

INDIA

Even though a signatory to the Paris Declaration, participation of India in the 2006 Paris monitoring survey was limited, with only 1 entry (Afghanistan). Because of this restricted coverage, results cannot be relied upon to be representative and are thus not reported.

1) QUANTITY OF AID

1.1. Current/Recent Quantity Performance:

India does not report aid statistics that correspond to the OECD/DAC definition of aid (i.e. grants or loans with a development aim and a grant element of at least 25%).

Gross Development Assistance (US \$ million)	524 – 1,000
% of GNI	0.0007 – 0.0013%

Source: MOF (2006), data for the budgetary year ending March 2006.

As measured by the Indian federal budget, Indian aid stood at US\$ 524 million in 2005-2006. This amounts to a doubling of Indian aid compared to the budgetary year 2001-2002 (MOF, 2002), and provides the basis for most of the analysis in this profile. This aid increase has been motivated by a combination of factors – increased humanitarian and programme-based support to regional neighbours, increased trade and investment with other developing countries, and India's quest for support in its bid to gain a permanent seat on the UN Security Council (Price, 2005, p3).

However, these numbers under-estimate India's aid as concessional loans from India's EXIM Bank are not well captured (see section 2). For example, in his most recent budget speech, India's finance minister put India's aid at US\$ 1 billion. However, it is not clear whether this includes all concessional loans (as would be normal DAC practice) or just the resources made available to EXIM Bank for interest equalization and subsidy (MOF, 2007a). Where possible this profile includes more details on concessional loans.¹ These amounts also do not appear to include statistics for debt cancellation, as DAC donors do.

The amounts of US\$ 524 million and US\$ 1 billion represent respectively 0.0007% and 0.0013% of India's GNI in terms of GNI.

1.2. Future Quantity Intent

Several sources indicate that Indian aid will be further increasing in future years. However, no firm commitments are known beyond the yearly budgetary preparations. The 2007-2008 budget indicates a 1.3% increase compared to the 2006-2007 budget (MOF, 2007b).

¹ Some concessional loans are included in the budget, but it is not clear whether these are channelled via EXIM Bank. If so, there may be some double-counting in this profile.

2) KEY AGENCIES/MECHANISMS

2.1 Bilateral Agencies and Structures

Indian Ministry of External Affairs (MEA)

The Indian Ministry of External Affairs (MEA) has overall responsibility for aid and technical assistance. It is directly responsible for assistance to Bhutan, Nepal and Afghanistan, and advises other ministries, notably the Ministry of Finance, on assistance to other countries. It mainly channels its aid in the form of grants, with the exception of some loans to Bhutan. The Indian Technical and Economic Cooperation Division (ITEC) falls under its responsibility. In 2005-2006, MEA delivered 81% of total Indian aid.

Indian Ministry of Finance (MOF)

The Department of Economic Affairs within India's Ministry of Finance (MOF) is responsible for most of the bilateral loans extended by the Government of India, and most of India's multilateral assistance. In 2005-2006, MOF was responsible for delivering 15% of total Indian aid.

Indian Technical and Economic Cooperation Division (ITEC) – (see MEA, no date)

The Indian Technical and Economic Cooperation (ITEC) is the oldest branch of India's aid programme. Since its launch in 1964, it has trained thousands of developing country officials. Under ITEC and its corollary SCAAP (Special Commonwealth Assistance for Africa Programme) 156 countries in the developing world are eligible to benefit from India's technical assistance (see also section 3.2). ITEC also provides assistance linked to projects, mainly in agriculture: 80% of its Rs 500 million (USD11 million) annual budget is for such projects and technical assistance, with the remainder going to military cooperation, study tours in India for developing country delegations, and disaster relief.

Other Ministries

Several other ministries are also involved in delivering foreign aid to developing countries, both bilaterally and multilaterally (contributions to international organisations).

Export-Import (EXIM) Bank of India

India's Export-Import Bank, which is fully owned by the Indian government, finances, facilitates and promotes India's international trade. It is also India's main conduit for providing concessional loans to developing countries. This mainly happens through the 'lines of credit (LOC)' facility, which EXIM Bank extends on behalf of the Government of India. These LOCs "enable recipient countries to set up development related projects in a variety of sectors" (EXIM, 2007a, p3). As of March 31, 2007, 73 LOCs covering 83 countries in Africa, Asia, CIS, Europe and Latin America, with commitments totalling US\$2.3 billion were available for utilisation (EXIM, 2007b, p25).

India International Development Cooperation Agency (IIDCA)

In his speech presenting India's 2007-08 budget, India's finance minister announced the setting up of an India International Development Cooperation Agency (IIDCA), which will cover all activities related to development cooperation. All the current stakeholders in India's aid system, ie the Ministries of External Affairs, Finance and

Commerce, as well as the EXIM Bank would be represented in this Agency (MOF, 2007a).

2.2 Key Policies and Legislation

Ministry of External Affairs Annual Report (MEA, 2007)

This provides a descriptive, non-quantified overview of bilateral Indian aid programmes implemented during 2006-2007.

India Development Initiative (MOF, 2003)

In 2002, India's Minister of Finance announced the India Development Initiative (IDI), which included promoting and leveraging India's strategic interests abroad through foreign aid leading to mutual benefits: "*It contributes to capacity building in countries where the projects are carried out, opens new market opportunities for Indian companies and generates goodwill for India*". Under the initiative, India has written off most of the debt of HIPC countries. Price (2005, appendix 2) lists all lines-of-credit via EXIM Bank under IDI.

3) RECIPIENT COUNTRIES AND ALLOCATION CRITERIA

3.1. Recipient Countries

Traditionally, India has extended its foreign assistance mainly to neighbouring countries, with Bhutan and Nepal the main recipients since the start of India's aid programme. In recent years there has been a shift towards Afghanistan and – to a lesser extent - towards African countries and African regional bodies (e.g. African Development Bank and ECOWAS). For 2006-2007, the table below gives an overview of the main recipients of Indian aid (excluding EXIM Bank concessional loans – see below). The 5 countries in the table below account for 84% of India's aid. Aid to Africa has always been below 10% in recent years.

	Share in total Indian aid (%)	Gross disbursements (in mio of US\$)
1. Bhutan	35.9%	131.10
2. Afghanistan	24.8%	90.67
3. Nepal	7.7%	45.92
4. Sri Lanka	12.6%	27.99
5. Myanmar	2.7%	9.97

Source: MOF (2006) and MEA (2007b), data for the budgetary year ending March 2007.

Note: Indian aid to Sri Lanka was disproportionately high in 2006 due to the reconstruction efforts in the aftermath of the tsunami.

However, in recent years, India has dramatically increased its concessional flows to Africa, through the use of concessional export credits or "lines of credit" (LOCs) provided by the EXIM Bank to finance various projects, almost always fully executed by Indian companies. This began with the Team 9 initiative, which introduced a special cooperation model between India and 8 countries in West-Africa (Burkina, Chad, Cote d'Ivoire, Equatorial Guinea, Ghana, Guinea-Bissau, Mali and Senegal). At its launch in 2004, India promised US\$500 million in concessional credit facilities to Team-9 countries. So far, it has extended lines of credit worth US\$471 million under this initiative. A similar scheme operates for NEPAD related projects. Other concessional lines of credit to non-Team 9 African countries (including Angola, DR

Congo, Ethiopia, the Gambia, Mozambique, Niger, Rwanda and Sudan) have reached US\$392 million, plus a concessional loan of US\$250 million to the ECOWAS Bank for Investment and Development. Other major recipients of concessional LOCs have been Guyana, Honduras, Nepal, Myanmar, and Viet Nam, to a total of US\$258 million. This means that Africa has received 77% of the concessional LOCs.

3.2. Allocation Criteria

3.2.1. *Pre-selection criteria*

156 countries are eligible for ITEC/SCAAP related assistance. For a list of these countries, see MEA (2007, appendix XV). All of these are low or middle income countries. Otherwise, India does not have any pre-selection criteria for its main aid programme.

3.2.2. *Allocation criteria:*

India does not have an explicit policy of targeting the poorest countries with its aid programmes, rather targeting mutual benefit through exports and investment links. This is partly also because Indian aid has to some degree historically lacked a natural constituency given the high proportion of poverty affected people within India. This is less the case for disaster relief, with for example a lot of Indians making large donations to regions affected by the tsunami (Price, 2005). Hence, the GOI also makes substantial resources available in such circumstances, making Indian grant aid subject to large geographical fluctuations. The main exception to this has been support for regional neighbours, which is seen as a strategic priority to help maintain regional stability, so that aid has been more stable to the core beneficiaries in South Asia identified above.

On the other hand, EXIM Bank allocation criteria for concessional funds revolve around the level of income and the debt burden of the recipient country.

4) AID POLICIES

4.1. Concessional

In the budgetary year 2005-2006, grants accounted for 80% of India's foreign aid programme, but this is estimated to have fallen to around 60% by 2006-07 with the growth of concessional EXIM loans.

The terms of EXIM-Bank loans are dependent on the levels of income and the external debts of the recipient countries (EXIM, 2007a, p3). For countries with minimum grant elements in their programmes with the IMF, India generally makes extra efforts to increase the grant element to match the minimum level required.

Terms of EXIM Bank India Concessional Loans

Grant element	41-42%
Average maturity (including grace period)	20 years
Average grace period	5 years
Average interest rate	1.5-2%
Currency denomination	US\$

While concessionality levels are broadly similar for loans provided under the Team 9 Initiative and for most HIPCs (1.5%, 5+20 years), they vary substantially for other low-income countries (such as Angola, Lesotho, Sudan and Surinam, which have received maturities of 5-6, 15, 11-13 and 15 years respectively).

Among HIPCs, most African low-income countries therefore indicate that most Indian financing is in the form of concessional loans, while Asian countries receive predominantly grants.

4.2. Types of Assistance

India's aid is fundamentally project-oriented, except for its traditional beneficiaries like Bhutan and Nepal (e.g. in 2005, 22% of aid to Bhutan was in budget support, see Price, 2005). Recently however, more aid has been channelled through Programme Based Approaches (PBAs) mainly in Afghanistan, where India participates in the multi-donor trust fund. This project orientation has been accentuated by the growth of concessional EXIM project loans, and is reflected in assessments by HIPCs, which indicate that virtually all Indian aid is in projects or TA.

India has a long tradition in providing technical assistance to developing countries, which was until the mid-1990s the main form of Indian aid. India feels that it has more to offer than many Western countries in terms of appropriate transfer of technologies and capabilities to 'fellow' developing countries. Nevertheless, HIPCs do not rate Indian technical assistance more highly than other sources: only 1/3 of them rank Indian TA highly in terms of building capacity or funding government TA priorities.

India has participated in the HIPC initiative, and has committed to relieve the debt of 5 HIPCs (out of a total of 7 to which it is owed, notably Ghana, Guyana, Mozambique, Uganda, Tanzania, Nicaragua and Zambia) for a total of US\$ 38 million (data as of end-June 2007, see IDA and IMF, 2007, p94).

4.3. Channels of Assistance

India channels around 10% of its annual aid programme through multilateral institutions (excluding EXIM Bank lines-of-credit to multilateral institution, all of which except US\$250 million to ECOWAS BID have been non-concessional). The bulk of this (67%) goes to UN bodies, and the rest to contributions to the IMF, World Bank and regional development banks. Considering India's preference for receiving its own aid through multilateral channels, it is a bit surprising that its aid programme does not make more use of them: it indicates that its own goods and technology have higher added-value and lower cost, because it can concentrate more effectively on sectors and countries in which it has a comparative advantage (see also Price 2005).

The degree to which Indian aid is "on-budget" is unclear. For example, in Nepal, most aid is channelled through the Indian embassy, with Nepalese village communities making direct applications for funds to the embassy (Price, 2005). India does not use Indian NGO's to deliver its foreign aid, with the exception of the Indian Red Cross.

Nevertheless, all HIPCs indicate that 75-100% of Indian aid (including concessional LOCs) is being delivered on-budget.

4.4. Sectors and Projects

India does not have stated preferences for sectors. This is a corollary of presenting its aid in ‘partnership’ to other countries, rather than imposing its own preferred projects. Most of its grants have been for rural development, education, health and TA. However, most of its recent concessional loans have been for infrastructure (electricity transmission/distribution, renewable energy, irrigation, agriculture/agroprocessing, railways, and manufacturing) as well as occasional “prestige” projects like sport stadiums or conference centers. All these loan sectors have been unpopular with DAC donors. I

In its main recipient countries, India is present in a wide range of sectors. In Bhutan, it is involved in health, education, roads and bridges, power, trade and industry, civil aviation, culture, urban development and housing, media, human resource development, Information Technology and telecommunications. In the countries receiving EXIM assistance, typically this is limited to 1-3 key infrastructure and/or productive sectors.

Recipients vary in their analysis of whether India is supporting their government priority sectors and projects, with traditional recipients of Indian aid such as Bhutan and Nepal receiving aid to support government priorities and development plans, and some HIPCs indicating that India is funding key priority projects which DAC donors have not offered to fund, but others indicating that some projects are lower priority or “additional” to core PRSP priorities.

4.5. Flexibility

India has been highly flexible in providing rapid and budget support assistance to its main recipient countries, notably Bhutan and Nepal (for the latter, a rapid US\$218 million economic assistance package after the conclusion of the Peace Accords in 2006, see MEA, 2007). However, as it has not been involved in Programme Based support to other countries, it is not flexible in disbursing resources for short-term budgetary or Balance of Payments deficits. HIPCs confirm this, with no flexibility indicated. Nevertheless, India has also been seen to respond rapidly to humanitarian disasters, notably in South Asia.

4.6. Predictability

In most countries, Indian aid is mainly implemented through stand-alone projects, but these often have closely planned effectiveness and disbursement dates (eg in Honduras), allowing 3-6 year projections of disbursement amounts.

In addition, HIPCs indicate that between 75% and 100% of Indian aid does get disbursed in the intended fiscal year (notably in Guyana, Honduras and Mali).

4.7. Conditionality

As a recipient of aid itself, India has put a clear emphasis on unconditional technical, project-based cooperation, with assistance presented as a partnership. Hence, beyond the standard project-related safeguards, India does not impose any economic or political conditionality. As a result, HIPCs regard its funding as low-conditionality, and indicate that there are no resulting political delays.

4.8. Policy Dialogue

Beyond concluding framework agreements for its assistance with recipient countries, India does not engage in the policy dialogue with the recipient country government or with other donors. However, some HIPCs see it as playing a positive role in this dialogue by funding projects other donors have not funded (eg Honduras). India's disbursements are not linked in any way to decisions/disbursements by the Bretton-Woods institutions, as also emerges clearly from analysis by HIPCs.(eg the Gambia, Guyana and Mali).

5) AID PROCEDURES

5.1 Conditions Precedent

For its main aid recipients like Nepal, Bhutan and Afghanistan, India makes use of framework agreements for overall assistance before then identifying and funding specific programmes or projects. For other countries, especially those receiving EXIM LOCs, it reaches agreement on a project-specific basis, mostly implemented by Indian contractors.

According to HIPCs (eg The Gambia and Guyana), India does not require conditions precedent beyond a legal opinion and a feasibility or pre-appraisal study for the project. It also has very low demands (or none in Honduras) demands for counterpart funding

India is also highly regarded by HIPCs for enforcing project-related safeguard conditions flexibly where necessary, and for keeping delays related to all conditions precedent to less than 6 months.

5.2 Disbursement Methods

For main aid recipients, a considerable part of Indian aid (especially budget and programme support) is disbursed in advances or as reimbursement for expenditures. However, especially for EXIM LOCs, a high proportion of project support is executed directly by Indian companies. As a result, non-Asian HIPCs indicate that India almost exclusively uses the 'direct payment to suppliers' disbursement method for its aid.

5.3 Disbursement Procedures

Procedures for lines-of-credit extended through India's EXIM Bank are well explained in EXIM (2007a) and EXIM (2007c). HIPCs generally indicate that Indian procedures are moderately onerous, with separate accounting and financial reporting required but generally implemented largely by the executing company.

5.4 Procurement Procedures

For main aid recipients, a considerable proportion of Indian aid is untied (especially that going to programme-based support). However, a high percentage of Indian project aid is tied, especially EXIM LOCs where loan agreements generally stipulate that up to 100% of goods and services need to be bought from Indian suppliers. HIPCs indicate that 100% tying is the norm with EXIM LOCs, but that Indian goods are frequently high value for money compared to OECD goods. They also indicate that procurement is generally reasonably fast, for example occurring within 3-6 months in the Gambia and Guyana.

5.5 Coordination

In its main partner countries, India has accelerated its efforts at coordination with other donors in recent years. It has joined the Nepal development forum which brings together all the foreign donors, the Afghanistan reconstruction trust fund, and the multi-donor TA fund for Iraq. It was also a member of the group of 4 countries (with Australia, Japan and the US, later joined by the UN) co-ordinating the international response to the 2004 tsunami.

However, beyond these countries, India's aid programme is not very well coordinated with DAC donors. This is partly because India's flows of concessional funds have only recently begun to grow sharply outside the South Asian region, and have largely been confined to export credits, and for individual projects. Non-Asian HIPCs confirm that India does not coordinate much with other donors at the country level.

On the other hand, at the global level, India did sign the Paris Declaration on Aid Effectiveness and is currently reviewing its aid policy in order to maximise effectiveness, and streamline and coordinate its aid institutions (see section 2.1). Both MEA and EXIM are participating actively in discussions with OECD coordination groups on aid and export credit, and India is open to closer coordination with DAC and Southern donors.

Key Sources *(All internet-based sources accessed on 1 April 2008)*

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