. Those could be addressed properly by ensuring a robust economic growth and creating employment in a sustainable way. Recognizing long-term development needs, the Government of Bangladesh has adopted Vision 2021 and associated Perspective Plan 2010-2021, which set solid economic growth (at least 8% by 2015 and 10% by 2021) and development targets by the end of this period. It will help the country's goal of graduating from LDC

to middle-income status. The government also planned to achieve Vision 2021 by implementing the 6th (2011-2015) and 7th (2016-2020) five-year plans successively.

Resource needed for development: dependence on foreign aid

To graduate as a middle-income country, Bangladesh has a projection of public investment of US$ 39.43 billion, as manifested in the 6th five-year plan. This investment would come from the domestic resource by 72.8% (US$ 28.70 billion) and the rest 27.2% (US$ 10.72 billion) from foreign resource, e.g. foreign aid or loan. In spite of the estimated projection of foreign investment, the government has to face a budget deficit (due to shortage of expected revenue or increase in public expenditure) every year by 4-5% of GDP. This increases dependency on foreign loan for the necessary resource mobilization in the development programs and ensuring public investment.

Donors' aid conditionality: past and present

In the decades of 1980 and 1990, most of the conditionalities imposed on Bangladesh were related to the institutional reform as preconditions for eligibility to foreign aid and financial support. To comply with all of the conditions, Bangladesh had to deregularize and privatize state-owned enterprises (SoE). These privatizations through deregulation caused huge losses to public assets. This ultimately caused massive unemployment and commercialization of public services, which worsened the condition of the poor and their means of livelihood. Privatization and agricultural reform underpinned a massive eviction of poor and marginalized people from their land. The rate of landlessness increased in the past decades, i.e. 31% in 1980 and 52% in 2005 (Bangladesh Bureau of Statistics-BBS). Empirical evidence and expert comments also say that the so-called institutional reform during the 1980s and 1990s overlooked the distribution of justice, and caused socio-economic inequalities and increased poverty in the country despite significant growth of so-called per capita income.

Nowadays, aid conditionality appears in new forms in developing countries, especially in Bangladesh, whereby policy reforms are requisites to foreign aid or loan. The policy conditionalities are also observed as anti-poor and implemented mostly in areas of natural resource management and essential public services. This impact is counterproductive in the context of Bangladesh as a poor country and worsens the situation by reinforced efforts of MNCs and commercialization process of public resources, leaving the poor limited access. Two examples of foreign aid received are the IMF loan under ECF (Extended Credit Facilities) and the US$ 1 billion suppliers' credit under Indian LoC (Line of Credit).

Impact of aid conditionality on public borrowings

a. Empirical experience in aid conditionality: poverty increased in the last 10 years

The latest observed impact of aid conditionality is the PRS (Poverty Reduction Strategy) process, which was initiated at the behest of IMF and World Bank in 2000 and implemented during 2001-2008. This process forces low-income countries like Bangladesh to prepare a national poverty reduction strategy paper as a condition for receiving foreign assistance. The government of Bangladesh, in collaboration with World Bank and IMF, prepared this national strategy document to promote growth and reduce poverty but ultimately failed and produced no positive breakthrough for the country. According to the assessment, there are 5 million people who are below the poverty line during the implementation of PRS (HHIES report 2005

of BBS). The newly elected government in 2009 discarded this policy document and turned back to the country's own five-year national plan.

b. Conditionality undermines the policy autonomy (self-ruling capacity) of the government

It can be observed that most of the policy reform conditions include the participation of private sector. The idea is, in fact, to promote private sector especially MNCs in developing countries in order to take over public services and natural resources. In Bangladesh, as a poor but so-called developing country, public services (health, education, and water supply for both drinking water and irrigation) are essential for human development as well as economic growth. The ADB and WB have recently initiated a few projects (i.e. small scale water management project, strengthening non government educational institutions, etc.), the ultimate objective of which is to reduce the role and efforts of the government and push for further privatization of these services. By implanting these projects, the public resources will be turned over to the private sector and people will be deprived as they have to pay for some services that the government should be providing for free.

c. Debt Servicing Liability (DSL) still undermines the peoples' rights

Cumulative debt burden has been creating pressure on debt management. Despite being successful in increasing the tax-GDP ratio (though this achievement is made by imposing tax mostly on essential services that directly affects the poor), the government of Bangladesh has failed to increase the budgetary allocation on human development sectors such as health (at less than 1% of GDP) and education, which was one of the major pledges of the ruling party in their election manifesto. On the contrary, the DSL is increasing enormously over the years due to loans and has now surpassed more than 20% of the national revenue and stands highest in terms of budgetary allocation during the fiscal year 2012-13. Thus, it is ridiculous that Bangladesh shows complacency for having good remarks from IMF for its debt management performance, when it is actually depriving poor people of their rights.

Aid conditionality: Latest experience with IMF loan and Indian LoC (Line of Credit)

a. Political gambling of IMF: loan forced on Bangladesh

Bangladesh receives a loan of US$1 billion from IMF under its Extended Credit Facilities (ECF) program for three years. The ECF is actually a replacement of the Poverty Reduction and Growth Facility (PRGF) process which supposedly will help improve the country's BoP (Balance of Payment). Even before receipt of this loan, though, the government has not experienced a BoP crisis. Why then is Bangladesh forced to take this loan? In 2008, CSOs in the country including some members of the government called for IMF to take its hands off the country. However, IMF managed to influence top officials of ERD (External Relation Department of Bangladesh bank) to accept the loan and ensure its permanent existence in the country. To answer this question, we have to go back to 2008 when there were claims that Bangladesh does not need the IMF; and CSOs, along with a portion of the government, urged that IMF must stop interfering in the country. However, they could successfully 'manage' few influential officials of ERD (External Relation Department of Bangladesh bank) to accept the loan and ensure their existence in Bangladesh permanently. Bangladesh continues to receive loans under the IMF's ECF program in the country.

b. Terms & conditions of ECF loan

It is observed that the credit facilities endorsed by the IMF or World Bank are almost similar and accompanied by a set of conditions that usually go against the interest of debtor countries. The typical prerequisites for IMF credit facilities are privatization, trade liberalization, and increase of interest rate as well as reduction of subsidy in oil prices that are always proven as counterproductive for the debtor country's economy in the long run. Bangladesh had to deal with the following set of conditionalities for IMF's one billion dollar loan:

1. Pursuing a contractionary monetary policy in order to check inflationary pressure
2. Further dismantling and removal of tariff barriers
3. More liberal exchange regime by moving into floating exchange rate regime
4. Privatization of state-owned enterprises for greater efficiency and competency
5. Placing new VAT and income tax in order to achieve revenue targets
6. Phasing out bank lending rate ceilings (for bringing in greater flexibility in the lending regime)
7. Raising CNG and furnace oil prices
8. Introducing a debt management strategy to reduce budget deficit
9. Planning to streamline the ADP project approval and implementation process
10. Developing a new auction mechanism for government paper
11. Complete audits of the accounts of the state-owned commercial banks (SCBs) for the year 2010 by using internationally affiliated, reputable auditor (Source: Innovators)

The conditions imposed do not necessarily produce negative impacts. However, in implementing them, the government of Bangladesh had to take some anti-people measures (e.g. contractionary monetary policy, fuel price adjustment, VAT expansion

etc.), which, in fact, are inappropriate considering the economic capacity of people in Bangladesh. There are two major adverse impacts of IMF compliance as indicated below:

IMF advice excavates domestic investment
Contractionary monetary policy is one of the major conditions of IMF's loan under ECF, which our government has to follow and is still under implementation. The objective of contraction was to establish control over inflation prevailing during 2008-2010 but failed due to wrong assessment by IMF and their advised action. On the other hand, adopting contractionary monetary policy reduces the availability of credit to commercial banks and ultimately affects the reduction of credit availability that caused interest rate to increase up to 17-18%. Higher interest rate creates adverse impact on private sector investment. According to the report of Bangladesh Bank, the real investment of GDP was 24.37% in 2009 and 24.96% in 2010, while the government had a projection of at least 35% investment per year.

New VAT Act will cripple down the livelihood of the poor
Bangladesh had to prepare a new VAT act by revising the previous one to comply with IMF and the parliament has already approved it for implementation in 2015 although its primary exercise is already taking place by including new item and imposing new rate. The new VAT act proposes to expand VAT coverage even in village-level growth centers and its business activities and also proposes a flat rate of 15% for all kind of sales and consumption. The proposed VAT covers all sorts of essential products and services including daily food items, thereby further restricting access from the poor.

Though IMF often pleads that VAT is a progressive technique of effectively mobilizing revenue, it is actually regressive considering the nature of imposition on poor countries. IMF compelled the Bangladeshi government to keep the VAT at a flat rate of 15% for all sorts of products and consumption based on the actual calculation of value addition in every stage. This proposal is the highest to date, and is never seen in other developing countries. A study says that the present VAT rates in Asia Pacific are 5% in Singapore; 7% in Thailand; 10% in Indonesia, Myanmar, Vietnam and South Korea; 12% in New Zeeland; and 13% in Nepal. Bangladesh is a poor and developing country where corruption is a very common phenomenon – taxes are not collected properly, not to mention illicit economic activities that propagate tax evasion. As such, the burden of paying taxes goes to the shoulder of the poor in the country.

Indian Line of Credit of US$ 1 billion: Increased burden of physical and financial loss
In 2010, India announced a supplier's line of credit (LoC) worth US$ 1 billion to support the infrastructure development facilities, which will boost up bilateral trade capacity in favor of Bangladesh. After a long debate between government and CSOs, the agreement is signed in 2012. However, Bangladesh was burdened with the following stringent conditions to avail the loan and was at the losing end in both financial and geo-structural aspects. Bangladesh will have to:

i. Establish the trans-shipment facilities across the country using roads and river infrastructure to carry the trailer trucks (70-120 wheel vehicles and can take a load more than 300MT) and at least 0.7 meter draft lighterage ships.

ii. Ensure security when the goods & materials will cross Bangladesh to India

iii. Allow all sorts of products to go to India under transshipment facilities to be exempted from tax and duties.

iv. The grace period of loan will be five years and at 1.75% per annum along with 0.5% commitment fee in case of unutilized amount of the disbursed loan.

v. The loan will be as supplier's credit in nature and 85% purchase will be done from India and Indian suppliers.

vi. The projects will be approved through bilateral consent – meaning without India's approval and assurance that it will serve its interest, the project will not be financed.

There are a range of twenty projects – including, but not limited to, railway infrastructure, supply of locomotives and passenger coaches, procurement of buses and dredgers and development of transshipment facility at Ashuganj river port – identified for financing under LoC.

Bangladesh has experienced bureaucratic delays and stringent conditionalities in the procurement procedures that inhibited the Bangladeshi government to have full access to the LoC. By November 2011, there were 14 projects (US$ 718 million) already endorsed out of the 20 projects initially identified. However, since February 2012, only one project (US$ 36.85 million) has been implemented by the Bangladesh Road Transport Corporation (BRTC), i.e. procuring buses from India. With regard to the remaining 13 endorsed projects, four have already been dropped (US$ 234 million), and Bangladesh is yet to receive official response from India regarding the rest of the nine projects (US$ 327 million).

Costs of projects under Indian LoC continue to soar

Bureaucratic delay on India's part and lack of Bangladesh's involvement in the project design led to increase in the already expensive project costs in case of every project compared to other markets. The provision of LoC has imposed strong condition of 85% procurement from India, which leaves Bangladesh no choice but to purchase from Indian suppliers, despite very expensive rates. Most projects are on railway development where Indian suppliers demand double cost. For example, Bangladesh Railway has sought an increased amount of BDT 3.86 billion, which is higher by BDT 1.77 billion or 85% than the initial cost of DBT 2.08 billion, to procure 10 broad-gauge (BG) diesel-electric locomotives from India and this happens almost for every project. That's why the government of Bangladesh was compelled to drop at least four projects. (Source: Financial Express 20 July 2013).

Agenda of aid effectiveness: mockery of poor people and countries by IFIs

In 2005, the "Paris Declaration" is adopted with participation from over 100 signatory governments, partners, bilateral and multilateral donor agencies in order to achieve aid effectiveness, setting five mutually reinforcing principles like ownership, harmonization, alignment, mutual accountability and managing for results. But it is observed that IFIs hardly implement these principles. There is a big gap in the implementation of ownership, evident in the lack of participation of stakeholders and targeted communities in the project design to ensure the project addresses their real problems and development requirements.

Project designs without due consultation of both sides are being implemented resulting in soaring project costs shouldered by Bangladesh along with principal and interest. For instance,

a World Bank-initiated project from 1996 to 2000 called TLM (Total Literacy Movement) cost US$150 million. Post-assessment revealed, however, that the project had little impact - that's why CSOs ridiculed it as TLM meaning "Total Loss of Money". In the same way, WB designed a project in 2005 called ROSC (Reaching Out of School Children) without proper problem assessment and community participation. After implementation and post-evaluation, it has been shown that a great amount of money was misused and the targeted rate of reduction in the number of dropouts was not achieved. Cognizant of this, WB handed over the implementation of the project's second phase to the government.

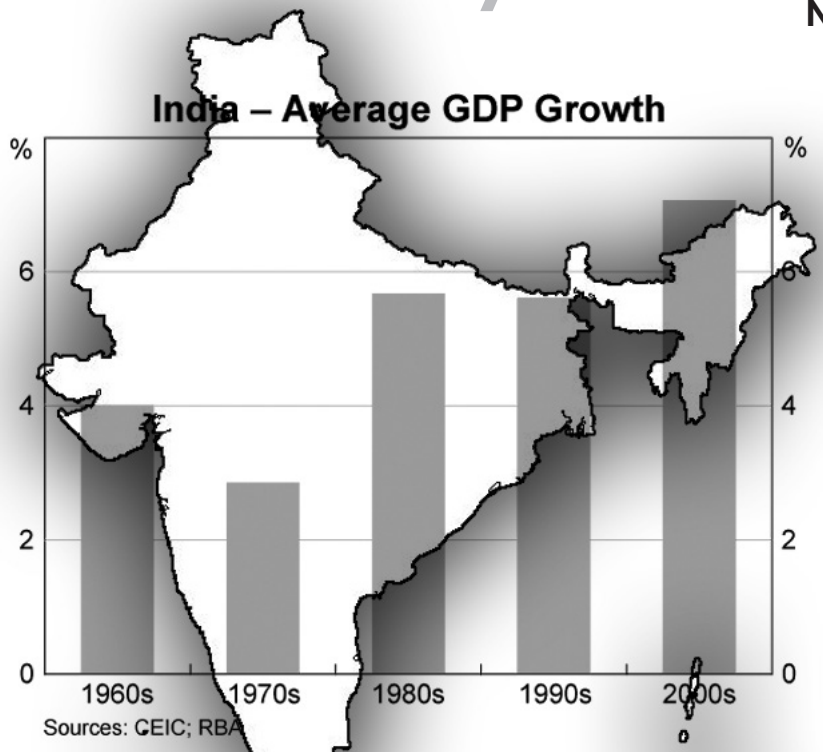
What's next for Bangladesh: Is there any alternative to so-called foreign aid (loan)?

Denial of loan will save 25% of national revenue or 3% GDP at instance

The analysis of aid flow has shown that the government of Bangladesh receives US$ 52.6 billion during the last 40 years (ERD) from 1971-2010. Out of this amount, 43% come in as grants (as food and commodity aid) and the remaining 57% is project aid, i.e. loan or credit and maximum grants provided during the period of 1971-2005. Recently, however, the percentage of grants has dropped drastically and gone to zero. Development assistance come more and more in the form of loans given to the government under different projects and come with various types of conditions that do not work to the people's favor.

According to the quarterly update from the Bangladesh Bank, the government has been receiving loan which is less than 1% of GDP in recent years and ranging between US$ 1-1.3 billion per year. For instance, the net received, minus the principal, amounted to only US$ 373 million in the fiscal year 2010-2011. Bangladesh can do without this loan. Canceling the loan would save 25% of the total revenue normally allocated to debt servicing, and which the government can use to increase budgetary allocation in the national development plans and essential services that can contribute to GDP enhancement and poverty reduction by 2021.

The ADB and WB have recently initiated a few projects (i.e. small scale water management project, strengthening non government educational institutions, etc.), the ultimate objective of which is to reduce the role and efforts of the government and push for further privatization of these services.



Conditionalities relating to aid: A case study of India

by Anil K Singh, Sagarika Chowdhary, & Balendushekhar Mangalmurty*

The emergence of South- South cooperation has undoubtedly changed the development landscape, with former aid recipients like China and India now increasingly assuming donor roles. Nevertheless, aid conditionality remains a persistent issue for the development prospects of developing countries in Asia Pacific. International financial institutions and multilateral development banks like Asian Development Bank, continue to impose policy conditionalities in the form of market driven, export oriented, neoliberal policies that have only undermined domestic democratic processes and resulted in negative social outcomes. Aid conditionalities that now come in complex forms have contributed to the worsening development problems the region faces, exposing the glaring truth about the much hyped Asian Century. The present paper is an effort towards contributing to country case study in the form of study of the development aid architecture in India and its impact on the development prospect of India.

*Anil K Singh is the Secretary General, South Asian Network for Social & Agricultural Development (SANSAD), New Delhi; Balendushekhar Mangalmurty is a researcher associated with SANSAD; Sagarika Chowdhary teaches at Deptt of LSW, Magadh University, BodhGaya. SANSAD is a member organization of Reality of Aid Asia Pacific.

India is a country in contradiction; it being both dispenser as well as receiver of aid. In an effort to strengthen and improve India's rural roads in the states of Uttar Pradesh, Rajasthan, Uttarakhand, Himachal Pradesh, Meghalaya, Jharkhand and Punjab, the World Bank has agreed to provide a $1.5 billion largely interest-free loan. The World Bank's terms are a bargain compared to private capital markets whether in India or abroad. However, accepting such a large loan from an international organization seems to contradict the oft-repeated claim that India is an emerging power, or indeed that it has already "emerged" as contended by U.S. President Barack Obama. It's a strange optic that on the one hand we're clamouring for a permanent seat on the UN Security Council and on the other we approach the World Bank for aid.

World Bank's assistance to India

India is among the largest receiver of the World Bank's assistance. Between 2009 and 2013, the World Bank Group lent around $26 billion to India, according to a statement released by the World Bank.

In the financial year 2009-10, the World Bank Group's assistance to India increased to $11 billion in the aftermath of the global financial crisis.

The support between 2009 and 2013 includes $12 billion from the International Bank for Reconstruction and Development (IBRD); $8.3 billion from the International Development Association (IDA); and a further $5.2 billion in investments from the International Finance Corporation (IFC).

Table 1. India's Grants and Loans to Foreign Governments

Year	Grants and Loans to Foreign Governments (in Rs. Crore)	Total Budgetary Public Expenditure in India (in Rs. Crore)	Grants and Loans to Foreign Governments as percent of Total Budgetary Public Expenditure in India (in %)	Total Budgetary Public Expenditure by the Central Government (in Rs. Crore)	Grants and Loans to Foreign Governments as percent of Total Budgetary Public Expenditure by the Central Government (in %)
2003-04	1,749	7,70,618	0.2	3,59,839	0.5
2004-05	1,962	8,34,130	0.2	4,98,252	0.4
2005-06	2,162	9,41,438	0.2	5,05,738	0.4
2006-07	1,729	10,95,167	0.2	5,83,387	0.3
2007-08	1,813	12,49,162	0.1	7,12,671	0.3
2008-09	2,700	15,23,999	0.2	8,83,956	0.3
2009-10	2,401	18,22,561	0.1	10,24,487	0.2
2010-11	3,054	22,05,990	0.1	11,97,328	0.3
2011-12	3,508	23,70,492	0.1	13,04,365	0.3
2012-13	5,536	-	-	14,30,825	0.4
2013-14	7,018	-	-	16,65,297	0.4

***Table 1** shows India's grants and loans to foreign governments*
Source: Prashant Prakash, "India's Development Cooperation Agenda: An Assessment", forthcoming Discussion Paper, Centre for Budget and Governance Accountability, New Delhi

As of January 2013, total IBRD and IDA net commitments stood at $23 billion (IBRD $13 billion and IDA $9.9 billion) across 77 projects. At the end of January 2013, IFC's portfolio contained 219 projects, amounting to committed and disbursed exposure of $4.1 billion[i].

In the case of India, the government often has little choice but to accept the conditions stipulated because they are desperate for the foreign exchange needed to implement various programmes and usually cannot get this money from private sources. There are a few instances, though, where the conditions are not implemented. For example, in the Karnataka Urban Development and Coastal Environmental Management Project, there is a condition that water tariffs must be increased by 100% by 2005. Yet tariffs have not been raised. Whether or not conditions are accepted, and subsequently implemented, depends on the negotiating power of the country – India has significant negotiating power as it provides the Bank with a lot of business. During ADB appraisal missions, there is frequent negotiations regarding compliance with conditions.

The World Bank should stop attaching economic policy conditions (prior actions and benchmarks) to its aid. It should move to outcome-based conditionality, linking aid to a few mutually agreed poverty reduction targets, based on the Millennium Development Goals or national poverty targets. More so, it should ensure that all country analytical work is driven by recipient governments' agendas, is made public, and examines a wide range of policy options, assessing each in the light of its poverty impact.

India as SSC provider

At the recent 4th High Level Forum on Aid Effectiveness held at Busan, South Korea, India, along with other emerging economies, agreed to the setting-up of a global mechanism to improve the effectiveness of global aid flows. The Organisation for Economic Cooperation and Development (OECD) and its Development Assistance Committee (DAC) were keen to set up a new entity called Global Partnership for managing the global aid architecture.

India's development partnership is based on the needs identified by the partner countries and the effort of the Ministry is geared towards accommodating as many of the requests received from partner countries as is technically and financially possible.

In the last decade or so, the range and quantum of South-South cooperation has expanded significantly. This trend has paralleled disturbing signs of what could be described as a slackening of donor enthusiasm in developed countries, in the background of difficult global economic conditions. It has also inspired spirited multilateral discussions on harmonizing the traditional frameworks of North-South cooperation with the emerging patterns of South-South developmental partnerships.

The Indian Technical and Economic Assistance programme, ITEC, was launched in 1964 with the objective of sharing our knowledge and skills with fellow developing countries. Over nearly five decades, ITEC and its sister initiatives, the Special Commonwealth Assistance for Africa Programme (SCAAP) [ii] and the Technical Cooperation Scheme of Colombo Plan, have contributed substantially to capacity building in many parts of the world[iii].

It is a well-established truism that South-South cooperation is on an entirely different footing from North-South cooperation in inspiration,

implementation and impact. It conveniently overlooks the reality that developing countries even the so called emerging economies continue to confront major economic challenges of their own, exacerbated by the current global economic situation, which place an inherent limitation on their capacity to contribute to international development cooperation. The assistance which developing countries offer to other developing countries should therefore continue to remain voluntary and free from externally imposed norms drawn from North-South Cooperation. Simply put, whereas North-South cooperation is a historic responsibility, South-South cooperation is a voluntary partnership. The fact that the traditional donor community often underplays this distinction does not diminish its validity. In the present global realities, it is self-evident that while South-South Cooperation supplements North-South Cooperation, it is not yet in a position to replace it in any significant measure. The North-South engagement leads the aid process and should continue to do so[iv].

India is not a new donor, having provided its first development assistance in the late 1940s, shortly after its independence. Yet its development assistance remained small compared to traditional DAC donors until the turn of the century. Since then Indian foreign aid has risen significantly. Indian foreign aid today is comparable to that of smaller developed countries such as Austria. Moreover, the growth rate of Indian aid stands in notable contrast to the stagnant or even declining foreign assistance of most developed countries.

Over the past few years, as India's foreign assistance has risen in volume and diversity, increased attention has been devoted to India as an "emerging donor". Yet little is known about India's development assistance program. India is not part of the Organization for Economic Co-operation and Development's (OECD) Development Assistance Committee (DAC), the consortium of the world's large developed country donors that have been the drivers behind collecting and harmonizing

data on their foreign aid and discussing foreign aid policies. India also does not report its development assistance to the Development Assistance Committee. Moreover, while the DAC member countries decided on guidelines on how Official Development Assistance (ODA) is calculated and what it entails, India does not categorize its aid using ODA guidelines nor share its development assistance data, further complicating comparisons of India's foreign assistance program.

Nature of India's development assistance
India's development assistance has grown dramatically, rising four-fold in the decade between 2003/04 and 2013/2014. By contrast the total of foreign aid from DAC countries decreased in 2011 and is likely to stagnate in 2012.

From its inception in the late 1940s, India's development assistance to other partner countries was given in the form of grants and small loans. In 1964, training and technical assistance under the ITEC program was added as a new form of development assistance and quickly became the main avenue for India's development assistance program up until the turn of the century. Ministry of External Affairs decides on the nature of development partnership in respective countries. These partnerships are supported by the following forms of development assistance:

a. Grants: Now managed by the Development Partnership Administration within MEA. DPA also coordinates all assistance.
b. Training: Technical Assistance managed by ITEC within MEA
c. Lines of Credit: Managed by Exim Bank.

India's own aid agency
India laid out its new policy towards aid in June 2003 i.e. it would no longer accept tied aid. Bilateral aid would be accepted only from five countries, namely the United Kingdom (UK), the USA, Russia, Germany and Japan, in addition to the European Union (EU). Bilateral cooperation with other donors would not be renewed after completion of existing projects, although these donors may still channel their assistance through NGOs and multilateral agencies.

Government of India has established its own overseas development aid agency named *Development Partnership Administration*[v] under the Economic Relations Division of the Ministry of External Affairs. Major traditional donor countries usually have an autonomous agency to administer their aid, such as USAID and the UK's Department for International Development (DFID). Development Partnership Administration is GOI's effort along that direction. India focuses its development assistance in two geographical regions: its immediate neighbourhood, particularly Bhutan, Nepal, and Afghanistan and the developing countries of Africa. If current trends continue, Afghanistan will shortly overtake Bhutan as the single-largest recipient of Indian development assistance. Since 2002, India has pledged US$750m under the assistance programme for Afghanistan.

India's official development assistance (ODA) is a mix of project assistance, purchase subsidies, lines of credit, travel costs, and technical training costs incurred by the Indian government.

While India's assistance to Bhutan, Afghanistan, and Nepal is devoted mainly to infrastructure and project assistance, aid to other countries (especially in Africa) is focussed on training civil servants, engineers, and public-sector managers in recipient nations. Aid goes to providing loans to enable

foreign governments to purchase Indian equipment and services and for project-related activities such as feasibility studies and sending technical experts from India. The country provides very little development assistance in the form of cash grants.

One of the three main objectives of Indian aid appears to be a rising focus on securing of natural resources to feed the needs of India's growing economy. Indian development assistance has historically focused on securing energy sources. For example, India has historically been one of the largest foreign aid donors to Bhutan with the Indian Government financing the entire first two Bhutanese Government's Five Year Plans (1961-71) with over 309 million rupees during 1961 to 1971 (Indian Embassy to Bhutan 2012). From the inception of Indian foreign assistance to Bhutan, funding was also provided for hydroelectric projects with the agreement for the electricity produced to be sold to India.

More recent development assistance recipients are also seeing that Indian aid has an energy access component. India now has not only become the fifth largest donor to Afghanistan, the aid it provides to the country increasingly has an access to resources component[vi].

Indian development assistance has also been increasingly used to secure markets for Indian goods and services, particularly through the use of LOCs. In Africa, where the bulk of LOCs are allocated, this form of "tied assistance" is often in the form of LOCs and are often used to not only access, for example, hydroelectric power in the Central African Republic, but also to ensure that the majority of the contractors are Indian. Similarly the Pan-Africa e-network, a project funded through grants by the Indian government, connects 47 African countries with well-known universities and super-specialty hospitals in India in order to provide tele-education and tele-medicine and thereby build a demand

Table 2. External Assistance Received by Union of India

Year	External Assistance (in Rs. Crore)	Total Budgetary Public Expenditure in India (in Rs. Crore)	External Assistance as Percent of Total Public Spending (in %)	Total Budgetary Public Expenditure by Centre (in Rs. Crore)	External Assistance as Percent of Total Public Spending (in %)
2003-04	19,257	7,70,618	2.5	3,59,839	5.4
2004-05	19,257	8,34,130	2.3	4,98,252	3.9
2005-06	17,559	9,41,438	1.9	5,05,738	3.5
2006-07	18,281	10,95,167	1.7	5,83,387	3.1
2007-08	19,586	12,49,162	1.6	7,12,671	2.7
2008-09	22,326	15,23,999	1.5	8,83,956	2.5
2009-10	25,318	18,22,561	1.4	10,24,487	2.5
2010-11	38,002	22,05,990	1.7	11,97,328	3.2
2011-12	28,996	23,70,492	1.2	13,04,365	2.2
2012-13	21,252	-	-	14,30,825	1.5
2013-14	29,102	-	-	16,65,297	1.7

***Table 2** shows India's external assistance since 2003-04 to recent years and external assistance as percentage of total public spending.*
Source: Prashant Prakash, "India's Development Cooperation Agenda: An Assessment", forthcoming Discussion Paper, Centre for Budget and Governance Accountability, New Delhi

for Indian university instructors and doctors. India's foreign assistance particularly to African countries is heavily focused on trade promotion and securing markets for Indian goods – much like China's strategy in Africa. In India's neighbourhood, India provided a $1 billion LOC to Bangladesh in 2010, largely for transportation infrastructure in order to help increase Indian connectivity with its north-eastern states and other countries in East Asia.

The third key focus on Indian development assistance is to undergird India's larger geo-strategic objectives in its neighbourhood and beyond. Afghanistan today continues to retain an important geostrategic location since it borders Pakistan, with whom it has historically had a tenuous relationship, as well as Iran through which India can access Afghanistan. Afghanistan is also the South Asian gateway for accessing Central Asian oil and gas.

India-China rivalry for regional supremacy and the quest for natural resources is a strong underlying motivating factor for India's aid priorities. This competition focuses on three major issues: diplomatic influence, oil reserves, and markets for goods. In the past few years, India and China have been in the limelight for their enhanced involvement in development partnership projects. For instance, Indian aid to Vietnam has been given with an eye to the oil and gas exploration that an Indian partnership with a Vietnamese company is undertaking in the South China Sea, leading to a turf battle with China which has regarded Vietnam as its backyard.

i http://www.hindustantimes.com/business-news/WorldEconomy/World-Bank-to-give-India-3-5-bn-assistance-annually/Article1-1025811.aspx accesed on Sep 22, 2013

ii Under ITEC and later its corollary SCAAP (Special Commonwealth African Assistance Programme) India expanded its foreign relations with other developing countries, eventually encompassing not only Asia and Africa, but also Latin America and Pacific Island countries, 158 countries in all. Through the ITEC program India provided technical assistance through six main channels: 1. Training of workers from state-owned enterprises, bureaucrats, and policy makers nominated by the partner countries; 2. Feasibility and consultancy services related to specific development projects; 3. The sending of Indian experts to the requesting country; 4. Study tours in India for individuals and groups suggested by partner countries; 5. Donation of hardware to partner countries; and 6. Humanitarian aid for disaster relief (Ministry of External Affairs 2012). From its beginnings when the ITEC program funded training to just a few countries, the program has grown to one that annually offers two hundred different short to longer-term training programs at over forty Indian institutes for up to 5,000 individuals from other countries (Ministry of External Affairs 2012).

iii An earlier example is from our agricultural Green Revolution, when we shared with Vietnam our research on high-yielding rice varieties through exchanges of scientists and the establishment of a Rice Research Institute in southern Vietnam. Today, Vietnam is a major rice exporter and in fact competes with India in world markets.

iv It is therefore a matter of great satisfaction that several donors have come forward to declare their continued commitment to their 1970 UNGA pledge of achieving an ODA level of 0.7 per cent of their GNP. Japan, Germany, Australia and UK have targeted attainment of this goal by 2015.

v DPA is expected to help in the consolidation of outgoing aid and streamline all administrative matters related to this process. It will also help in assessing the effectiveness of credit lines that India is extending to its partners, which has grown in the last few years. It was first mooted in the Budget speech of 2003 when then Finance Minister Jaswant Singh announced an agency in his budget speech. He had called it India Development Assistance (IDA). Nothing much happened on this proposal until 2007 when Mr. P. Chidambaram announced the government s intention to establish the India International Development Cooperation Agency (IIDCA) to provide unified administration of the country s outgoing development assistance. DPA has started to create in-house, specialized technical, legal and financial skills in order to fast-track all stages of project implementation. DPA has three Divisions. Currently, DPA I deals with project appraisal and lines of credit; DPA II deals with capacity building schemes, disaster relief, Indian Technical and Economic Cooperation Programme and DPA III deals with project implementation.

vi Aid for hydroelectricity in Herat Province and power transmission lines in Afghanistan have largely benefitted the Afghan population, but investment in roads to natural resource site production will ultimately also benefit India. For example, in 2011 a corsortium on private and state-owned Indian companies won the rights to mine the Hajigak iron-ore mines in Bamiyan, while in spring of 2012 Indian firms also bid and were short-listed for mining rights on copper and gold mines in Afghanistan. In order to extract, transport and receive the potential iron mined, India also built a 135 mile highway between the Afghan cities Delaram and Zaranj, thereby connecting the Afghan Iranian border with other major cities in Afghanistan through the A01 ring road and on the Iranian side with roads leading to the port of Chabahar, which India also help build and expand in order to have another route of accessing land-locked Afghanistan. Indian public sector oil and gas companies have also been investing in new partner countries such as Sudan as well as older partner countries such as Iran to secure such access to natural resources.

Reality Check

November 2014

The Reality Check is the official newsletter of the Reality of Aid. It is designed to highlight current issues in aid regime written from a regional perspective but with global significance, edited in rotation by the leading networks in the following regions:

The Reality of Aid Network exists to promote national and international policies that will contribute to a new and effective strategy for poverty eradication, built on solidarity and equity.

Established in 1993, The Reality of Aid is a collaborative, not-for-profit initiative, involving non-governmental organisations from North and South.

The Reality of Aid publishes regular and reliable reports on international development cooperation and the extent to which governments in the North and South, address the extreme inequalities of income and the structural, social and political injustices that entrench people in poverty.

The Reality of Aid International Coordinating Committee is chaired by Rev. Malcolm Damon of Economic Justice Network (EJN).

The International Coordinating Committee is comprised of coordinators of component regional networks (RoA Africa, RoA Asia/Pacific, and LATINDADD for Latin America), Canadian Council for International Cooperation, European Network on Debt and Development (EURODAD), and the Global Secretariat Coordinator.

www.realityofaid.org

Global Secretariat
Jennifer del Rosario-Malonzo, Global Secretariat Coordinator

Reality of Aid Network
3rd Floor, IBON Center
114 Timog Avenue, Quezon City
1103 Philippines
Tel: +63 2 9277060 ext. 201
Telefax: +63 2 9276981
Email: secretariat@realityofaid.org
Website: http://www.realityofaid.org

International Coordinating Committee

Rev. Malcolm Damon
Chairperson
Economic Justice Network (EJN)
Church House 1, Queen Victoria Street
Cape Town, Republic of South Africa
Tel: (27) 21 424 9563
Email: mpd@ejn.org.za
www.ejn.org.za

Fraser Reilly-King
Vice Chairperson/Representing non-European OECD
Canadian Council for International Cooperation (CCIC)
450 Rideau Street, Suite 200, Ottawa, Ontario, K1N 5Z4
Tel: +01 613 2417007
Email: freillyking@ccic.ca
www.ccic.ca

Vitalice Meja
Reality of Aid Africa
Wanandege Flats Apt 4D Kirichwa Road Kilimani
P.O.Box 36851 - 00200 Nairobi Kenya
Tel: + 254 202345762/ 254 704353043
Email: roaafrica-secretariat@realityofaid.org
www.roaafrica.org

Erin Palomares
Reality of Aid Asia Pacific
3/F IBON Center, 114 Timog Avenue
Quezon City 1103, Philippines
Tel: +63 2 9277060 ext. 201
Telefax: +63 2 9276981
Email: epalomares@realityofaid.org

Jeroen Kwakkenbos
Representing European Country CSO members
European Network on Debt and Development (EURODAD)
Rue d'Edimbourgh 18-26
1050 Brussels, Belgium
Tel: +32 2 8944645
Email: jkwakkenbos@eurodad.org
www.eurodad.org

Alberto Croce
Representing Latin American CSO members
Red Latinoamericana de Deuda, Desarrollo y Derechos (LATINDADD)
Fundaciún SES
San Martśn 575 6°A
Buenos Aires, Argentina
Tel: +54 11 5368 8370
Email: dir@fundses.org.ar
www.fundses.org.ar

Jennifer del Rosario-Malonzo
Global Secretariat Coordinator
3/F IBON Center, 114 Timog Avenue
Quezon City 1103, Philippines
Tel: +63 2 9277060 ext. 204
Telefax: +63 2 9276981
Email: jmalonzo@iboninternational.org
global.secretariat@realityofaid.org
www.realityofaid.org