INDIA'S DEVELOPMENT ASSISTANCE: WILL IT CHANGE THE GLOBAL DEVELOPMENT FINANCE PARADIGM?

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Prepared for the Workshop on
Innovation in Governance of Development Finance:
Causes, Consequences & the Role of Law Conference

April 8-9, 2013
Gießen & New York University School of Law

Abstract: The rise in volume and diversity of India's foreign assistance over the past decade is a little understood phenomenon. 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.

This paper will examine the historical underpinnings driving India's approach to its development assistance program. It will also examine the evolution of its development assistance, and the recent changes in its volume, diversification of lending instruments, regional refocus, and increasing regional and global ambitions that drive its development assistance program. By examining these different aspects of India's foreign aid program the paper will address the larger issue of whether changes in India's development assistance program will lead to changes in the global development finance paradigm.

The author would like to thank *The Asia Foundation* for making the research at the *Indian Development Cooperation Research (IDCR)* possible and also thank the Research Associates at IDCR, Sanskriti Jain, Cody Poplin, and Persis Taraporevala, for their work on this project.

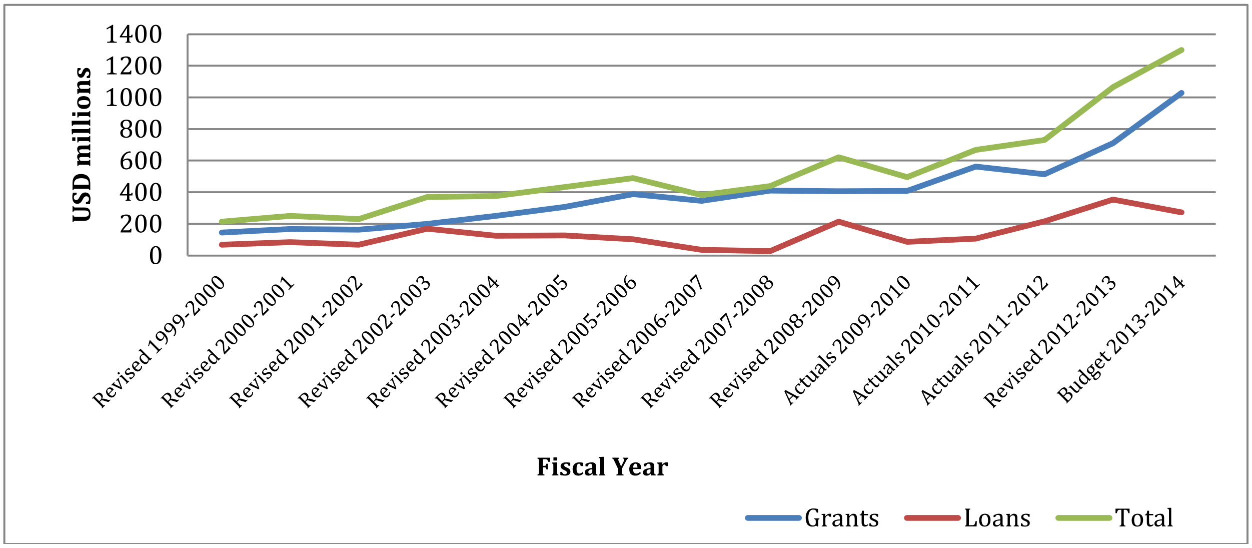
I. Is India an Emerging Donor?

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 countries 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.

Little attention has been focused on India's development assistance until recently, because historically the volume of India's foreign aid has been significantly smaller in US dollar terms than foreign aid from traditional DAC donor countries. That, however, has changed over the past few years. In 2012 the Indian government reported that 7,019 crore rupees or approximately US 1.3 billion dollars were budgeted for development assistance for the fiscal year 2013/14. India's development assistance budget for 2012 was comparable to Austria's foreign aid budget for the same year and higher than the foreign assistance of four of the 23 DAC countries in 2011 (OECD 2012). Moreover, the trend of India' aid commitments also differ markedly from those of the traditional DAC countries. 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. Finally, a dollar of development assistance given by India is not the same as a dollar given by DAC countries. The nature of Indian development assistance and the purchasing power parity of a dollar of Indian aid spent in India or in the recipient country means that one dollar of Indian foreign assistance has greater purchasing power than one dollar in foreign assistance from any DAC country.

In volume, trend and purchasing power, Indian development assistance will play an increasingly important role in overall global development assistance flows and architecture. This paper will explore the historical underpinnings of India's development assistance program, the current management mechanisms and instruments of India's foreign assistance, and analyze India's development assistance partners in order to address the larger question of whether changes in India's development assistance program will lead to changes in the global development finance paradigm.

Figure 1: Government of India's Development Assistance to Foreign Governments



Source: Data collated by the *Indian Development Cooperation Research* at the Centre for Policy Research, New Delhi based on the Expenditure Budget - Grants and Loans to Foreign Govts, Statement 11 in the Government of India budgets. http://indiabudget.nic.in/vol1.asp

II. Historical underpinnings of Indian development assistance

Though Indian development assistance is emerging in global consciousness, India has a history of engaging in "development partnerships," the term preferred by the Indian government to foreign aid, which dates back to the years right after its independence in 1947. It is also the decade right after independence that largely shaped the nature of Indian development assistance.

Indian development cooperation was characterized from its inception by a focus on partnership and solidarity between developing countries. Yet in the early days of its foreign assistance program when India was itself emerging as independent country and the development assistance provided to other countries was small, the focus on Indian foreign policy was on solidifying its independence also in global affairs by navigating the path of nonalignment. By focusing on the commonality of subjugation under colonial systems and newly-fought independence with other newly independent countries, India forged a sense of shared history, which acted as the main driver of India's early foreign assistance program. The sense of shared history with other newly independent countries also created a perception of a leveling field between many developing countries in their quest to develop and "modernize". India and other developing countries latched onto the prevailing modernization theory in the 1950s that focused on replicating the process of modernization experiences by developed countries in their newly independent countries. There was thus a prevailing understanding of shared history and future path to improved socio-economic development, which influenced India's relationship with most other developing countries. This focus on an egalitarian, South-South relationship would help India to leverage its development assistance program beyond the dollar amount of assistance given and set it apart from the onset from the approach to foreign aid of DAC countries.

The beginnings

Indian developmental assistance to other developing countries, contrary to its label as an "emerging donor," started already during the early 1950s, shortly after its independence. From the onset of its development cooperation with other countries the focus was on shared common history and identity, an egalitarian "partnership" that differed markedly in tone and structure from foreign aid that flowed from developed to developing countries in the 1950s. Through its focus on "partnerships" with other developing countries, India set an egalitarianism tone towards its development cooperation efforts. For example, on the day of Burmese independence in 1948, Indian Prime Minister Jawaharlal Nehru stated: "As in the past, so in the future, the people of India will stand shoulder to shoulder with the people of Burma and whether we have to share good fortune or ill fortune, we shall share it together. "(Aung and Myint 2001) When Burma urgently needed cash in 1949 to meet its balance of payments, Prime Minister Nehru organized a meeting of representatives of Commonwealth countries and contributed 1 million British pounds out of a total of 6 million pounds lent to the Burmese government under concessional terms, in addition to a 5 million rupees special concessional loan towards rice imports by India (Aung and Myint 2001).

While differing slightly with each partner country, the formal framework undergirding India's development cooperation with other countries built on the Colombo Plan of 1950. In January of that year, the foreign ministers of seven developed and developing Commonwealth countries including India met in Colombo, Sri Lanka to discuss a framework for social and economic development in the Asia-Pacific region through bilateral and multilateral aid and technical assistance between their countries (The Colombo Plan Secretariat 2012). By the summer of 1951 the Colombo Plan for Cooperative Economic Development in South and Southeast Asia was set up as a cooperative endeavor aimed at the economic and social advancement of South and Southeast Asia. The initial members of the Colombo Plan included Pakistan, a country that was not a democracy or even a republic in 1950 and thus the main thrust of the initial Colombo Plan sidestepped the political minefields of the political and social causes of lower levels of development and instead focused on economic development and sharing of technology. Though initially meant as a framework for foreign assistance from developed to developing countries, it included a framework for South-South cooperation that was based on technical cooperation and sharing of development experiences.

Also in the early 1950s India signed what became known as the Panchsheel Treaty with China, which outlined principles that should govern the relations between states, and the Chinese region of Tibet and Indian relations in particular. Despite the subsequent tensions in the Indo-Chinese relationship due to India providing asylum to the Dalai Lama in 1959 and the 1962 Indo-Sino war, the first principle of the Panchsheel Treaty, which articulated the principle of mutual respect for the territorial integrity and sovereignty of the other country, became a guiding principle of Indian diplomacy.

India used these principles of non-interference in internal politics and respect for the sovereignty of every country, which underlay the Colombo as the basis for its own nascent assistance program in the 1950s. In doing so it prioritized relations with other countries that had emerged from the yoke of colonialism. Accepting state sovereignty and the principle of non-interference in other countries politics became an often-repeated objective of Indian foreign policy as well as foreign assistance. By focusing development cooperation from its inception on economic development through technical cooperation, Indian foreign assistance early on prioritized the commonality of the colonial experience and economic underdevelopment as the basis for its development partnerships with other developing countries. The lack of development was attributed to economic causes as were the solutions aimed to address a country's development.

This framework of noninterference in a country's political affairs and a focus on economic causes of underdevelopment with solutions focused on technical assistance and technology transfer has been the guiding framework of Indian development assistance. Building on the principles articulated under the Colombo Plan and the Panchsheel Treaty, India, by the 1950s was already providing development assistance to other developing countries. As stated by the then-prime minister Jawaharlal Nehru in his 1958 budget speech, India in the late 1950s was providing economic and technical assistance to its neighbors "particularly under the Colombo Plan," including loans to Nepal and Burma (Nehru 1958).

The early decades of Indian development assistance were generally in the form of multi-year loans and technical assistance as seen in the 1950s loans of around 200 million rupees to Myanmar and 100 million rupees to Nepal (Chanana 2009). Though small in amounts, particularly when compared to foreign assistance from the United States, the United Kingdom or other richer donors, they nevertheless earned India goodwill and soft power leverage amongst its neighbors. For example, though Indian development assistance to Nepal throughout the 1950s was small in monetary terms, it nevertheless helped India to build a close relationship with the Nepalese rulers and influenced the country's first experimentation in democracy (Grover 2000), though subsequent politics marred some of this initial camaraderie with Nepal. Similarly, loans to Burma earned India some good will with its neighbor and today that history of support to Burma positions India well as seeks deeper reengagement with Burma and its other eastern neighbors.

Adding a significant technical assistance component through ITEC

Indian foreign assistance and its larger foreign policy in the decades following independence was characterized by its instrumental focus on helping to form a distinct voice for post-colonial, developing countries. Building on the first articulation of the term "non-alignment" by V.K. Menon, India's ambassador to the United Nations (U.N.), in a 1953 speech to the U.N., India's Prime Minister Nehru repeated the term and the idea of leaving open a political path that was free of exclusive associations with the then emerging Cold War blocs of countries. As a founding member of the Non-Aligned Movement (NAM) in 1961, India advocated for a middle path between developed, Western countries led by the United States and the Eastern bloc of the Soviet Union. This non-aligned approach to foreign policy extended to the field of Indian foreign assistance where in the decades after independence it tried to navigate a path that was largely devoid of the ideological rhetoric that characterized the foreign aid approach of both Cold War camps.

The concept of non-alignment, the efforts not to advocate ideologies espoused by the US and the Soviet Union, and the first of the five Panchsheel principles, which advocated mutual respect between countries for each other's sovereignty and territorial integrity and later served as the basis of the NAM, were also key to understanding the evolution of India's development cooperation program. In 1964 India created its Indian Technical and Economic Cooperation Program (ITEC) within its Ministry of External Affairs (MEA) as its premier program for distributing bilateral assistance. Indeed up until the turn of the century, ITEC was the major vehicle for channeling Indian development assistance. At its inception the ITEC program was self-understood as a program aimed at achieving mutual benefits through solidarity, sharing and cooperation between developing countries. According to the Ministry of External Affairs, "…cooperative efforts of the developing countries were as important as assistance from developed countries and international organizations." (Ministry of External Affairs 2012).

A key aspect of the new ITEC program focused on providing technical assistance to developing countries that was fully-funded by India yet, in line with its stated objective of respecting sovereignty and fostering a cooperative approach, was demand-driven by the recipient country. Moreover, technical assistance provided through ITEC from the onset did not impose any conditionalities, in marked contrast to aid given by many developed countries such as the United States, though it has often been in the form of tied aid.[1]

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).

Since the mid 1960s Indian development assistance cooperation has largely been delivered through ITEC in the form of technical cooperation. Though overall small in size until the turn of the century, Indian development assistance remained a vehicle for India's larger foreign policy aim of building partnerships with other developing countries and fostering a

[1] Tied aid refers to the practice of requiring a set percentage of the foreign assistance amount to be spent in the country providing the aid.

common voice of developing countries through its leadership role in NAM and the G77 group of developing countries.

Moreover, due to significantly lower overhead costs than most developed country aid agencies and multiplier effect where the impact of an ITEC training course or scholarship for bureaucrats and policy makers paid dividends greater than the rupee value of the development assistance given. Since most ITEC training was conducted in India where the overall cost of training a person was a fraction of similar training in developed countries, Indian development assistance was able to train more people for the development assistance given through ITEC to each country. Moreover, by providing training bureaucrats and technocrats from many developing countries, India created a couple of generations of policy makers and policy influencers who have been trained in India and have had positive views of India. This in turn has helped India forge even closer ties with the countries. For example, India since the 1950s, has annually provided scholarships for students from Kenya to study in India as well as about 50 ITEC-funded training for bureaucrats (High Commission of India 2012). Over the decades this has helped India to cement close relations with the Kenyan government – a country on whose support India has been able to rely when it comes to motions in the United Nations and other international governance bodies. Similarly Afghanistan receives over 500 short-term government officials' training programs annually through ITEC in addition to 500 long-term university scholarships and other training programs from the Indian government. Between 2002 and 2009 over 2,700 Afghans had been trained or studied through Indian government sponsored programs (Embassy of India 2010). Since its inception Indian technical development assistance through the ITEC program has grown in volume and significance.

India's evolution as a "development partner" thus differs markedly from that of the DAC countries. India gave development assistance within a few years of independence and is therefore, like DAC countries, not a "new" donor. Yet India had a very different starting point for its history of development assistance, one which was steeped in the idea of the commonality of anti-colonial struggle and solidarity among developing countries. Mindful of the newly-won independence of many of its development partners, India from the onset of its assistance program repeated its commitment to solidarity with other newly independent countries, the sovereignty of other countries, and the principle of non-interference in internal politics – in marked contrast to the prevailing ethos of some DAC countries' foreign assistance program during the Cold War. Building on this public commitment to the principle of non-interference in internal politics and also due to the prevailing non-democratic regimes in many of its development partnership countries in the decades after India's own independence, India's assistance program also side-stepped the issue of the political causes of underdevelopment, focusing the bulk of its assistance in the form of technical assistance and training.

III. <u>India's development assistance administration & instruments</u>

India's development assistance approach

The technical assistance and training provided under ITEC along with the traditional grants and loans together were the main channels for Indian development partnerships through the turn of the century. While these three types of development assistance were similar to development assistance given by traditional DAC donors, the packaging of India's development assistance differed from traditional foreign aid in three main ways: Indian development assistance was demand-driven, was largely given without conditionalities, and was administered in a decentralized manner, mainly through the Ministry of External Affairs' ITEC program.

Demand-driven

India's 'demand-driven' approach to development assistance refers to the recipient country determining the overall nature of development assistance as well as the specific assistance projects to their country. Driven from its inception by a large focus on respecting sovereignty and an egalitarian relationship between recipient and donor, as well as the reality of a lack of human resources within the Ministry of External Affairs, the Indian government decided to have the potential recipient country determine the development assistance it sought from India. In other words, the recipient country determines its development assistance needs and then approaches the Indian embassy in the respective country for discussions on the specific nature of their aid request. The request is then passed along to India's Ministry of External Affairs, which determines the specifics of the grant or loan and manages the projects or loans.

India's demand-driven approach and process for determining development assistance differs significantly from the approach used in most other DAC donor countries where the lending program is usually determined in the country capitals by the donor country in engagement with the recipient country. As development assistance from non-DAC donors such as India increases and with it the options for developing countries to choose among different types of development assistance, it is likely that more demand-driven, egalitarian approaches to determining development assistance are likely to impact the more supply-driven approach to development assistance prevalent amongst DAC countries.

No conditionalities

A corollary to the demand-driven approach to Indian development assistance is the lack of conditionalities attached to grants from the Indian government to other developing countries. A number of studies have questioned the ability of aid conditionalities to help secure growth and development outcomes and yet most development assistance distributed by multilateral banks and DAC countries have some type of conditionalities attached to their grants and loans (Collier 1997; Svensson 1997; Burnside and Dollar 2000; Kanbur 2000; Montinola 2010). As India and other middle-income countries start to provide an (albeit slowly) increasing share of global development assistance and developing countries are able to access an increasing variety of development assistance there is likely to be greater attention on the efficacy of foreign aid conditionalities.

Decentralized development assistance policy formulation and administration

Indian development assistance also differs from most DAC donors in the structures that formulate and manage aid. Most DAC donors such as the United States, Great Britain, France, Germany, and Australia have independent government aid agencies that manage their foreign assistance. And even those DAC donors who do not have a separate aid agency and instead have their ministry of foreign affairs manage their development assistance, such as in Denmark, combine the aid policy formulation and management within one department of that ministry.

By contrast, the management and development assistance policy formulation in India remains decentralized despite some recent efforts by the Government of India aimed at increasing coordination of development assistance efforts. There were repeated pronouncements by the government over the past decade that India would be setting up and independent development assistance agency. In his 2003-04 Budget speech the then Finance Minister Jaswant Singh announced that India would henceforth discontinue giving loans or credits lines and instead create an aid agency that was to be called "India Development Assistance" (IDA), would be located within the Ministry of Finance, (Singh February 28, 2003). Instead the finance minister proposed India would focus on grants and project aid, while also announcing a debt relief package for the Heavily Indebted Poor Countries. Yet this was a time when economic growth rates were increasing and India had also decided to limit the number of donors from whom it would henceforth receive foreign aid. With a change of government at the centre the following year the India Development Assistance idea did not go anywhere. A few years later, in 2007 the then Finance Minister P. Chidambaram announced the creation of a centralized aid agency, to be known as India International Development Cooperation Agency (IIDCA), which would coordinate between and have representation from the Ministries of External Affairs, Finance and Commerce among others.

While that proposal also did not get implemented due to inter-ministerial rivalries some changes in the prevailing decentralized structure of development assistance administration within the Ministry of External Affairs occurred when a centralized structure for administering development cooperation, called the Development Partnership Administration (DPA) was set up in January 2012 within the ministry. The DPA is tasked with henceforth administrating India's development assistance to other countries, particularly the implementation of grant projects and technical assistance. It is headed by a high-ranking Additional Secretary-level post and manages India's grants to other countries. In addition, it coordinates training and technical assistance with the ITEC unit within the Ministry of External Affairs, and tracks the Lines of Credit offered to other countries by the EXIM bank as seen in figure 1 below.

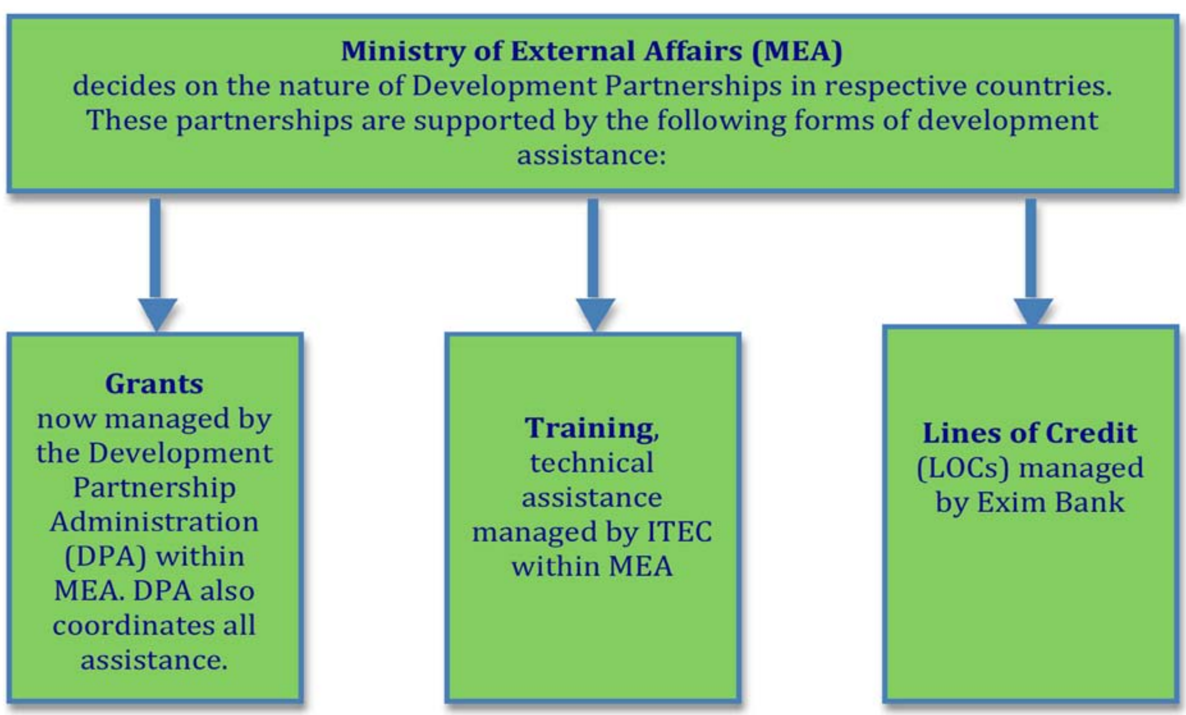
Yet while DPA is an administrative structure that for the first time will try to centralize the administration of Indian foreign assistance, it still lacks the wherewithal to coordinate, monitor or even centralize and collate historical information on Indian development assistance among the different ministries. Moreover, the formulation of India's development assistance policies towards specific countries remains the domain of individual directors within the Ministry of External Affairs (Raghavan 2013), reflecting the inter and intra-ministerial rivalries that have plagued the government's efforts to set up a centralized development assistance coordinating structure. The policy formulation for India's development assistance thus remains decentralized, hindering oversight of the full range of Indian development cooperation projects and achievements and hampering the formulation of a unified development assistance policy.

India’s new tool for supporting development partnerships: LOCs

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. Then Finance Minister Jaswant Singh in his 2003 budget speech announced the end of government to government credit lines and loans, which are known as “advances” in India. While the phasing out of development assistance in the form of loans and credit lines did start in 2003 the newly elected government in 2004 launched what became a new instrument and third instrument of India’s development cooperation: Lines of Credit (LOCs). These LOCs are credits in which only the interest rate subsidy part of the credit was reported as development assistance and financed through the Ministry of Finance, while the actual credit was signed and managed by India’s Export Import Bank (EXIM Bank).

Figure 2: India’s 3 Forms of Development Partnerships

Figure 1: India’s 3 Forms of Development Partnerships:

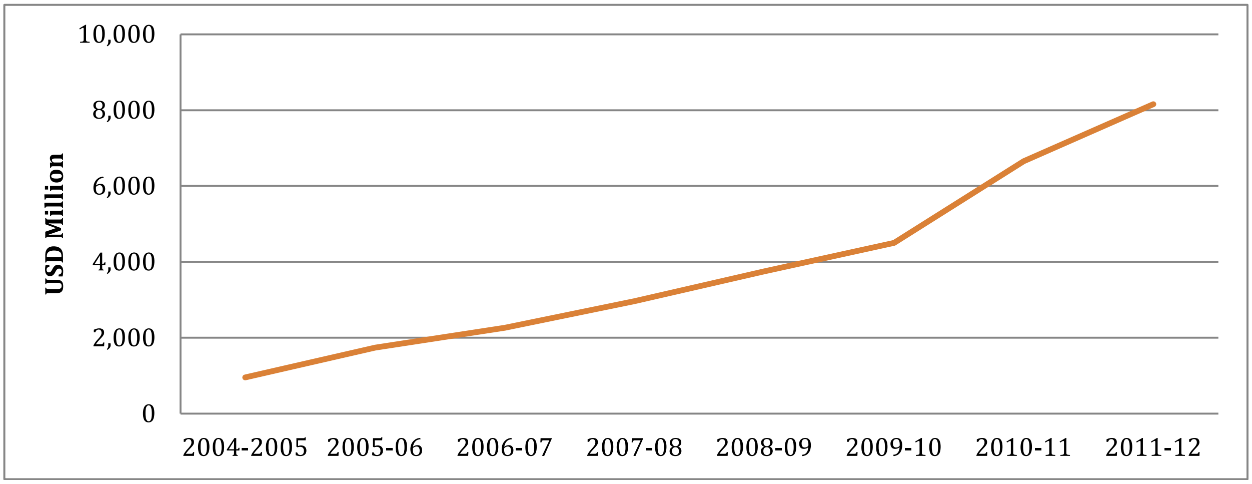


Source: Graph put together by Indian Development Cooperation Research (IDCR) at the Centre for Policy Research based on talk by Ambassador P. S. Raghavan in an Aspen Institute India session on India’s Foreign Policy: New Initiatives for Development Partnership on 31 January, 2013, New Delhi.

Yet despite the Indian government only reporting the interest rates subsidy part of the credit as development assistance, these new Lines of Credit enable India to dramatically increase the resources at its disposal for engaging in development partnerships and represent an innovative new lending instrument. The Ministry of Finance managed the previous loans and credits offered as development assistance by India and the resources allocated under these assistance instruments had to be accounted for through the Indian budget. This limited the amount of foreign assistance India could offer due to the limits placed by the government budget. By providing credit lines that are recommended by the government but managed by the EXIM Bank, the government did not need to create new management structures nor add portfolios to the already heavily understaffed Ministry of External Affairs. Moreover, since the EXIM raises the funds for the LOCs from the international debt market and therefore is not constrained by Indian budget limits, the Indian government is able to avail of the greater resources available in the private sector for supporting development partnership projects in other developing countries. As seen in figure 3 below, the open Lines of Credit offered by India through the EXIM Bank to other development partners had reached approximately US$10 billion by early 2013, approximately eight times India's planned development budget for 2013-14.

However, since Lines of Credit are not traditional development assistance and since LOCs are essentially subsidized loans and repayment schedules aimed at furthering exports of Indian companies, there has been some question as to whether these credits should even be thought of as development assistance. LOCs are offered to other developing countries to enable them to import Indian goods and services on subsidized terms, with the terms of the loans being adjusted by income level of the borrowing country. While at least 75 percent of these loans are usually tied to the use of Indian companies and experts, this is comparable to the de facto tied aid given for example by the U.S. Agency for International Development. Also, the Organization for Economic Cooperation and Development (OECD) guidelines on what is to be considered a "soft loans" categorizes such concessional Government of India-backed and Exim-bank distributed LOCs as development assistance. India's Ministry of Finance in its guidelines for LOCs also uses the OECD and World Bank formula to calculate the grant component of its LOCs. Moreover, and perhaps most importantly, the Indian government considers LOCs development assistance and formally reports the portion of the credit's interest rate that is subsidized compared to market rates as part of its development budget and as such these LOC deserve some scrutiny. In effect, the Indian government added a new development assistance tool which has dramatically increased the funds India can commit towards development assistance, without having to add administrative structures to manage this new foreign assistance tool.

Figure 3: Open Lines of Credit by India's EXIM Bank



Source: Data compiled by IDCR based on Export Import Bank of India, *Annual Report*s 2004-2012, Mumbai: Export Import Bank of India.

IV. Who gets what and why? India's engagement with its development partners

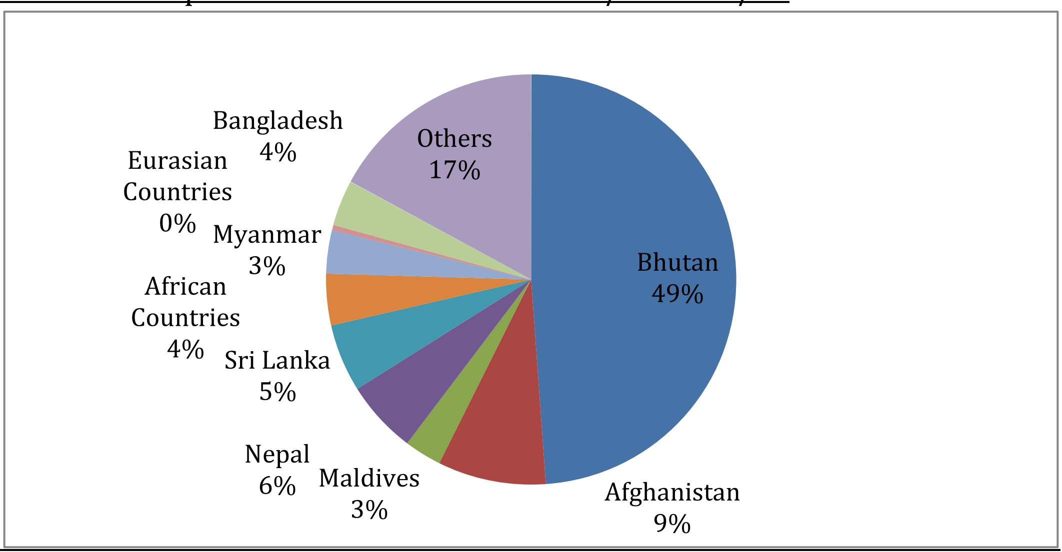
India has clearly dramatically increased its development budget and diversified its development assistance tools since the turn of the century and that trend is likely to continue for the foreseeable future. As India's development assistance program and partnerships have increased, there has also been a regional refocus of its assistance instruments as well as an underlying focus to its development partnership efforts.

The changing regional focus of India's development assistance

The past decade of India's development cooperation has seen a regional refocus of India's development assistance partnerships that have been driven by India's changing regional and global role and ambitions. While the decades after Indian independence up to 1980s were characterized by low economic growth rates of around 3.5 percent which became known as the "Hindu rate of growth" (Ahluwalia 1995), growth rates picked up to 4 – 5 percent during the 1980s and 1990s and has been averaging 6-7 percent since the turn of the century (Kumar and Subramanian 2011). This growth in the economy put greater resources at the disposal of Indian development assistance, which more than quadrupled the amount of funds disbursed as development assistance between 2003 and 2012 as seen in figure 1. Though overall statistic on Indian development assistance are difficult to obtain and questions with regards to what is included or not under development assistance remain particularly with regards to the new Lines of Credit, there has been a noticeable increase in the volume of development assistance, a widening breath of countries with whom India engages as development partners, as well as a shift in the strategy of Indian development assistance.

Moreover, data from Ministry of External Affairs, through which the bulk of its official development assistance is channeled, also clearly exhibits a discernable reorientation in regional focus. The vast majority of India's development assistance and particularly grants are distributed within the South Asian neighborhood and this trend has increased over the past decade particularly because of grant increases to Afghanistan and Bhutan. On the other hand the percentage of grants given to Africa for example have remained a constant low 4 percent of overall grants given between 2000 - 2013. Even within the neighborhood there have been changed priorities in lending. Bhutan has consistently been among the largest recipients of India's development assistance, garnering nearly half of all development assistance committed between 2000/01 and 2013/14 (see figure 4 below). However, India went from providing no development assistance to Afghanistan in the 1990s to currently being the fifth largest provider of development assistance to Afghanistan. India has committed nearly $2 billion in development assistance to Afghanistan (Ministry of External Affairs 2012), over $1.2 billion of which has already been disbursed. In 2012 India provided a 200 million rupee grant to Sri Lanka, a country with a higher per capita income than India. And while Maldives has historically been a recipient of Indian development assistance, the amount of development assistance it receives from India has undergone a large increase over the past few years reaching a high of approximately $57 million in 2011/12, which was equivalent to about 10 percent of the Government of Maldives budget revenues. One of the most striking recent increases in India's development assistance has been to Myanmar when India's development assistance went from about in US$ 10 million in 2009/10 to US$83 million budgeted for 2013/14.

Figure 4: Major recipients of Indian grants & loan programs in percentage out of a total of 320 billion rupees committed between 2000/01-2013/14



Source: Calculations made by IDCR based on Grants and Loans to Foreign Governments, India Budget 2000/01 - 2013/14.

Table 1: Major recipients of Government of India grants and loans through the Ministry of External Affairs, (in millions of Indian Rupees; actuals and revised budget)

	2001-2004	2004-2007	2007-2010	2010-2013
Bhutan	7,265	12,130	28,021	72,450
Afghanistan	N/A	N/A	8,959	11,675
Maldives	118	224	5,271	3,488
Nepal	1,203	3,422	3,611	6,290
Sri Lanka	2,033	2,389	2,001	5,627
African Countries	873	1,878	2,708	4,487
Myanmar	823	1,922	1,008	2,664
Eurasian Countries	N/A	N/A	73	880
Bangladesh	904	1,003	737	3,079
Others	9,869	18,797	9,262	10,348

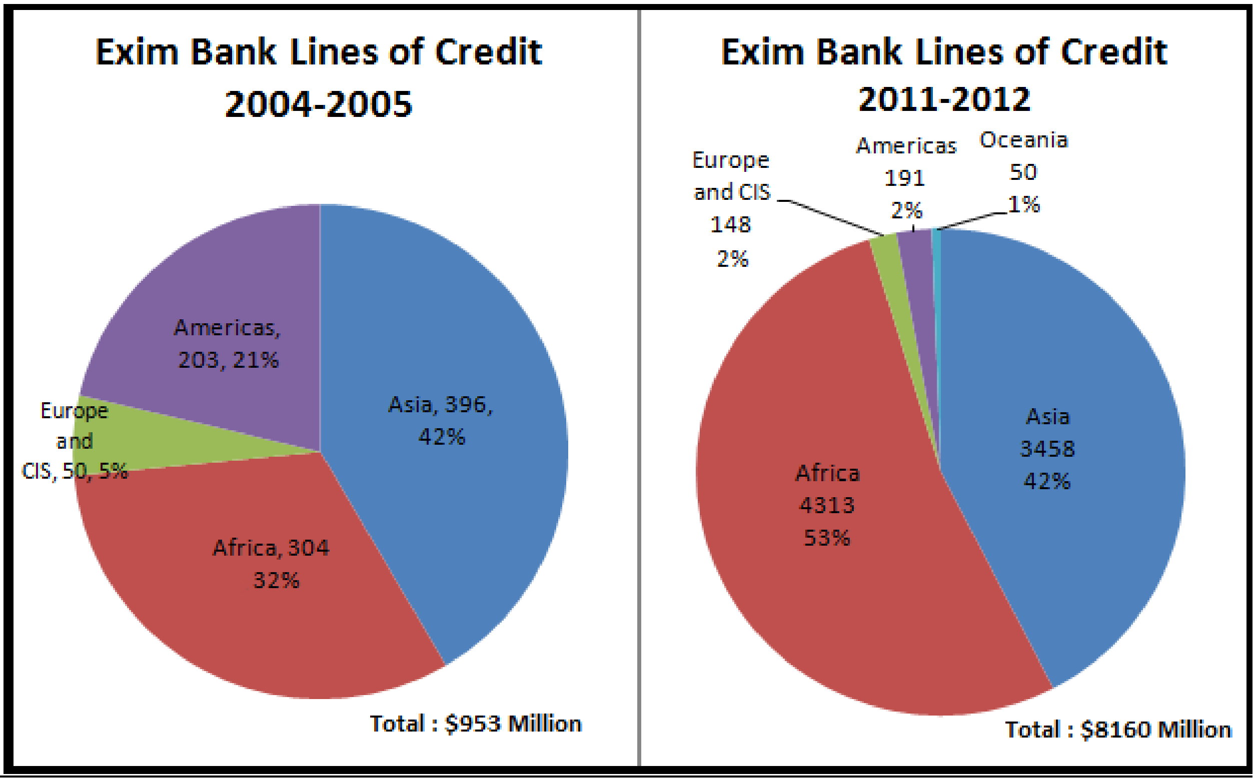
Source: Compiled by IDCR, based on Government of India Budget, Grants & Loans to Foreign Governments, Statement 11 of the Expenditure Budget, Ministry of External Affairs, Government of India.

The changing regional focus on Indian development assistance is also seen in the Lines of Credit (LOC) India extends to other developing countries through its Export-Import Bank. Here as with India's grants, disaggregated data by LOCs by country, terms of the credit and changes to the credit over time is not available. However, the aggregate figures for open lines of credit. For example, in 2010 India extended a $1 billion line of credit to Bangladesh largely for transportation infrastructure. The Indian government reported only that part of the interest rate that was subsidized as development aid. In addition, the terms of the original line of credit, under which 85 percent of the goods and services used to construct the roads and railways were supposed to be procured from Indian sources, were changed in the spring of 2012 to 30 percent of goods and services. In addition, $200 million of the original $1 billion line of credit was converted into a non-conditional grant. These types of adjustments to an original line of credit by the Exim Bank through the Ministry of Finance are not systematically tracked or reported anywhere, making it difficult to obtain an overview of Indian development assistance through Lines of Credit.

Nevertheless, while exact amounts are difficult to ascertain, available data on Lines of Credit by region clearly show an increase in these credits given to other countries as well as a changing regional focus on the LOCs. Ministry of Finance data as presented in figure 5 exhibits the rise in the total amount of open lines of credit within the eight-year period between 2004-2012. Within these years there was a tremendous shift in regional focus of Indian subsidized loans away from Latin America, the Commonwealth of Independent States and the Far East and Pacific and towards Africa. The rupee amount of Lines of Credit going towards African countries increased nearly 3,000 percent within eight years as Africa's share within Indian LOCs went from a quarter of all LOCs in 2004 to over half of LOCs by 2012. The Government of India is increasingly focusing its Lines of Credit on

Africa, while development assistance that was given in the form of grants is largely focused on a few countries in India's South Asian neighborhood.

Figure 5: EXIM Bank: Operative Lines of Credit 2004/05 versus 2011/12 (US$ million)



Source: Export Import Bank of India. *2003-2004 Annual Report*. Mumbai: Export Import Bank of India, 2004, p.27, http://www.eximbankindia.com/annualrep/anr2004.pdf and Export Import Bank of India. *2012-2012: 30th Annual Report, Catalysing India's Foreign Trade*. Mumbai: Export Import Bank of India, 2012, p.49, <http://www.eximbankindia.com/anr-12.pdf>

Development assistance increasingly directed towards securing energy resources, developing markets for domestic companies, and supporting India's larger geo-strategic goals

In addition to the changing volume and regional focus of Indian development assistance, Indian aid is also increasingly being used to further domestic as well as foreign policy priorities of the government. For India's domestic policy imperatives India's immediate neighborhood and domestic constituents advocating for groups in these countries are essential. India's development assistance to Bangladesh, for example, is undoubtedly also driven by the domestic imperative of wanting to increase access to its hard-to-access northeastern states in order to increase trade and counter the various insurgencies which continue to fester in many of its northeastern states. Domestic considerations driving foreign policy has been particularly evident in the recent example of the central government's foreign policy towards Sri Lanka. India's southern state of Tamil Nadu has historically supported an Indian foreign policy that is supportive of the Sri Lankan Tamil population, which constitutes about 11 percent of Sri Lanka's overall population. Sri Lanka recently emerged from a civil war which pitted some of the Tamil population against the dominant Sinhalese population and many international human rights organizations have accused the government of perpetrating human rights crimes against the Tamil populations particularly during the last days of the war. The Indian government, which has traditionally taken an approach of non-interference in domestic politics however, recently found itself in a bind when one of its coalition parties from Tamil Nadu left the government coalition over the reluctance of the Indian government to speak out internationally against human rights violations in Sri Lanka. Such domestic pressures undoubtedly played a role in India's vote Sri Lankan human rights violations during the civil war at the United Nations Human Rights Council in mid March 2013, which in turn led to a strong condemnation from the Sri Lankan government at a time when India is competing for foreign policy influence in that country with China.

India's foreign relations particularly with its neighboring countries has historically also driven its development assistance (Ganguly 2010; Fuchs and Vadlamannati 2012; Mullen 2012). 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 provided also for hydroelectric projects with agreements for the electricity that was produced to be sold to India. During the Indian government's 8th Five Year Plan (1997-2002) India contributed over four billion rupees in foreign assistance to Bhutan, half of which was spend on hydroelectric power infrastructure (Indian Embassy to Bhutan 2012). Indian foreign assistance to Afghanistan on the other hand was small until the turn of the century.

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. 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.

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 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 (McCormick 2008; Brautigam 2009). In India's neighborhood, India provided a $1 billion LOC to Bangladesh in 2010, largely for transportation infrastructure in order to help increase Indian connectivity with its northeastern states and other countries in East Asia. Over 80 percent of this LOC was tied to the use of Indian contractors, a figure that was reduced only after Bangladesh had significant difficulties in implementing this agreement. Furthermore, the overall increase in use and amounts of lines of credit as seen in figures 1 and 2 above, which by their very nature benefit Indian companies, underscores that India is increasingly using development partnerships and assistance to build up a market for Indian goods and services.

The third key focus on Indian development assistance is to undergird India's larger geo-strategic objectives in its neighborhood and beyond. Here the case of Indian development assistance to Afghanistan is again illustrative. 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. Similarly, 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.

The recent example of the Indian company GMR's contract to manage the airport in the Maldives being terminated by the government of Maldives and the Indian government response of threatening to put aid to the Maldives on hold in retaliation is an example of all three priorities of Indian development assistance. Indian aid in grants and loans to the Maldives has averaged around $25 million over the past few years and was slated to be approximately $6 million in grants and $40 million in a Line of Credit this fiscal year. While India has historically kept a close relationship with the Maldives it is only over the past decade when the strategic importance of the small island nation as a refueling station for the Indian navy, as a way of opening trade shipping routes, and as a way for India to expand its geostrategic reach became clear that development assistance to the Maldives increased significantly. A recent 200 million rupee grant from the Indian government to Sri Lanka, a country with a higher per capita income than India and coming as it did after China had invested over $50 billion in Sri Lankan ports, is another illustration of India's willingness to use aid to further its regional and geostrategic aims. In this case Indian foreign policy including foreign aid is being driven in part by the need to maintain good political relations and indeed remain a relevant partner in its southern maritime region, a region that has been gaining importance for trading as well as defense and strategic positioning.

V. Concluding thoughts on whether India's development assistance program will lead to changes in the global development finance paradigm

Today, a growing aspect of Indian regional and global power is the development assistance it provides to other developing countries. As the big country in the neighborhood, save for its big neighbor to the north, the Indian government is increasingly cognizant that in its relationship with its neighbors and even beyond its softpower allure through its development partnerships is growing and more likely to open up trade and deepen bilateral relationships. Increased Indian consciousness of development assistance as an instrument of foreign policy has led to its increased use as a tool for securing its access to energy sources, for building trade – and a demand for its products and services, and for furthering its regional and increasingly global interests and ambitions.

While the first two particular uses of its development assistance are not new and neither are the attempts to use assistance in order to hope to achieve increased regional influence, the larger geo-strategic and indeed global power ambitions have become more pronounced since the turn of the century. However, despite these larger foreign policy ambitions having become accentuated, the continued decentralized structure of administering developmental assistance among the different ministries and even within ministries has meant that the full coordinated weight of Indian aid has not been systematically analyzed, fully understood, or indeed leveraged. Development assistance as a tool of Indian foreign policy is more likely to have an impact when it is part of a larger coordinated strategy towards individual bilateral relationships. It is also more likely to have an impact when that aid is publically disseminated, discussed, and understood as legitimate. Indian development assistance is already in the process for gathering strength through volume. It now has to work on gathering legitimacy through coordination and dissemination in order to increase its reach and impact of its development assistance.

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