

# Understanding the South–South Cooperation Dynamic in Relation to India’s aid Policy<sup>1</sup>

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## Introduction

In recent years, India made the leap from aid recipient to aid donor, a move that got noticed on the global stage when the British government announced the pullout of its official assistance after 2015. However, prior to that announcement in 2012, India has already been providing assistance to various countries in South Asia, as well as increasing its presence in Africa and Latin America.

Being part of South–South Cooperation (SSC), India’s ability to maintain and sustain its assistance program, which revolves around the principle of aid partnerships and not the traditional donor-recipient relationship, is being recognized. The impact of the progress in India’s economic development is displayed in its commitment to SSC by way of expanding development cooperation associations with partner countries. India’s program-based assistance has had a key mandate of fostering techno-economic and intellectual cooperation (also called the Indian Development Initiative), which has also been intended to promote India’s interest in overseas markets.<sup>1</sup>

## India and SSC

India understands SSC as a supplement to the North-South cooperation, not as a substitute to it. It is engaging multilaterally with South Africa

through the IBSA Summit and the BRICS Summit.<sup>2</sup> Both platforms have emerged as vital for inter-regional dialogue and to consolidate cooperation. India is mindful of the fact that the BRIC-IBSA initiatives will be an effective instrument for promoting closer cooperation and coordination on global issues between the major countries from the major continents. As a very significant representation of the most powerful countries in the South, it is also seen by the government to be voicing the concerns of the developing country’s people in the global fora.<sup>3</sup>

Trade and investment agreements have been an integral part of India’s SSC. This aspect is exemplified in the initiation and early conclusion of negotiations for trade and investment-related bilateral and multilateral agreements — especially the BIPPA (Bilateral Investment Promotion and Protection Agreements), the FTAs (Free Trade Agreements)/Comprehensive Economic Cooperation Agreements, and Double Taxation Avoidance Agreements, among others. India is also reinforcing its efforts to promote Foreign Direct Investment (FDI), the development of small and medium enterprises (SMEs), greater market access, and investment facilitation. By moving to cleaner and greener technologies, sharing of technology in development, and utilizing green and renewable sources of energy, India has displayed its will and intent for a cleaner and sustainable world.

1 This chapter is an abridged version of VANI’s publication, India’s Global Footprints, November 2013, published with the support of Heinrich Boll Stiftung Foundation, India, accessible at <http://in.boell.org/2014/02/05/indias-global-footprints>.

## Changing Dynamics of SSC: Threat or Opportunity for Progress

This new dynamism of the South is not a cause for concern. It is important, first of all, to note that the North has been much more of a partner than a competitor in the success of the South. It has shared in the dividends of that success and will continue to do so. Second, a stronger South will generate demand for exports from other countries and boost investment opportunities with higher returns. Third, consumers worldwide are already benefiting, and will do so increasingly, from the low-cost, high-quality products and services now on offer from the South. Fourth, the fact that more and more developing countries are becoming competitive participants in global production chains and labour markets is likely to have a net job creating impact in the South and the North alike. Fifth, the more successful developing countries set good examples for others to follow, enabling them to avoid repeating past mistakes and embark on development models that have already been proven to work. And finally, emerging countries in the South can join the ranks of other nations in confronting such global challenges as migration, environmental threats such as climate change, HIV/AIDS and other pandemics.

### 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 concerns, among others. Taking into account India's development experience as well as its increasing economic significance, the country launched in 2003 the Small Development Project (SDP) initiative to support successful small-scale programs to ensure economic

advancements, especially in the education, health and infrastructure sectors.

The SDP is designed to meet local needs, which are managed by local communities and institutions with a view of saving costs on project implementation. The SDP, which aims to instill local ownership of the program, was first launched in Nepal and since then has been replicated in Sri Lanka and Afghanistan.<sup>4</sup>

Based on a 2010 report by C.R. Bijoy,<sup>5</sup> India's development assistance is a mix of project assistance, purchase subsidies, lines of credit, travel costs, and technical training costs incurred by the Indian government. The scope of India's development assistance stretches far and wide from Central Asia to the Pacific islands to Southeast Asia. The countries receiving substantial amounts of aid include Senegal, Tajikistan, Ethiopia, Vietnam, and Kampuchea. India — along with China, Saudi Arabia, the United Arab Emirates, Venezuela, Kuwait and Brazil, as aid providers — do not belong to the Organisation for Economic Co-Operation and Development (OECD) or its donor-coordinating Development Assistance Committee (DAC).

In 2007 the OECD developed its Key Partners Program aimed at enhancing the OECD's relationship with five "Key Partners:" Brazil, China, India, Indonesia and South Africa. These partners are encouraged by the OECD to have a direct, active and sustained participation in various OECD bodies, including the Development Assistance Committee. For other non-OECD states, the relationship takes place on a subject-by-subject basis.

According to the OECD, the actual mix and sequencing of the elements in SSC is determined by mutual interest.<sup>6</sup> While India has been promoting SSC since the 1950s, with an initial

focus of granting aid and technological expertise to its neighbours and Africa in the 1960s, it has been operating with guiding principles outside existing structures and frameworks of the traditional donor-recipient relationship including the norms of OECD. India's development co-operation policy is based on a holistic approach (including trade and investments) and comprised of two main pillars:

1. Economic co-operation, focusing on trade and technology flows among developing countries, including the removal of discrimination in institutional and regulatory frameworks; and
2. Technical co-operation, focusing on technical capacity building through training, exchanges of experts and sharing of experience and know-how.<sup>7</sup>

In his report, Bijoy set out some 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 strict, well-defined and clear objectives and approaches, with limited public accounting and monitoring.
- There has been a shift from the rather simple import-export exchange to a more organized, diverse set of interactions consisting of government support, joint ventures, official lines of credit, and export guarantees. There is an increased emphasis on providing budget support to partner 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.

- While much of Indian aid is tied (see below), India attaches far less policy conditionality on 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 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 seen to be a failure.
- 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 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 India. While India refuses to accept tied bilateral aid from others, ironically, a large proportion of its own loan programs are tied. This can accumulate some negative feeling towards the aid provider.
- Development assistance linked to trade and investment is often criticized as new mercantilism. The recipient countries however can consider this as positive, as it offers considerable freedom for economic and commercial partnership. The emerging aid providers at the same time are also becoming 'development partners.'

- The country priorities for India's Africa assistance seem to correlate with those African countries with significant Indian diaspora, such as Tanzania and Kenya.
- The share of technical cooperation has risen in India's assistance. Technical cooperation per se does not achieve greater self-reliance in the partner countries. It is a form of assistance largely controlled by donors. It tends to generate considerable economic benefits for the consulting industry in the aid-providing country. Most technical cooperation is provided in-kind. It often takes the form of personnel or administrative costs accruing to participating officials from the aid-providing countries. The personnel in the partner countries benefiting from improved and highly technical skills, however, form a small elite group, often receiving better pay and work conditions, which demoralize others in the local services.

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

Source: OECD, *Trade-Related South-South Co-Operation: India*, [http://www.oecd.org/dac/aidfortrade/South-South\\_India.pdf](http://www.oecd.org/dac/aidfortrade/South-South_India.pdf).

One of the main challenges in documenting India's aid programs 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" such that it is difficult to quantify the total figures.<sup>8</sup> To date, India has not published data on the financial terms of its foreign aid, using the DAC methodology. Nor does it provide systematic statistics such as annual amounts disbursed or a detailed breakdown in terms of partner countries and sectoral distribution.

However, in January 2012 the Ministry of External Affairs established the Development Partnership Administration (DPA) as a structural framework for disbursing aid. This 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 centred on the needs identified by the partner country. The DPA's role would be to accommodate as many requests received that are both technically and financially possible. Currently, 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 the Indian Technical and Economic Cooperation Program; and 3) DPA III deals with project implementation. With close cooperation between the DPA and its development partner countries, the Indian government expects effective and efficient handling of all aid projects from conception to completion.

Prior to the creation of the DPA, India didn't have a single agency responsible for the administration of its aid. The main government bodies involved then were the Ministry of External Affairs (MEA), the Ministry of Finance and the Export-Import Bank of India (Exim Bank). The Lines of Credit

(LOCs), which forms 30% of India's overall aid-related expenditure, continue to be channelled through the Exim Bank. The Exim Bank makes LOC offers to the partner government or their designated agencies, where such offers need to be accepted and the LOC Agreements signed.<sup>9</sup>

The top 20 country recipients of LOCs from the Exim Bank in 2012 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. Among the 2012 LOCs, 53% were directed to 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.<sup>10</sup>

The type of technical assistance being provided by India is through triangular co-operation, 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 each partner. It complements India's efforts on a bilateral basis.<sup>11</sup>

The LOC Pipeline Table indicates the offers made by the Exim Bank to the various governments as of January 2013. These agreements at the time

**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

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

were yet to be signed. While Myanmar has the highest amount in a potential LOC, it appears that a majority of the credit was being offered to African nations, directed at the development of different industrial purposes.

## Roadmap for Future:

India's participation in South-South Cooperation is supplemented in bilateral relationships and complemented by its regional cooperation efforts and increasingly proactive engagements in various multilateral forums. India has coined itself to be a development partner not only to its neighbours, but also to the farther reaches of the South. SSC has historically been a development partnership that included trade, investment and technology transfer. In most recent years there have been an enhanced flow of trade and investment within and between the nations of the South, which translates to 20% of global trade and almost 50% of developing country trade.<sup>12</sup>

With the creation of the DPA, India should now be able to articulate its development cooperation agenda in a well-defined manner. India's unique model of a 'development compact' depicts diversity in engagement through trade and investment, technology transfer, finance through credit lines, and capacity building by means of its flagship program. India's aid assistance program is mostly dedicated to creating technical capacities and the provision of production support. As a new aid provider, India is facing some shortcomings such as institutional problems, inadequate system for monitoring and evaluation, and a more transparent decision-making process with regard to aid size and agreements with partners. As part of SSC, India's profile builds on its history of being a developing nation with domestic socio-economic challenges, with a willingness to share its experiences with other countries.<sup>13</sup>

Apart from a more structured approach to aid provision, including monitoring and evaluation of the projects, India would be able to leverage its bilateral relations with other groups such as the DAC. India would benefit from the expertise on project impact analysis and other practices to improve the quality of delivery and better assessment of mechanisms utilized in projects such as the Small Development Projects. India sees the importance of participating in Aid-for-Trade, which it believes is an effective instrument for addressing the insufficiency of trade-related capacity in many developing countries to allow them to benefit from the opportunities offered by the multilateral trading system. Accordingly, India should go beyond its primary focus of economic infrastructure and productive sectors to develop a more detailed and robust database to help identify areas of concern such as aid-for-trade.<sup>14</sup>

## Conclusion and Recommendations

As a result of its outward orientation in the last two decades, the Indian economy has become one of the fastest growing economies in the world. Despite many serious challenges like internal security, poverty, energy security, infrastructural bottlenecks, policy paralysis, and global slowdown, it is expected that the economy will continue to grow at reasonably high rates in the medium to long run. The strategic consequences of its high growth rates are clearly evident as India has been able to increase its global profile. It has also been able to forge close economic and political linkages with all major powers and concluded many trade and investment agreements in Asia and beyond. It has also been taken seriously on issues concerning global economic governance.

Although India has been active in aid programmes with other developing countries for quite some time, the increased scale of its aid, linked to the abovementioned economic growth, has now

made India an important player in the area of development cooperation. This is clearly evident in its development activities in South and Southeast Asia (particularly Afghanistan) as well as in Africa.

India's aid architecture is still evolving. Indian civil society, including the voluntary sector, is not fully aware of India's development cooperation programmes. Although Indian NGOs have tremendous experience in different kinds of development work, they have not been involved significantly in any of the development cooperation programmes by the government. The evolving Indian architecture for development cooperation should focus on: a) detailed information of its activities, b) a clear strategy, c) a specific institutional structure (the DPA), and d) a plan to involve the Indian CSO sector in designing and implementation its overseas programmes.

Overall, some key recommendations follow:

- With increasing global engagements, the Indian policy-making institutional structure needs to be expanded, with a more prominent role for civil society.
- Citizens needs to be better informed about Indian government's engagements/commitments/negotiations in various international and bilateral forums.
- A proper mechanism for timely information about Indian development activities abroad should be evolved.
- Indian CSOs have a long history of working at the grassroots level with successful innovative methods in various development sectors. Their development experience needs to be taken into account by the government while finalizing development projects for other developing countries.
- A proper mechanism for the involvement of CSOs in the development cooperation sector needs to be evolved.

- Various legal and institutional barriers restricting the inclusion of small and medium Indian CSOs in global development activities should be removed.

## Endnotes

- 1 Chaturvedi, S., 'India's development partnership: key policy shifts and institutional evolution', *Cambridge Review of International Affairs*, 2012, Vol. 25, No. 4, December 2012.
- 2 IBSA includes India, Brazil and South Africa and BRICS includes Brazil, Russia, India, China and South Africa.
- 3 Press Bureau of Ministry of Finance, Govt. of India on "India's involvement and pioneering role regarding South-South Cooperation."
- 4 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>.
- 5 CR Bijoy, India: Transiting to a Global Donor, accessible at <http://www.realityofaid.org/wp-content/uploads/2013/02/ROA-SSDC-Special-Report6.pdf>
- 6 OECD Members and Partners, <http://www.oecd.org/about/membersandpartners/>
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- 8 Walz and Ramachandran, 2012. *Brave New World: A Literature Review of Emerging Donors and the Changing Nature of Foreign Assistance*. Center for Global Development, Working Paper #273, November 2012, page 19, accessible at [http://www.cgdev.org/files/1425691\\_file\\_Walz\\_Ramachandran\\_Brave\\_New\\_World\\_FINAL.pdf](http://www.cgdev.org/files/1425691_file_Walz_Ramachandran_Brave_New_World_FINAL.pdf).
- 9 Exim Bank of India Website, [www.eximbankindia.com](http://www.eximbankindia.com)
- 10 Based on the 6 June 2012 operative lines of credit data from the Exim Bank website <http://www.eximbankindia.com/loc.asp>.
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- 12 Chaturvedi, op. cit. Data is from United Nations Conference on Trade and Development 2011
- 13 Chaturvedi, op. cit.
- 14 Chaturvedi, op. cit.