THE EMERGING FOREIGN ASSISTANCE POLICIES OF INDIA AND CHINA: INDIA AS A DEVELOPMENT PARTNER

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Introduction: Key Questions about India as an Emerging Donor

This paper attempts a detailed account and analysis of India as an **emerging foreign aid donor, or development partner as it prefers to call itself**, analyzing it in the context of the international aid regime as well as in the contexts of the evolution of Indian foreign policy and economic relations with other developing countries.

Much of what India is doing is no different from what Western countries have done. However, it is not a member of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD), the traditional coordination mechanism of the developed country donors and the international aid regime. India appears to have operated on the realist assumptions of power politics and interest-orientation in its aid policies, particularly with its neighbours (Six, 2009). However, India's aid policy has been little studied. This study will address this lacuna by asking and analyzing five key questions:

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1. *How much?* Aid numbers have always been prone to massaging as donors attempt to show their largesse. A good handle on India's aid numbers is an essential first step.

2. *To Whom?* What have been the allocations by country and/or region? To what extent is India's aid directed to the "near abroad" versus more geographically distant countries? Is the aid directed to the poorest countries or to resource-rich countries irrespective of poverty?

3. *For what?* What are the purposes to which this aid is directed? What are the sectors and types of projects being aided? Is there a discernible aid philosophy regarding economic development in Indian aid policy?

4. *How?* What are the modalities and institutional mechanisms through which Indian aid works? Is it through grants or loans? Is it tied to imports from the donor? Which arms of the government give the aid and how is it coordinated and administered? How does the process work?

5. *Why?* What are the motivations of this aid? Is it to secure access to scarce natural resources, commercial expansion, geo-strategic goals or geo-political competitive dynamics? Is India's aid strategically planned, either for promoting development or for promoting its interests, or it is *ad hoc*, case by case, and evolving? Is it coordinated with India's expanding trade and investment relationships? Is its aid

political, aimed at diplomatic and strategic benefits? The aid program will be studied in its political, diplomatic and security context.

Emerging Donors, India and China in the International Aid Architecture

Background

While the post-war global foreign aid regime has been largely constructed and driven by Western countries, other country groups also played a varying role. For a few decades the Soviet Union (and even Maoist China) was an important player in countries allied to its interests. After the first oil-shock of 1973, some of the OPEC countries did so in the 1970s (especially Kuwait, Saudi Arabia and Venezuela), both through bilateral and multilateral institutions (such as the OPEC Fund for International Development) targeted especially to members of the Organization of the Islamic Conference (OIC), as well as through global-membership multilateral institutions where they took a leadership role (notably IFAD and UNIDO). But with the sharp decline in oil prices in the 1980s, the economic power of OPEC diminished and with it reduced any influence they might have on the global aid regime.

However, today the economic resurgence of non-Western countries, epitomized by the BRICs, and especially the emergence of China (and to a lesser extent India) is raising new questions, challenges and perhaps even hope about the future of the global aid regime. For many years these countries (especially India) were the largest recipients of foreign aid. China graduated from International Development Association (IDA) – the largest multilateral concessional source of development aid – and now India is poised to do so in the next two years. Now the rising economic prowess and geopolitical ambitions of the two countries are leading to a rapid role reversal – from aid recipients to aid donors. Their policies, as emerging aid donors, are subjects that have been little studied in a thorough and systematic way, let alone systematically compared.

The Evolution of the International Aid Architecture and Emerging Donors

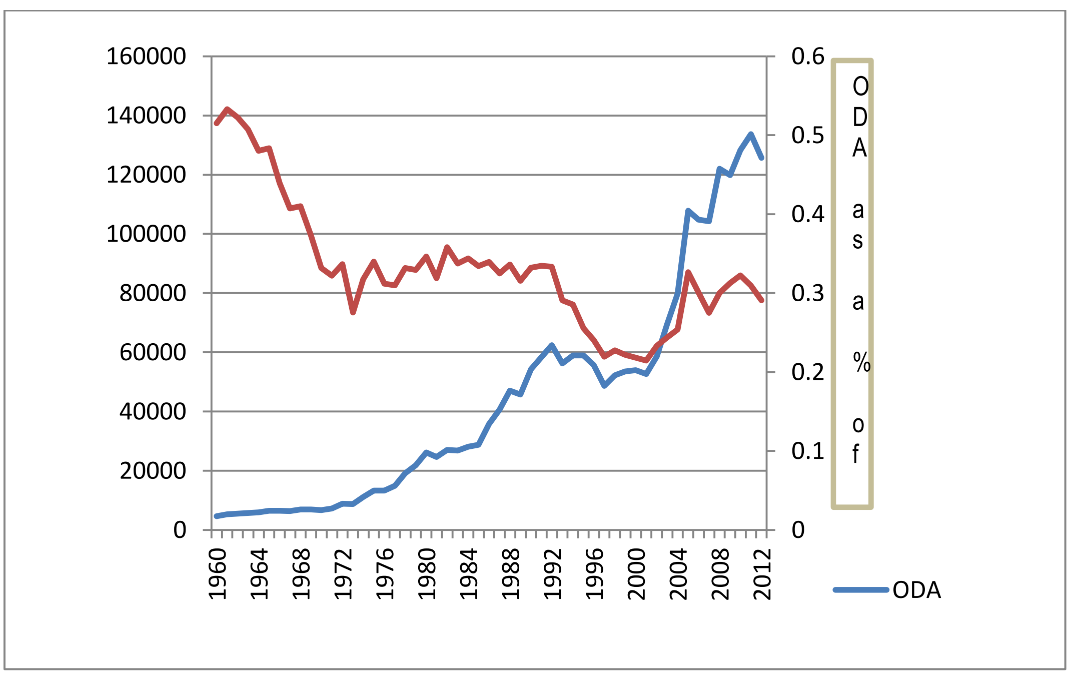
Currently, the international aid architecture is constituted by three broad groups of donors (for useful outlines of the international aid regime and emerging donors, see Walz and Ramachandran, 2011; Manning, 2006; Naim, 2007; Paulo and Reisen, 2010; Six, 2009; Woods, 2008).

First, the traditional developed-country donors of the OECD, primarily of North America, Western Europe and Japan, which coordinate their aid policies through the OECD's Development Assistance Committee (DAC), formed in 1960. The DAC defines Official Development Assistance (aid) as a concessional transaction (a minimum of 25% must be a grant, calculated for loans at a 10% reference rate), that is concessional loans and grants provided by governments for the promotion of economic development and welfare and including technical cooperation. (Chaturvedi, 2008:5). DAC ODA enjoyed near-total dominance in the 1990s but the pattern has changed in the 2000s. ODA from DAC donors in 2012 was $125.69 bn., a decline from $128.29 in 2010 (Table 1). DAC ODA as a percentage of GNI declined from 0.51% (1960) to 0.22% (2000) before recovering to

0.29% (2012) (Table 1). Non-DAC donor ODA (excluding India and China but including Russia and Saudi Arabia) was $9.275 bn., of which $5.095 bn was from Saudi Arabia.[1]

Table 1: ODA (Official Development Assistance)

Year	ODA (USD Mn)	ODA as a % of GNI
1960	4676	0.51
1970	6713	0.33
1980	26195	0.35
1990	54327	0.33
2000	53970	0.22
2010	128292	0.32
2012	125693	0.29



Source: http://www.oecd.org/dac/stats/data.htm

Second, the oil-rich Arab donors; these are not members of the OECD's DAC but report their aid to the DAC although not necessarily according to DAC definitions or disaggregation (eg., do not report debt forgiveness as ODA unlike DAC). Arab aid started in the 1970s, with five aid agencies being established between 1971 and 1976, led by the United Arab Emirates (UAE), Saudi Arabia and Kuwait. The average net aid for these three states between 1973 and 2008 was 1.5% of GNI, and between 1973 and 1994, Arab aid accounted for 13.5% of global ODA (Walz and Ramachandran, 2011: 4-5). Arab aid tends to flow to other Arab and Muslim countries, but in recent years to sub-Saharan Africa too.

Third, a diverse group of emerging donors which include China, India, Brazil, South Africa, Russia and Venezuela among others have emerged in the 2000s. We focus here on China and India. Manning (2006) has identified four groups of non-DAC donors: OECD members not part of DAC, EU members from Central and Eastern Europe that are not part of the OECD, Middle East and other OPEC countries, and "others" that do not fall into the above three categories (including China and India). This last group tends to call their aid mutual assistance and to focus on infrastructure, particularly China, and particularly to Africa. The main southern donors tend to be regional powers – China, India, Brazil and South Africa. Although aid from this group does not impose policy conditions for aid, the majority of their aid is tied to the use of donor-country goods and services, contractors or oil imports or packaged with commercial deals and foreign direct investment in an era when DAC aid is moving to untied aid. Aid from this group of countries is much less transparent as regards data and disaggregation.

The evolution of the international aid regime in the past two decades can be summarised as follows. Following a decline in the 1980s, the era of Third World debt, aid flows began rising again in the 1990s. The traditional donors pledged to reform the aid architecture, creating the Paris Declaration on Aid Effectiveness in the Paris High-level Forum, 2005, followed by the Accra Agenda for Action in 2008. This was supposed to usher in a revised architecture that prioritised commitments to improve (recipient) ownership, alignment, harmonization, results and mutual accountability. This is now the basis of the OECD-DAC approach to ODA. However, the Paris Forum was attended by many new donors (notably, not India, but India signed on in 2006). However, there has been not much progress in implementing all the commitments made in the Paris Declaration and Accra Agenda, even by DAC donors. The UN's Development Coordination Forum (DCF) was mandated by the 2005 Paris world summit and along with the International Aid Transparency Initiative (IATI) can, in principle, become a multilateral umbrella body for aid coordination by all donors but is overshadowed by the DAC's Working Party on Aid Effectiveness and High Level Forums (Walz and Ramachandran, 2011:23).

Estimates of aid from new donors vary *tremendously*, ranging from $11 bn to $41.7 bn (or 8-31% of global gross ODA). If the larger estimates are to be believed, China, Brazil and Saudi Arabia give more ODA than half of the DAC donors, and four non-DAC donors (Venezuela, Saudi Arabia, UAE and China) reach the UN target of 0.7% GNI, while 18 out of 23 DAC donors do not. China's aid estimates range from $1.5 to $25 bn and if the upper estimate is correct (although it is probably clubbed with foreign direct investment (FDI) which is not aid) it is the second largest donor after the United States (Walz and Ramachandran, 2011:1) (However, estimates from Brautigam, 2009, cited in Walz and Ramachandran, 2011, put China's aid in the $1.5-2 bn range).

Criticisms of Emerging Donor Policies

Traditional OECD donors have tended to worry about the effects of aid from emerging donors (Naim, 2007). These have been mainly of five types:

(1) that emerging donors might support "rogue" states like Sudan or Zimbabwe;

(2) they might increase levels of indebtedness, free-riding on debt relief to Highly Indebted Poor Countries (HIPC) organized by DAC donors under the multilateral debt relief initiative (MDRI) which dealt with their debts to multilateral institutions;

(3) they ignore national and corporate governance standards on environmental protection, labour standards, transparency and aid-tying, in projects;

(4) they might focus on extracting resources, particularly China;

(5) they do not encourage the necessary and "right" economic policies by not imposing appropriate conditionalities, allowing recipients an artificial lifeline to postpone

adjustment, and hence undermine the effects of DAC donor aid (Walz and Ramachandran, 2011: 1; Paulo and Reisen, 2010:539-43).

Woods (2008) argues that while the emerging donors do pose challenges for the existing aid regime, it needs to be understood that they are attractive for recipients in the context of promised aid not materializing from traditional donors, and resistance to what are felt to be discredited, because contractionary, conditions that are not aligned with recipient priorities. Hence, emerging donor aid offers competition to that from traditional donors by undercutting them on conditionality.

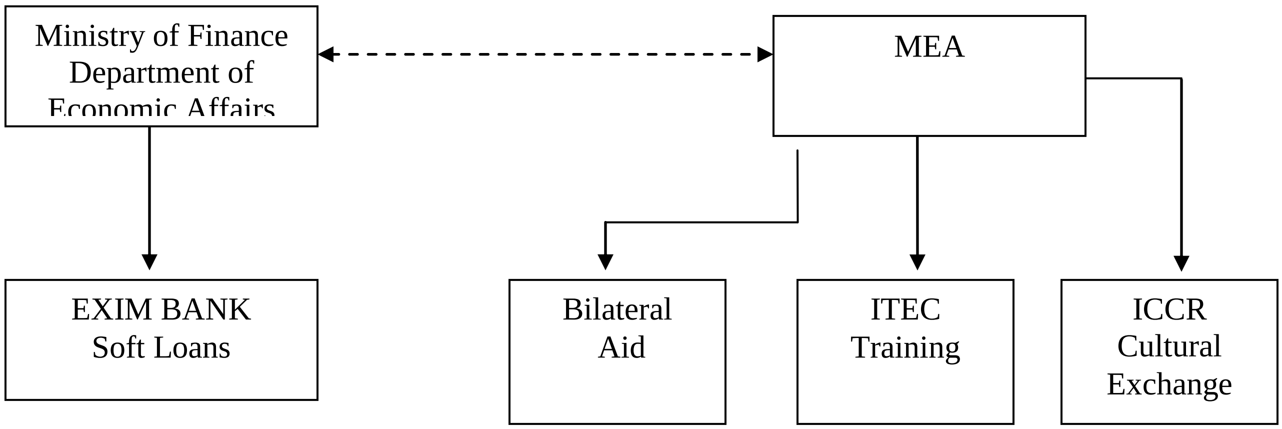
India: Emerging Aid Policies

Historical Background and Evolution

Historically, India's assistance to fellow developing countries began in 1949 with scholarships and humanitarian aid in cases of famine.[2] The Colombo Plan was the main channel for scholarship aid although India's own International Technical and Economic Cooperation (ITEC) programme started in 1964 for training and transfer of expertise. Nepal and Bhutan were the earliest recipients of Indian assistance and from 1959 India has been giving programme-based aid as annual grants to these countries, worked into their and India's five-year plans.

Indian aid has traditionally been coordinated by two ministries, the Ministry of External Affairs (MEA) and the Ministry of Finance's Department of Economic Affairs (DEA) (see Kragelund, 2010; Chanana, 2009; Chaturvedi, 2012a, 2012b, 2008; Naidu, 2008; Agrawal, 2007; Price, 2005, for accounts of India's emerging aid policies). The MEA concentrates on neighbors like Nepal, Bhutan and other South Asian countries, and gave mainly grants and lines of credit (through the Exim Bank since 2004-05), and also assistance through the ITEC program. The Indian Council for Cultural Relations (ICCR) conducts cultural exchanges.

Figure 1: Organisational Chart for Indian Development Assistance prior to 2012



Note: MEA = Ministry of External Affairs; ITEC = International Technical and Economic Cooperation programme; ICCR = Indian Council for Cultural Relations

Source: Modified from Agrawal (2007), p. 6.

ITEC, which came into existence in 1964, operates through four modalities: training in India, project assistance, study trips, and humanitarian assistance. The DEA (in the Ministry of Finance) gave lines of credit to a range of developing countries especially South Asian neighbors. In addition India is also a significant contributor to multilateral assistance, through financial contributions to the UN system and multilateral organizations, the largest provider of personnel for UN peacekeeping operations and humanitarian assistance in the aftermath of a crisis (e.g., the December 2004 tsunami).

Exim Bank Lines of Credit

There was a basic policy shift from 2003-04 from government to government credit lines to government-supported lines of credit through the Exim Bank of India. As the Ministry of Finance put it:

"Policy on Lines of Credit:

For about four decades, Department of Economic Affairs on behalf of Government of India had been extending Lines of Credit (LOCs) to friendly developing foreign countries. These LOCs were essentially 'Government to Government' (G to G) credit lines as the credit agreements were signed between GOI and the Government of the recipient country. Till 2003-04, the LOCs were from Government to Government. Accordingly the full amount covered by the LOCs, used to be provided in the Budget. Since 2003-04, this system has been substituted by extending GOI supported Lines of Credit through Exim Bank of India".[3]

To address a question that can be raised, at the outset, viz., why should lines of credit be considered foreign aid and not commercial activity? The answer is that it is government-subsidised and below market rates of interest:

Further, the Ministry of Finance continues:

"Q. What is the interest rate the overseas importer of Indian goods has to pay?

A. The overseas importer of Indian goods has to approach the overseas borrower financial institution/recipient of Exim Bank's LOC, for approval of his proposal for import of Indian goods on deferred credit terms. The interest rate that the importer will need to pay to the recipient of Exim Bank's LOC, will depend on various factors such as the cost of fund, the currency of credit, tenure of credit, security offered by the importer, the risk perception of the importer and the interest rate structure prevalent in the country. It may however be mentioned that Exim Bank's interest rates on LOCs being competitive, the importer would normally have to pay interest rate lower than what he would otherwise pay to his Bank on similar credits."[4]

The last sentence indicates that the LOCs of the Exim Bank may be considered subsidized credit and hence foreign aid. The interest subsidy on the Exim Bank's LOCs is given in the IDEAS line item in Statement 11 of the annual Expenditure Budget .

A key turning point in Indian foreign aid was the decision in 2003 to repay its bilateral debt to all but four countries, not to accept tied aid in the future and accept bilateral aid from only five countries and the EU, and simultaneously shift from a major aid recipient to aid donor (Chaturvedi, 2008: 26-29). Between 2003-04 and January 2014, India provided $10,088.95 million in 182 operative Exim Bank LOCs (lines of credit) with another $319.57 million in the pipeline to be operationalised, totalling 195 LOCs of $10,408.52 million (Table 1). The average worth of an LOC was $53 m.

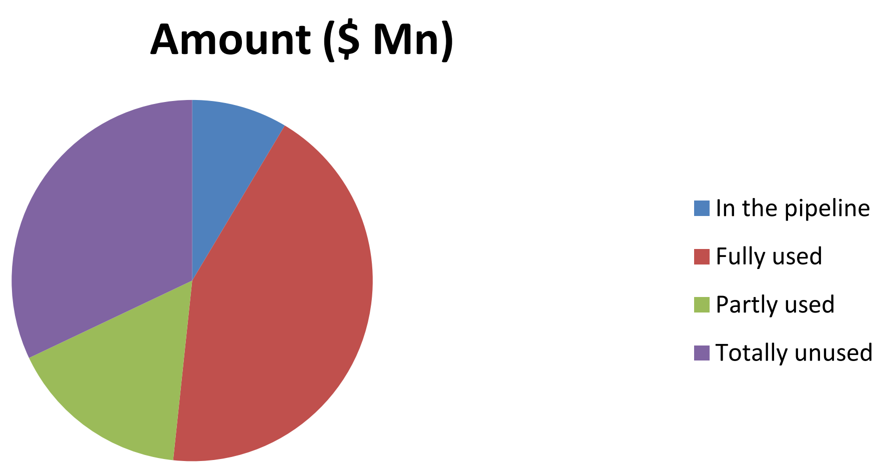
Table 2: Operating Lines of Credit as on January 2014

Level of Utilization of LoC	No. of LoCs	Amount ($ Mn)
Operating	182	10,088.95
Pipeline	13	319.57
Total	195	10,408.52
Of the operating,		
Fully used*	109	5,488.69
Partly used**	29	1,713.51
Totally unused***	44	2,886.76

* assuming amount left for utilization is zero, where such data is missing in relevant columns

** Of partly used, the amount left for utilization is $ 497.99 Million

*** 'To be made effective' are clubbed under this



Source: EXIM Bank of India

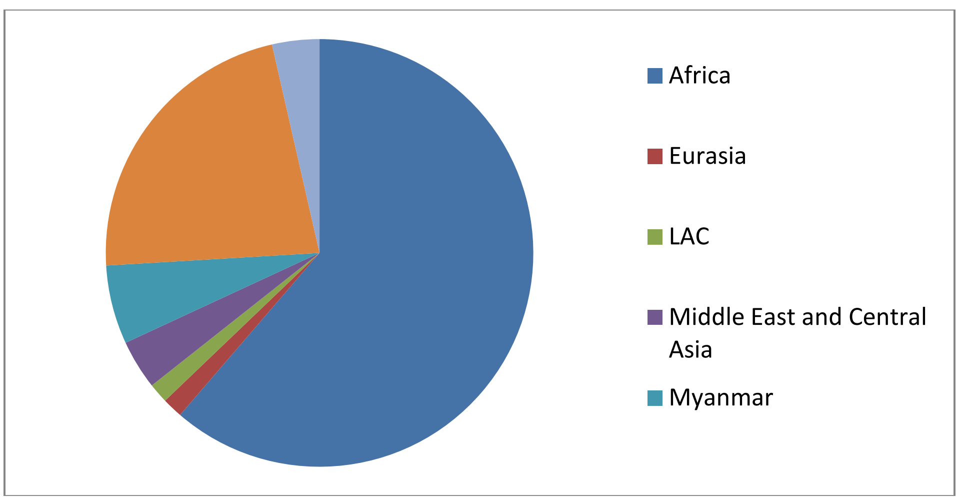
For a detailed listing of Exim Bank LOCs as of January 2014, see Table 3. For a detailed listing of Fully Used Partly Used and Totally Unused LOCs, see Table 4. Both Table 3 and Table 4 are appended at the end of the paper.

Region-wise and country-wise (Table 5), LOCs worth 129 (of 182 operational) worth $6186 m. went to sub-Saharan Africa (henceforth, Africa refers to sub-Saharan, that is, non-Arab Africa, plus Sudan and Djibouti, and including the island states of Madagascar, Mauritius and Seychelles), 9 LOCs worth $2256 m. to South Asian countries, 9 LOCs worth $601 m. to Myanmar, 11 LOCs worth $361 m. to Southeast Asia and Pacific (other than Myanmar), 6 LOCs worth $377 m. to the (non-oil) Middle East and Central Asia, and 16 LOCs worth $152 m. to Latin America and the Caribbean. Thus, 71% of the number of LOCs went to Africa and 5% to South Asia, 5% to Myanmar, and 5%% to Southeast Asia and Pacific.. By value, 61% went to Africa and 22% to South Asia, these two regions getting 83% of the total amount loaned. .

Table 5: Region-wise Lines of Credit as on January 2014

Country/Region	No. of LoCs	Amount ($ Mn)
Africa	129	6,186.42
Eurasia	2	155.60
LAC	16	151.65
Middle East and Central Asia	6	376.80
Myanmar	9	601.39
South Asia	9	2,256.16
South East Asia and Pacific	11	360.93
TOTAL	182	10,088.95

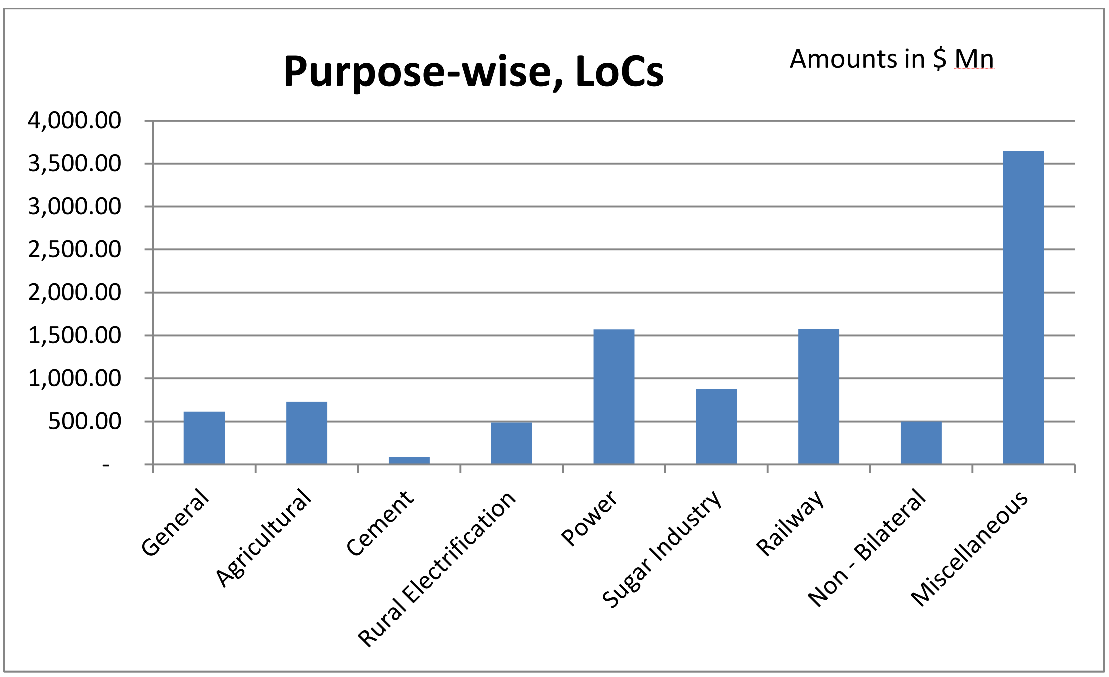
Source: EXIM Bank of India



For a detailed listing of Exim Bank LOCs by countries and regions see Table 6, appended at the end of this paper.

Table 7: Purpose-wise Lines of Credit as on January 2014

Purpose	No. of LoCs	Amount ($ Mn)	Amount left for utilization ($ Mn)
General	23	614.60	229.96
Agricultural	20	730.20	443.35
Cement	4	87.00	0.15
Rural Electrification	13	486.04	79.97
Power	22	1,569.11	631.80
Sugar Industry	9	874.94	180.83
Railway	9	1,577.52	601.51
Non - Bilateral	3	500.00	150.00
Miscellaneous	79	3,649.55	1,067.18
TOTAL	182	10088.95	3384.75



Source: EXIM Bank of India

By major purpose (Table 7), the largest single chunk was 79 (of 182 operational) LOCs, 43% of the total number, covering a wide range of miscellaneous purposes to diverse to slot into sectors, worth $3650 m., or 36% of the total amount of credit extended. By identifiable purpose, the loans show a focus on power and electrification, railways, agriculture and sugar, or more generally, electricity, transport and agriculture. The largest amounts loaned by major sector were in railways ($1578 m. in 9 LOCs), power projects ($1569 m. in 22 LOCs) and the related area of rural electrification ($486 m. in 13 LOCs), the latter two between them 20% of the total amount. Other significant sectors were sugar projects ($875 m. in 9 LOCs), agriculture ($730 m. in 20 LOCs), and cement ($87 m. in 4 LOCs). There was also a significant category of general purpose LOCs which the recipient could use for any purpose ($615 in 23 LOCs). For a detailed breakdown by purpose of Exim Bank LOCs, see Table 8, appended to the end of this paper.

Table 9A: India's Bilateral Aid, excluding EXIM Bank LOCs, 1997-2013 (USD Mn)

Year	Plan			Non-plan			Total
	Grant	Loan	Total	Grant	Loan	Total	
1997-98	10	6	16	91	43	134	150
1998-99	44	27	71	100	30	131	202
1999-00	57	36	92	88	33	121	213
2000-01	76	44	120	88	38	127	247
2001-02	50	34	84	110	34	144	228
2002-03	69	44	114	131	126	258	372
2003-04	99	66	165	155	60	215	381
2004-05	101	62	164	208	65	273	437
2005-06	100	63	162	287	39	326	488
2006-07	41	8	49	305	28	333	382
2007-08	63	12	75	359	17	376	451
2008-09	73	25	98	313	177	490	588
2009-10	87	63	150	331	27	358	508
2010-11	77	104	181	469	-	469	650
2011-12	68	165	233	439	52	491	724
2012-13	64	209	273	571	101	672	945
Total	**1,079**	**968**	**2,047**	**4,047**	**871**	**4,918**	**6,965**

Note: Rupee figures converted at average annual rupee-dollar exchange rates

Source: Ministry of Finance, Expenditure Budget, 1997-2013

Table 9B: India's Bilateral Aid, excluding EXIM Bank LOCs, 1984-1997 (USD Mn)

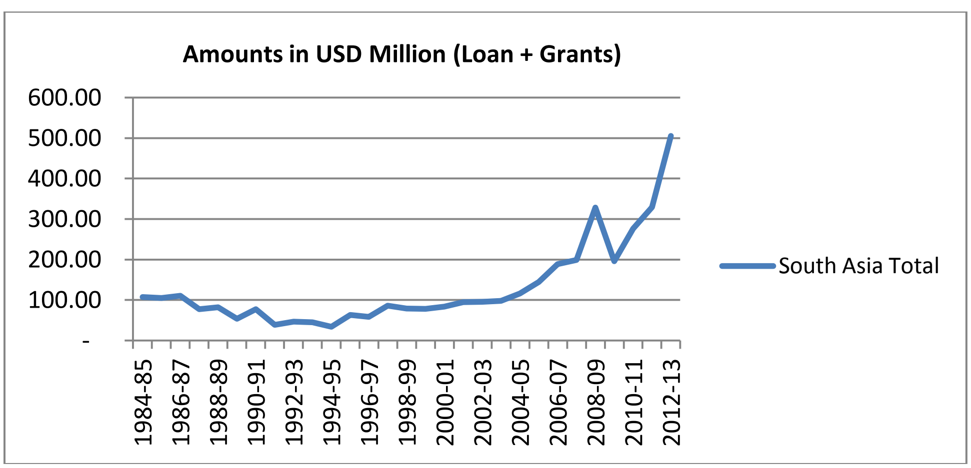
Year	Grant	Loan	Total
1984-85	85	58	143
1985-86	81	59	140
1986-87	67	206	273
1987-88	129	36	165
1988-89	124	34	158
1989-90	96	10	106
1990-91	123	49	173
1991-92	67	15	82
1992-93	50	16	66
1993-94	53	22	75
1994-95	48	25	73
1995-96	78	31	110
1996-97	73	30	102
Total	**1,074**	**593**	**1,666**

Source: Ministry of Finance, Expenditure Budget, 1984-1997

Note: Rupee figures converted at average annual rupee-dollar exchange rates

Table 11: Loans & Grants to South Asia, 1984-2013

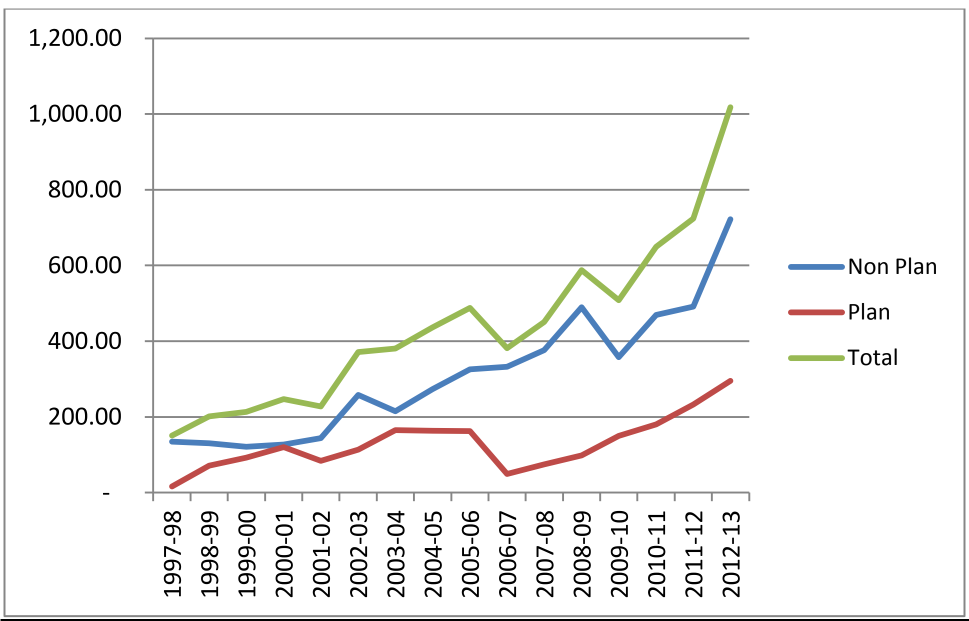
Year	South Asia Total ($Mn USD)
1984-85	107
1985-86	105
1986-87	110
1987-88	77
1988-89	82
1989-90	54
1990-91	77
1991-92	39
1992-93	47
1993-94	45
1994-95	34
1995-96	63
1996-97	59
1997-98	86
1998-99	79
1999-00	78
2000-01	84
2001-02	95
2002-03	95
2003-04	98
2004-05	116
2005-06	145
2006-07	188
2007-08	199
2008-09	328
2009-10	196
2010-11	276
2011-12	329
2012-13	506



Source: India’s budget reports – online and in the Planning Commission library

Table 12: Plan and Non-Plan split of India's bilateral aid, 1997-2013

Year	Non Plan ($mn USD)	Plan ($Mn USD)	Total
1997-98	134	16	150
1998-99	131	71	202
1999-00	121	92	213
2000-01	127	120	247
2001-02	144	84	228
2002-03	258	114	372
2003-04	215	165	381
2004-05	273	164	437
2005-06	326	162	488
2006-07	333	49	382
2007-08	376	75	451
2008-09	490	98	588
2009-10	358	150	508
2010-11	469	181	650
2011-12	491	233	724
2012-13	722	296	1,018



Source: India's budget reports – online and in the Planning Commission library

Grants and Loans other than through the Exim Bank

Other than the LOCs extended by the Exim Bank and subsidized by the government since 2004-05, India provided a grand total of $8631 m. in grants and loans over the period from 1984-2013 (Tables 9A, 9B), of which $6965 was over 1997-2013, heavily weighted towards the last few years, particularly since 2004-05 and more so since 2008-09. Table 10, appended to the end of this paper, lists the annual grant-loan breakdown over 1984-2013. Table 11 gives the amount of grant and loan aid, other than Exim Bank, to South Asia. Of this total, 29% was under Plan grants and loans over 1997-2013, that is, a part of India's five-year plan mechanism. Such Plan funds went overwhelmingly to two countries, Bhutan and Nepal, and to some extent also to Afghanistan and Myanmar in the past five years, with disaggregated Plan aid figures becoming available only from 2009-10. However, 70% went under the rubric of Non-Plan grants and loans, which are annually asked for and budgeted amounts, depending on the state of relations between India and various recipient countries and in response to requests originating from recipients (Table 12). Grants have dominated both Plan aid (53%) and Non-Plan aid (82%) over the period 1997-2013 (Table 9A). Development aid has increased as a proportion of Central government expenditure from 0.27% to 0.42% over the past two years, 2011-13 (Mullen, 2013).

Of the grand total, since 1997, of $6965 m., 74% was given as grants and 26% as loans. Of this, $ 2898 million, or 42% (Table 9A, Table 11), went to its South Asian neighbors. Thus, India's non-Exim Bank Non-Plan grants and loans have gone mainly as grants, and primarily to its South Asian neighbors (see Tables 9A, 10, 11), with Afghanistan registering a presence since 2008-09 and Africa since 2005-06. India has been among the top five donors to Afghanistan, totalling $ 2 billion in commitments over 2002-13. Infrastructure, health and education are the main focus of Indian development assistance in South Asia while aid tied to purchases of Indian goods and services and technical training of civil servants and public sector managers is the main focus in Africa. An Indian company, usually a public sector company, has to be the lead contractor and 75% of goods and services should be sourced from India. However, there is an open bidding process among Indian companies and the choice of contractor among them is the host government prerogative. Data on the number of scholarships and training slots offered under the ITEC programme and allied programmes like the Technical Cooperation Scheme (TCS) of the Colombo Plan, and the Special Commonwealth Assistance to Africa Programme (SCAAP), and the amounts spent on these, are being collected. However, for capacity building the 2013-14 allocation is Rs. 1700 million ($28 m.) and is tremendously diverse, consisting of 8780 civilian training slots, 1500 defence training slots consisting of 280 different training courses in 47 institutions in India for 161 partner countries.

Given India's uncertain and sometimes poor relations with many of its neighbors, it is not surprising that South Asia, as well as the "near abroad", including Myanmar (Egreteau, 2011) and Afghanistan, for political and strategic reasons, including competition with China and Pakistan, has dominated Indian foreign aid. However, following on China's footsteps, Africa has emerged as a major focus (Naidu, 2008, Kragelund, 2010, Duclos, 2012), given a further boost by the India-Africa Forum summit in April 2008. In May

2011, India announced $5 billion low-interest loans over the next three years for Africa and an additional $1 billion to pay for education, railways and peacekeeping, a massive increase from earlier. While one part is tied-aid, linked to export subsidies for Indian goods, another part has focused on technical cooperation including in the setting up of broadband networks in Africa. India's attractiveness to Africa lies in its ability to produce soft infrastructure like IT goods and services and pharmaceutical products relatively cheaply and some see it as offering an alternative to Chinese aid and trade (Naidu, 2008). The large Indian diaspora in Africa is also said to be leveraged by India in its foreign policy. Access to African oil and gas resources for long-term energy security and as an alternative to the volatile Middle East also remains a goal of India's Africa policy (Naidu, 2008). Aid also complements the growing footprint of Indian companies in Africa and helps promote trade and investment, including in minerals. At least on the surface India attaches fewer conditions to its grants.

Recent Institutional and Policy Evolution: The Development Partnership Administration

In terms of institutions, organization and strategy, in common with many other donor countries, there was considerable bureaucratic competition between the finance and foreign ministry on institutional control.[5] A proposal for an integrated agency called the India International Development and Cooperation Agency was mooted in the budget for 2007-08 but did not come into being immediately. However, since January 2012, a Development Partnership Administration (DPA) has been formed within the MEA, and started functioning from June 2012 in effect, coordinating the implementation of India's foreign aid programme. It is a multi-division department. The DPA currently (March

2014) has a staff strength of 75-80. This was a somewhat belated response to India's development assistance programme since 2003-04 outpacing the support infrastructure in the MEA. The core DPA mandate consists of (a) focused attention on projects, the flagship project of the DPA being the construction of 50,000 houses for displaced persons in the North and East of Sri Lanka; (b) developing a skill base; (c) helping in policy formulation. However, it is an implementation agency, not a policy-making agency. Policy is handled by the country desk in the political (territorial) division in the MEA. The traditional mechanism continues, that is, requests for aid originate from the would-be recipient country. The Indian embassy, usually the ambassador or deputy chief of mission, is approached by the foreign government. This also happens very commonly on high-level visits either to India by heads of government or foreign ministers, or other cabinet ministers, eg., trade ministers, or when Indian leaders undertake high-level visits. Four major examples are the India-Africa Forum summits of 2008 and 2011, the Afghan president's visit to India in 2011, and the Indian prime minister's visit to Bangladesh in 2011, all of which were followed by major increases in aid commitments. The requests are processed by the country desk, i.e., the political (territorial) division of the MEA, which makes a decision on whether and how to respond. Aid requests and hence, aid decisions reflected in annual numbers are not - and cannot realistically be expected to be - a smooth affair but jerky and politically punctuated. Except for long-term Plan aid to countries like Bhutan and Nepal, one can expect the numbers to jump up and down with events.

Once a policy decision is made by the relevant political division of the MEA, the DPA is then charged with implementing the decision. After the shift to Exim Bank LOCs for project loans, including import of Indian equipment, the MEA now gives 95% of the total aid, reflected in Statement 11 of the Government of India's Expenditure Budget, with about 5% coming from some other ministries such as Science and Technology, Health, and Renewable Energy. The factors that will shape the likely mix of bilateral and multilateral modes of Indian foreign aid are unclear and need better understanding.

The experience of various DAC donor agencies and their relationship to their respective foreign ministries is being studied, particularly the models of the Japan International Cooperation Agency (JICA), UK's Department for International Development (DFID) and the US Agency for International Development (USAID). This is in the context of the clear understanding in the MEA that a capital-hungry country like India can justify a foreign assistance programme only if it serves vital national interests, political, strategic and economic. It was observed that the independently spun-off DFID in the UK developed tensions with the Foreign and Commonwealth Office, and that USAID is gradually being reintegrated into the State Department.

Internal issues that the DPA is currently addressing include: (a) budget allocations – funds are needed early in the financial year; (b) the approval process – an empowered committee is proposed to be set up to speed up LOCs selected by host countries; (c) efforts to move away from the monopolization of projects by a few companies and reduce over-dependence on public enterprises; (d) streamlining contracting/procurement procedures.

India is striving to emerge as a South-South cooperation leader, co-founding the Global Network of Exim Banks and Development Finance Institutions in 2006, promoting the establishment of the Development Cooperation Forum in 2007, and becoming one of the largest contributors to the Commonwealth Fund for Technical Cooperation. Will it strive to marshal its limited foreign aid resources through those multilateral institutions where it has a leadership role, but which might be relatively small, or try and leverage them through large global institutions where its voice is relatively limited? There has been some cooperation with DAC donor agencies which have expressed a desire to train Afghans and Africans in India as it is more cost-effective; this has been welcomed by DPA. Some DAC agencies have also expressed interest in joint project implementation in third countries. DPA has resisted this, fearing brand equity dilution and also wanting to avoid the terms and conditions of DAC aid. There has been a DAC attempt since the Fourth High-level Forum on Aid Effectiveness (Busan, South Korea meeting) Agenda of November 2011 to launch a global partnership on aid effectiveness in which DAC donors have been trying to envelope new donors under common norms for project selection, terms and conditions, etc., particularly for the post-Millenium Development Goals (MDG) (post-2015) development agenda. India (and China) have been resisting this to avoid DAC conditionalities and also avoid having the global development aid burden passed on to them in part, which would reduce the flexibility of their own programmes.

India's Emerging Trade and Investment Relationships

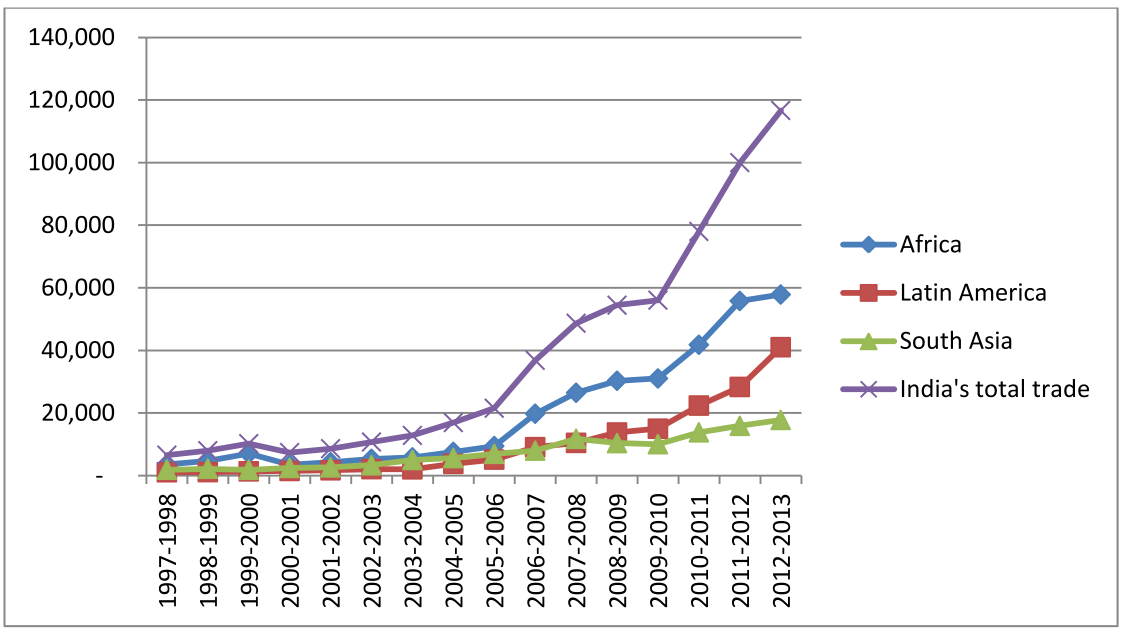
India's foreign assistance policy does not seem to be related to trade and investment relationships as far as its major thrust, South Asia, is concerned. Table 13, appended at the end of this paper, gives India's trade relations with major aided regions and countries over 1997-2013. Table 13A gives India's total trade with Africa, Latin America and South Asia at three points in time (2000-01, 2005-06 and 2012-13). Table 13B gives India's total trade with four sub-regions of Africa at the same three points in time. Table 13C gives India's total trade with four main countries of South Asia at the same three points in time.

India's trade relations with the SAARC region are governed by the Agreement on South Asia Free Trade Area (SAFTA), which is that:

"The SAFTA Agreement was signed on 6 January 2004 and came into force on 1 January 2006. Under SAFTA, India has granted zero basic custom duty to all LDCs, viz., Afghanistan, Bangladesh, Bhutan, and Maldives, on all items except 25 items relating to alcohol and tobacco. Under the SAFTA Agreement, India has reduced the SAFTA Sensitive List for non-LDCs from 878 to 614 by reduction of 264 tariff lines with effect from 6 September 2012. As per the schedule of Tariff Liberalisation Programme (TLP) under SAFTA, India has brought down its peak tariff rates to 5 per cent w.e.f. 1.1.2013".[6]

Table 13A: India’s total trade, 1997 - 2013

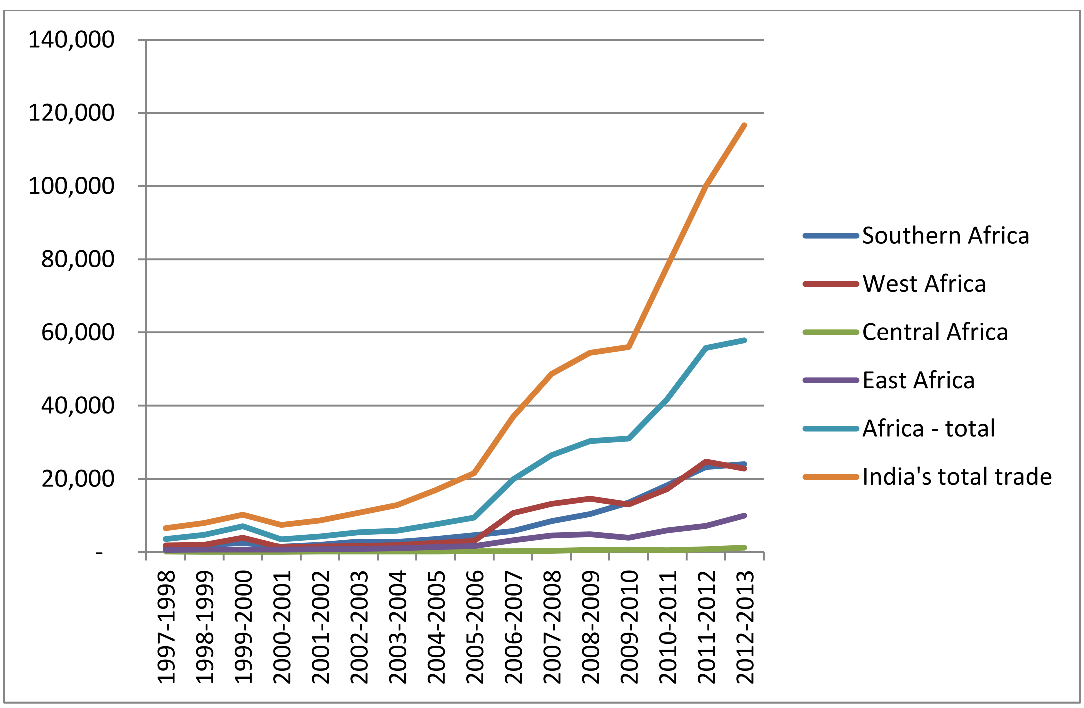
Total Trade (USD Mn)	**2000-01**	**2005-06**	**2012-13**
Africa	3,431	9,442	57,848
Latin America	1,491	5,119	41,015
South Asia	2,447	6,961	17,791
India's total trade	7,369	21,522	1,16,654



Source: Reserve Bank of India

Table 13B: India's trade with Africa, 1997-2013

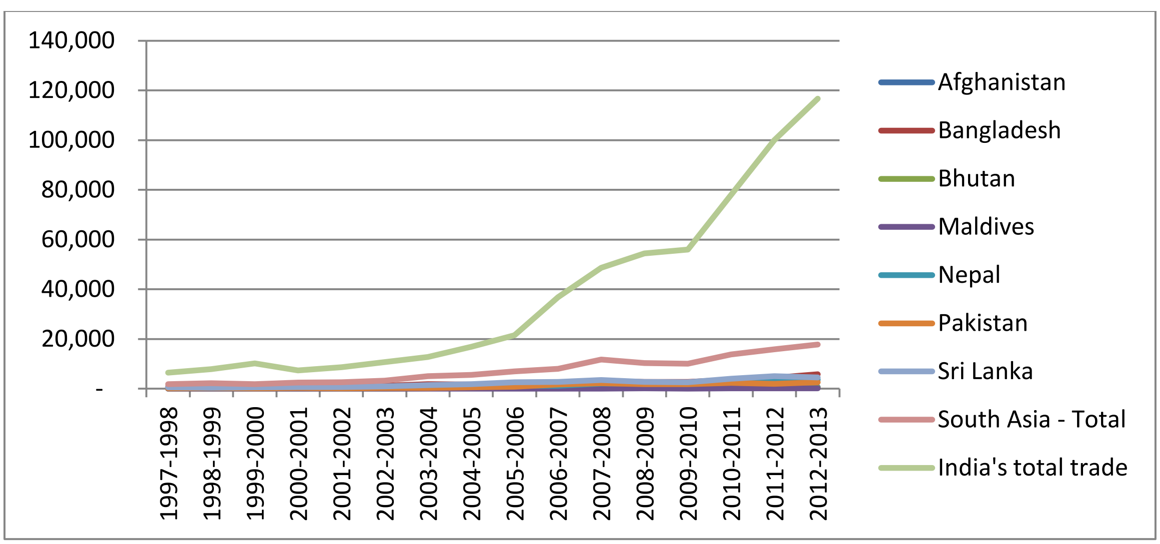
Total Trade (USD Mn)	2000-01	2005-06	2012-13
Southern Africa	1,470	4,576	24,005
West Africa	1,226	3,020	22,788
Central Africa	81	185	1,161
East Africa	653	1,661	9,894
Africa – total	3,431	9,442	57,848
India's total trade	7,369	21,522	1,16,654



Source: Reserve Bank of India

Table 13C: India's trade with South Asia, 1997-2013

Total Trade (USD Mn)	2000-01	2005-06	2012-13
Bangladesh	1,016	1,791	5,784
Sri Lanka	685	2,602	4,610
Nepal	396	1,240	3,632
Maldives	25	70	129
South Asia - Total	2,447	6,961	17,791
India's total trade	7,369	21,522	1,16,654



Source: Reserve Bank of India

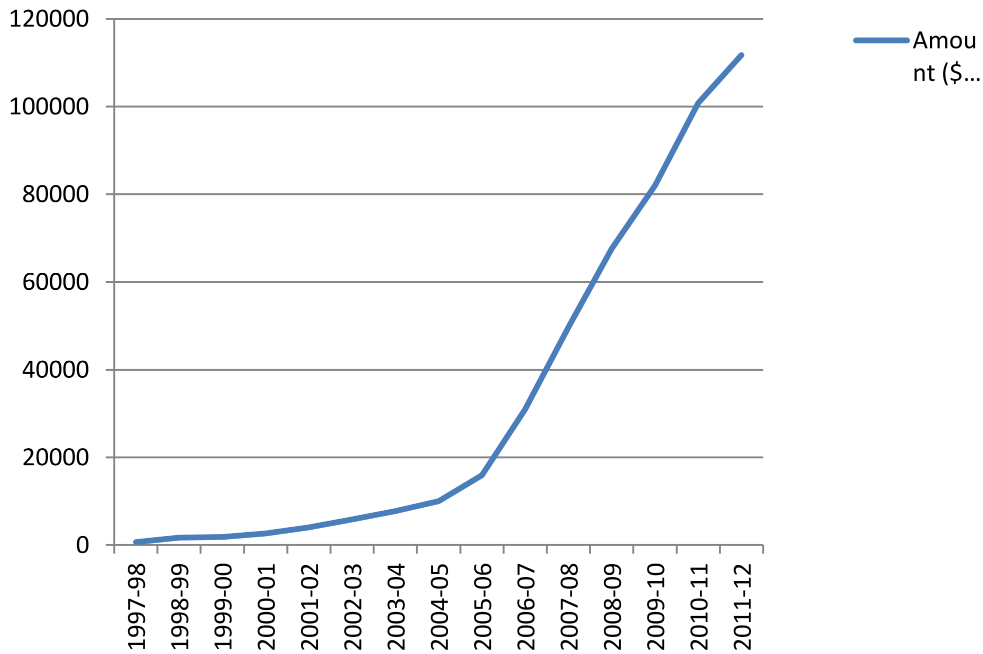
India’s gross merchandise trade increased during the period of the new aid policy from 28.2% of GDP in 2004-05 to 43.0% of GDP in 2012-13, while its exports increased from 11.8% to 16.3% of GDP during the same period, indicating a rapidly globalizing economy. India’s trade with the countries of the South Asian region amounts to only 2.3% of its overall trade in 2011-12, down from 3.5% in 2003-04, and only 5.0% of its exports in 2012-13, down from only 6.7% in 2003-04 (Table 13).

India’s outward private investment flows increased steadily, from a very low base, over 1997-2012, rising from under $1 bn in 1997 to just over $10 bn in 2004-05 and then rocketing to $112 bn in 2011-12 (Table 14). Tables 15A and 15B give India’s outward foreign direct investment (FDI) by region over 2008-Dec. 2013 (earlier data not being available. As Table 15A shows, the bulk of Indian outward FDI since 2008 has gone to developed Western Europe and North America, and to Southeast Asia (mainly developed Singapore), oil-rich West Asia, resource-rich South America, and not to the main aided regions with the sole exception of Eastern Africa . Private investment flows to South Asia are very small (3.5% of all outward FDI commitments since 2008-09, as per Table 15A) except for Nepal and Sri Lanka, although they are significant from the host country point of view in the cases of Bhutan, Nepal and Sri Lanka. They are practically non-existent for Afghanistan, Myanmar and Bangladesh, all recipients of a significant chunk of Indian aid since 2004-05. India’s aid relationships with Bhutan, Nepal, Bangladesh, Sri Lanka and the Maldives, remains essentially determined by the fact of geographic proximity as well as strategic stability, that is, keeping strategically positioned neighbours favourably inclined towards India, and to disincentivize any possible alignment away from India.

The same strategic logic applies to Afghanistan and Myanmar, further accentuated by geopolitical competition with Pakistan and China and Afghanistan, and China in Myanmar.

Table 14: India's outward direct investment flows, 1997-2012

Year	US$ million
1997-98	706
1998-99	1707
1999-2000	1859
2000-01	2615
2001-02	4006
2002-03	5825
2003-04	7759
2004-05	10033
2005-06	15900
2006-07	30946
2007-08	49781
2008-09	67636
2009-10	81989
2010-11	100812
2011-12	111703



Source: Reserve Bank of India

Table 15A: India’s outward FDI commitments, region-wise, 2008-09 to Dec. 2013

(USD Mn)	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14*
Continent	Total	Total	Total	Total	Total	Total
Northern Africa	126	23	667	446	76	162
Eastern Africa	2,264	2,383	9,583	1,105	3,593	2,938
Middle Africa	9	5	73	8	0	19
Southern Africa	95	76	63	174	95	18
Western Africa	284	35	477	935	21	14
Central Asia	253	2	16	5	1	1
Eastern Asia	956	242	6,673	1,412	392	475
South Eastern Asia	3,353	7,158	3,224	2,169	4,467	3,669
South Asia	1,001	204	561	2,594	275	74
Western Asia	1,939	1,988	4,604	3,235	2,095	2,883
Caribbean	116	-	51	8	45	1,155
Central America	251	52	300	1,501	26	59
South America	2,584	1,405	3,667	1,709	2,867	1,969
Oceania	18	1	3	6	8	1
Eastern Europe	178	479	2,772	578	35	43
Western Europe	1,246	3,141	4,542	5,017	6,518	8,722
Australia	228	37	86	44	1,303	43
North America	1,043	756	1,339	6,515	2,743	493
Total	**15,943**	**17,987**	**38,700**	**27,459**	**24,561**	**22,738**

Source: Reserve Bank of India

Table 15B: India’s FDI commitments to South Asian countries, 2008-09 to Dec. 2013

USD Mn	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14*
Country	**Total**	**Total**	**Total**	**Total**	**Total**	**Total**
Afghanistan	-	-	-	-	0	-
Bangladesh	244	167	316	94	28	18
Bhutan	14	7	34	51	7	5
Iran	208	0	13	-	-	-
Maldives	146	-	20	27	0	1
Nepal	188	6	37	1,897	17	9
Pakistan	-	-	-	-	-	-
Sri Lanka	201	24	141	525	222	40
Myanmar	430	2	12	7	3	15
Total	**1,431**	**205**	**573**	**2,602**	**278**	**89**

Source: Reserve Bank of India

India's trade with, and exports to, Afghanistan, remain tiny at 0.08% and 0.17% respectively. Likewise, India's trade with, and exports to Myanmar remain tiny at 0.24% and 0.16% respectively. Private investment flows are almost non-existent. From a practitioner's standpoint, as emphasized in interviews, aid is about building long-term relationships and not about immediate benefit. It cannot possibly operate on the latter lines. This is particularly the case in South Asia. The benefit sought in the region is not so much economic but the prevention of a drift away from India to possibly hostile countries, particularly China for bordering Nepal and Bhutan, and China and Pakistan for Bangladesh. Hence, the drivers of Indian foreign assistance to its immediate South Asian neighbours and to Afghanistan and Myanmar, are overwhelmingly political, and likely to remain so in the foreseeable future.

As far as Africa is concerned, trade, exports and imports show the following pattern. For sub-Saharan (non-Arab) Africa as a whole, India's trade, exports and imports from that continent have increased from the period before 2006-07, from 3-5% of trade to 6-7%, from 3-5% of exports to again 6-7%, and from 2-5% of imports to 6-7.5%. However, as of 2012-13, total trade with Africa was about $58 bn., much less than with China at $68 bn. If we look at Africa sub-regionally and country-wise in 2012-13, we see that $22.8 bn trade is with West Africa and $24 bn with Southern Africa. This is due to the dominant shares of just two countries in Indo-African trade – Nigeria with $14.84 bn and South Africa with $14.0 bn, totalling $28.8 bn out of total trade with Africa of $58 bn.! This is due to large imports from these energy and resource-rich countries, India's trade profile with these two countries being dominated by imports. However, out of total aid to Africa, these two countries are not at all dominant in the aid profile, the overwhelming bulk of the aid going to less developed or less resource-rich countries.

Outward FDI commitments and aid are also not correlated at all with respect to Africa except for East Africa which has a 17% share of cumulative FDI commitments since 2008 (Table 15A), a somewhat suspect figure which needs to be further investigated, the rest of Africa getting under 2% of Indian FDI commitments.

Political, Security and Economic Concerns in India's Aid to Principal Recipients

The evolution of India's foreign policy with respect to the major regions of its aid concentration, viz., South Asia, Afghanistan, Myanmar and the African continent, is broadly as follows.

Bhutan

The aid relationship with Bhutan, along with Nepal, is the oldest and most consistent. India's relations with Bhutan have been governed by the India-Bhutan Treaty of August 8, 1949, and the updated and revised treaty called the India-Bhutan Friendship Treaty signed in February 2007, by which India de facto controlled its foreign relations, a carry-forward of the situation before Indian independence. Bhutan is a monarchy that inherited and continued its strategic status after India's independence as a Himalayan buffer state between India and China (Tibet), its foreign and economic relations being overwhelmingly with India. Aid to Bhutan has been integrated into India's planning process and a number of grants are made under the head of Plan grants by the MEA, covering a wide range of developmental activities. Bhutan's export earnings are overwhelmingly from its export of hydroelectric power to India. India is the largest trade and development partner of Bhutan.

After the shift in India's overall aid policy from 2004, with the device of LOCs from the Exim Bank, and stepped-up border management and security cooperation by Bhutan in December 2003-January 2004 in taking action against Indian insurgent groups (United Liberation Front of Assam) holed up in Bhutan, Bhutan's Ninth Plan aid was reviewed. Three MOUs on agriculture, railway feasibility studies, and two hydropower feasibility studies were signed. The Tala (1020 MW) hydel project was in progress. In March 2004, at the fag end of the BJP-led NDA government, an Indo-Bhutan Group on Border Security and Management was established.

In 2005, it was decided to renew the bilateral Trade, Commerce and Transit Agreement for another ten years, and an umbrella agreement on power projects in Bhutan was finalized. An Air Services Agreement was signed that increased flights from 14 to 49 per week. In 2007-08, an agreement on the Punatsangchu-I hydel project (1095 MW) was signed, to be funded by India for Rs. 35,150 m. (60% loan, 40% grant). Likewise, India granted Rs. 3000 m. for the 1 million ton Dungsam Cement Project. An MOU was signed on E-governance and 4000 Electronic Voting Machines were supplied (see Table 6 on average annual rupee-dollar exchange rates).

In 2008, on the occasion of the centenary of the Wangchuck dynasty and the coronation of the fifth king, India agreed to double its aid to Bhutan's tenth five-year plan (over the ninth plan) to Rs. 34,000 m. This would consist of Rs. 20000 m. for 65 projects to be spread over Bhutan, Rs. 7000 m. as a program grant and Rs. 7000 m. for Small Development Projects (SDPs), first introduced in Nepal and then in Bhutan, to be spread all over Bhutan. In March 2009, an Empowered Joint Group on Hydroelectric Power Development in Bhutan met to discuss the development of 10,000 MW of hydropower generation in Bhutan for export to India by 2020. In 2010-11, implementation agreements for the Punatsangchu-II and Mangdechhu hydropower projects were signed. India now accounts for 80% of Bhutan's imports and 94% of its exports, although the former figure is expected to be rapidly undermined by Bhutan's growing relations with China. India has traditionally granted a large number of scholarships and training slots under the ITEC programme to Bhutanese nationals.

Nepal

Nepal is a Himalayan buffer state between India and China (Tibet) with India on three sides, separated from Tibet by the mountain wall to the north. It has close religious, cultural and social ties with India. India sees Nepal, like Bhutan, as vital to its border security. The 1850 kilometer border is an open border with free movement of people. Nepal is a weak and unstable multi-party democracy that has been wracked by a Maoist insurgency since the mid-1990s. On February 1, 2005, the government was dissolved as the Maoist insurgency spread, triggering talks of the Joint Working Group on Border Management and the India-Nepal Bilateral Consultative Group on Security Issues. The Joint Committee on Water Resources also met in 2004-05, and an MOU was signed on an oil pipeline, and rail service commenced in July 2004.

The SDP program is central to India's aid to Nepal. It was introduced in 2003, and was stepped up from the mid-2000s. In 2005-06 it had 115 projects, focused on education, health and infrastructure spread over 61 districts of Nepal. By 2007-08 it consisted of 220 projects and by 2010-11, 400 projects in all 75 districts of Nepal. The aim is to spread the impact of aid and also local awareness of it in the host country.

In September 2007, an LOC for $100 m. for infrastructure projects was signed. On multi-purpose projects it was decided to set up the Pancheshwar Development Authority and complete investigations for starting the Sun Kosi and Sapta Kosi projects. Enhanced rail services and air services agreements were signed in 2009-10. The Indo-Nepal Economic Cooperation Program now covered 350 large and small projects at different stages of progress. In 2011-12, an Indo-Nepal Bilateral Investment Promotion and Protection Agreement (BIPPA) and a Double Taxation Avoidance Agreement were signed, as was an LOC of $250 m.

Over the entire period since the Emergency of 2005, India helped to politically stabilize Nepal by encouraging peace talks and the restoration of democracy and building up of a constitutional development process in Nepal. Nepal agreed that it would not allow anti-

India insurgent activities. The number of ITEC slots for Nepalese were doubled from 100 to 200 in 2010-11. India now accounted for 60% of Nepal's foreign trade and 44% of its inward FDI, and India was the largest aid provider and source of tourists.

Bangladesh

India-Bangladesh relations after the latter's independence in 1972 were governed by the 25-year India-Bangladesh Friendship Treaty, which was allowed to lapse in 1997 by the then Awami League government of Sheikh Hasina Wazed despite the signing of the watershed Indo-Bangladesh Ganga Waters Treaty in December 1996 which addressed Bangladesh's long-standing demands on river water-sharing (Kabir, 2011, for an comprehensive overview of Indo-Bangladesh relations). The Treaty provided that neither country would harm the security of the other. The lapsing of this treaty removed this security feature from the Indian point of view, and in fact, since then particularly during the Bangladesh National Party government of 2001-2006, India suspected its coalition partner, the Islamic fundamentalist party, Jamaat-e-Islami, of being behind terrorist activities directed at India, and the government for conniving at such activities. Despite starting on a promising note, relations have been bedeviled by a number of issues including an unresolved "ragged" boundary, illegal immigration of Bangladeshis into India, sharing of river waters of 54 common rivers, primarily the Ganges, since the 1990s, the operation of Indian insurgent groups and anti-India terrorist groups, from Bangladesh with the tacit connivance of the Bangladesh government. Hence, Bangladesh is a neighbour with whom India's relations are sensitive. Aid to Bangladesh, which has been in existence for many years, has to be seen in this context.

Talks in 2004-05 between the new UPA government in India and the Bangladesh government included the biannual Director-General level talks between the two border guard forces, the issue of insurgent and radical Islamist groups, sharing of the Teesta river waters, illegal immigration, trade, investment and the possible Myanmar-Bangladesh-India gas pipeline, and the annual meeting of the Joint Rivers Commission, with India giving flood relief aid of Rs. 1000 m. The year 2006-07 saw a revised Trade Agreement and continuing talks on sharing of the Ganga waters at Farakka, and the activities of anti-India insurgent and terrorist groups. The Joint Boundary Working Group met after a gap of four years and discussed the Land Boundary Agreement of 1974. India issued 500,000 visas to Bangladesh nationals, a new high. Regular scholarship and training aid continued. An Indo-Bangladesh Chamber of Commerce and Industry was inaugurated in 2007-08 and a trial run of the Kolkata (Calcutta)-Dhaka passenger train took place, leading to the start of rail services the next year as well as an increase in air services to 61 flights a week. A trade agreement and a Bilateral Investment Promotion and Protection Agreement (BIPPA) were signed in February 2009.

The Grand Alliance government led by the Awami League of Sheikh Hasina Wazed was formed in January 2009 after the elections and took steps to improve relations with India. She visited India in January 2010, following which an LOC of $1 bn for infrastructure projects, including railways, was signed in August 2010, as was a 35-year power transmission agreement. A railway link between India's Agartala (Tripura state) and Akhaura was agreed to. The Indian prime minister Manmohan Singh visited Bangladesh in September 2011 resulting in the Land Boundary Demarcation Agreement, an increase the annual duty-free export quota of garments to India from 8 to 10 m. pieces, a joint venture agreement for the 1320 MW Khulna power plant, and increased defence cooperation and an increased number of ITEC and Colombo Plan training slots. However, Indo-Bangladesh trade remains sluggish, with India accounting for only 13% of Bangladesh's imports, in sharp contrast to dominating the imports of landlocked Nepal and Bhutan.

Sri Lanka

Sri Lanka, which has been in the throes of a long-drawn out separatist war between the government and the Liberation Tigers of Tamil Eelam, a separatist guerilla group of the hitherto discriminated-against minority Tamils of the North and East of the island, at one time supported by India (in the 1980s), signed a free trade agreement with India in 1998, operational from 2000, called the India-Sri Lanka Free Trade Agreement. This gradually liberalized trade ahead of the regional trade liberalization process of SAARC (SAPTA and then SAFTA) and also had the effect of encouraging Indian investment in Sri Lanka to take advantage of lower tariffs on raw materials, and consequent export of products back to India. Sri Lanka also entered effected a Cease Fire Agreement with the separatist LTTE in February 2002, facilitated by Norway with the backing of the USA, European

Union and Japan, and tacitly backed by India. The peace process ran into difficulties and 2003 and 2004 and was stalled by the latter year, and the LTTE split in March 2004. However, the free trade agreement and the peace process led to an improvement of Indo-Sri Lanka relations, defence linkages were augmented in 2004-05, 2100 defence training slots were allotted to Sri Lanka, and Sri Lanka supported India's bid for a permanent UNSC seat. India urged an early resumption of the peace process. There were the beginnings of moves to upgrade the FTA to a Comprehensive Economic Partnership Agreement (CEPA). India had become the biggest FDI source in 2003 and 2004 and the fourth largest cumulatively; 50% of Indian FDI in SAARC was in Sri Lanka. LOCs of $381 m. including $100 m. for various goods and $31m. for wheat were made available, and India provided immediate humanitarian assistance in response to the tsunami of December 2004.

India condemned the LTTE's assassination of Foreign Minister Lakshman Kadirgamar in September 2005, provided military and police training, aid for railway lines, Kankesanthurai harbour salvage operations, and hospitals including a cancer hospital. In November 2005, Mahinda Rajapakse was elected president of Sri Lanka and visited India in December. India stressed the importance of political dialogue and pressed its view that there was no military solution, and offered to share its constitutional experience. Bilateral trade crossed $1 bn in 2006, an MOU was signed on a 2x250 MW thermal power station in Trincomalee, and India became the largest single source of tourists and by 2007, the largest single source of imports and third largest destination for Sri Lankan exports. Flights to India increased to 100 a week. Major Indian investors were Indian Oil

Corporation, ICICI Bank, State Bank of India, Tata group, CEAT (tyre makers), Nicholas Piramal (pharmaceuticals), and telecom giant VSNL.

In the final run-up to the end of the civil war, 2008-09, India stressed again that there was no military solution and focused on aid to the internally displaced persons, stressed a credible devolution package and full implementation of the 13th Amendment to the constitution. It signed an LOC of $100 m. for the Colombo-Matara railway line, and the cellphone company Bharti Airtel began its Sri Lanka operations. India accounted for one-sixth of Sri Lanka’s total trade, and with FDI approvals of $500 m. India was the fourth largest investor. The war ended in May 2009 with the elimination of the LTTE, and President Rajapakse was re-elected in January 2010. Relations improved after the end of the war. India’s National Security Adviser visited in late April 2009 and the Foreign Secretary in late May 2009, both stressing reconciliation and permanent settlement of the conflict. India gave Rs. 5000 m. as aid for relief and rehabilitation of the internal refugees including family relief packs for 250,000 people, and a 60-member field hospital was set up in northern Sri Lanka. An LOC of $425 m. was signed for the Omanthai-Pallai and Madhu Church-Talaimannar railway lines.

In April 2010, President Rajapakse’s UPFA received almost a two-thirds majority in the parliamentary election, consolidating his near-absolute hold on power. India expanded diplomatic relations, opening Consulates-General in Jaffna and Hambantota. Ferry services between Colombo-Tuticorin and Talaimannar-Rameswaram were resumed. Further developments included renewing the MOU on SDPs, signing a new MOU on

Interconnection of Electricity Grids, increased defence cooperation focused on army and navy chief visits and training, an LOC of $415m. for the Northern Railway line, a demining team, a Rs. 5000 m. package for relief and rehabilitation and a commitment to build 50,000 houses for the internally displaced persons in the Northern, Eastern and Central provinces, restoration of the Northern railway lines and Kankesanthurai harbour, a joint venture for a 500 MW thermal power station at Trincomalee, and a Centre for Contemporary Indian Studies at Colombo University. These measures were followed, in 2011-12, with an LOC of $167 m. for repair of the Colombo-Matara railway,and LOC of $382 m. for Pallai-Kankesanthurai railway line, and a coal power plant at Sampur as an NTPC-Ceylon Electricity Board joint venture. Sri Lanka assured India that political proposals for devolution of power building on the 13th Amendment would be discussed with the Tamil leadership. India remained the largest trade partner, largest FDI and tourist source.

Afghanistan

Afghanistan has emerged as one of the largest single-country aid programmes for India. The political background to this is as follows, in brief. After the 9/11 attacks in the United States, and the subsequent invasion, overthrow of the Taliban regime and occupation of Afghanistan by US-led NATO forces in late 2001, and the Bonn Agreement of December 2001, India made aid commitments to the post-war reconstruction of Afghanistan. This began with $100 million in January 2002 at the

Tokyo Donors Conference. By the time the Congress-led United Progressive Alliance government came to power in May 2004, the commitments has risen to $400 m.

These were focused on three major infrastructure projects and a number of other items. The three major infrastructure projects were: (i) upgradation of the Zaranj-Delaram highway of 218 kilometres for which $84 m. was initially approved; (ii) the Salma Dam project in Heart province in the west ($77 m.); (iii) the 220 KV double circuit transmission line from Pul-e-Khumri to Kabul, and the 220/110/20 KV substation at Chimtala to bring power from Uzbekistan to Kabul.

Apart from this India undertook to build the new Afghan parliament building, contributed to the Afghan Reconstruction Fund, and to a broad Small Development Projects (SDP) programme, which paralleled similar SDP programmes that were in existence in Bhutan and Nepal, including aid in the agriculture, education, healthcare and medical sciences areas. This included a 5000 tonne cold storage near Kandahar.

In 2006-07 the security situation worsened with increasing attacks by the Taliban insurgents through most of the country. Two Indians working in the country were killed in 2006. The MOUs in the rural development, education and standardization areas were signed, an LOC of $20 m. for promoting business-to-business relations was extended, and India participated in the November 2006 second Regional Economic Cooperation Conference in Afghanistan and the parallel Regional Business Conference on Afghanistan hosted by the Federation of Indian Chambers of Commerce and Industry

(FICCI), the Confederation of Indian Industry (CII) and the Associated Chambers of Commerce and Industry (Assocham). Cumulative Indian aid rose to $750 m. by 2006-07. The year saw new project commitments like expansion of TV coverage, 26 tube wells for irrigation, and the training of Afghan diplomats in the Foreign Service Training Institute in Delhi. About a 1000 training slots were given to Afghans in the ITEC and ICCR programmes. India supported the admission of Afghanistan to SAARC at the 14th SAARC summit in Delhi in April 2007 as its eighth member and an Indian Cultural Centre was opened in Kabul.

When President Karzai visited India in August 2008, a month after a lethal attack on the Indian embassy in Kabul, an additional $450 m. were pledged as a sign of steadfast commitment by India taking then-existing commitments to $1.2 bn., to meet existing and forthcoming projects. Fifty projects were identified for the SDP programme and India involved itself in governance issues by signing MOUs for local governance and between the two countries Election Commissions. The Zaranj-Delaram highway and 220 KV power transmission line and Chimtala substation were completed by 2009-10.

India welcomed the Obama speech of December 2009 on strengthening the Afghan government and security forces as preparation to the eventual US drawdown and pullout, and participated in the UN International Conference on Afghanistan in London in January 2010. This was a prelude to the stepping up of India’s security cooperation with Afghanistan from the next year. Aid, by March 2011, was $1.3 bn., spread across Afghanistan and across the gamut of economic and social development in a range of small projects focused on infrastructure, agriculture and capacity building, and three major infrastructure projects, by then completed. President Karzai's visit in October 2011 resulted in an Agreement on Strategic Partnership, the first such with any country for Afghanistan. This included political and security cooperation, and an MOU on hydrocarbons and minerals. An additional $500 m. of aid was announced during the visit taking the cumulative total aid by then to $2 bn.

India's strategy in Afghanistan appeared to be one of entrenching itself and supporting the Afghan government in both political and economic terms to secure its stability, and India's perceived long-term security interests, against a possible future reconquest of the country by the Taliban operating from and with covert backing from, Pakistan. Its aid strategy to some extent mirrored its aid experience in countries like Bhutan and Nepal in that it focused not just on a few major high-profile projects but on a range of small projects spread across the country. It also mirrored it in that it focused on human resource development and capacity building in offering scholarships to students and trainees from government and various sectors of the economy, including defence and police personnel, in India, and building long-term human contacts in Afghanistan.

Myanmar

Myanmar is India's northeastern neighbour, bordering four northeastern Indian states, Arunachal Pradesh, Nagaland, Manipur and Mizoram, with a 1650 km. border, and a

Naga insurgency that overlaps that border. It also has about 400,000 people of Indian origin, mostly very poor. India has followed a policy of engagement with the military regime in Myanmar from the mid-1990s, well before the recent beginning of democratization in 2012, its policy being based on cultivating Myanmar to prevent it from going entirely into the hands of China politically, de-prioritising democracy, human rights and the Indian-origin minority, and to gain Myanmar's cooperation in tackling the Naga insurgency. In return, Myanmar supported India's bid for UNSC permanent membership and has been cooperative on the Naga insurgency issue. Annual foreign office consultations had begun in 1995 (Egreteau, 2011, for an account of contemporary India-Myanmar relations).

Aid to Myanmar has picked up gradually over the past ten years. An MOU for the Chindwin hydroelectric project was signed in 2004-05, and one on the India-Myanmar-Thailand trilateral highway project following the Myanmar foreign minister's visit in July 2004. This was followed by an MOU to upgrade the Yangon-Mandalay Trunk railway line with an LOC of $56m., and an MOU on energy cooperation in January 2005 that inter alia explore the possibility of a gas pipeline from Myanmar to India via Bangladesh. The idea was to work towards the integration of India's northeastern states with Myanmar and with further afield with booming Southeast Asia and Southwest China.

Energy cooperation started with an LOC for revamping the Thanlyin refinery and the public sector ONGC Videsh Ltd. (OVL) and Gas Authority of India Ltd. (GAIL) contracts with Daewoo of Korea to participate in natural gas exploration off the Rakhine (northwest Myanmar) coast, also involving Indian company Essar. A BCIM group (Bangladesh-China-India-Myanmar) cooperation meeting was held in March 2006. Infrastructure aid, especially in roads and hydroelectric power continued, as did defence and counter-terrrorism cooperation with several visits from both sides. Production sharing contracts (PSCs) were signed by OVL for three deep-sea blocks, and an LOC of $60m was extended for the Thathay Chang hydroelectric project. ITEC and Colombo Plan training slots for Myanmar nationals were increased to 142.

A Double Taxation Avoidance Agreement and a Bilateral Investment Promotion and Protection Agreement (BIPPA) were signed in 2008-09. Emergency humanitarian assistance was rushed to Myanmar following Cyclone Nargis in May 2008. India's National Hydropower Corporation and Myanmar's power ministry signed an MOU on the Tamanthi hydel project on the Chindwin river. Bilateral aid was a cumulative $950 m. in 2008-09. The Kaladan Multi-modal Transit project was added in 2009-10. Trade crossed $1 bn in 2009-10.

Cooperation was significantly stepped up in 2010-11. OVL and GAIL announced a $1 bn investment in the energy sector in 2010. A number of LOCs were extended: $60 m. for railway equipment, $20 m. for a truck assembly plant to be set up by the Tata group, $64 m. for transmission lines by India's public sector Power Grid corporation, $20 m. for the Thanbayakan petrochemical complex. A delegation from Northeastern India visited Myanmar to promote sub-regional cooperation. The Myanmar president Thein Sein visited India in October 2011 (coincidentally coinciding with Afghan President Karzai's visit), an LOC of $500 m. was extended and a target was set for $3 bn in trade by 2015.

Africa

Indian foreign policy has traditionally supported decolonization, including of Africa, and the developmental needs of Africa, and opposed racism and apartheid. India also had a colonial-era legacy link in the form of the presence of Indian-origin populations in some countries, primarily those of East Africa and in South Africa, and in the Indian Ocean island of Mauritius, formally part of the African continent and African Union, where the Indian population was actually the majority. Some Indian-origin persons have become members of parliament and even ministers in various countries. In the period of the 1990s and in the twenty-first century, in the context of the liberalization and higher growth path of the Indian economy, and end of apartheid in South Africa since 1994, the liberalization of economies in Africa and their higher growth trend since 2002, Indian policy has gradually shifted towards paying greater attention to Africa in economic terms.

At the start of India's new foreign assistance policy from 2004-04 onwards, India had a special relationship with South Africa, with which it was cooperating under the rubric of IBSA. The Indian president addressed the Pan-African Parliament in 2004. India was part of UN Peacekeeping Forces in Burundi, Ivory Coast, Democratic Republic of Congo and the UN Mission in Eritrea and Ethiopia (UNMEE). Most of Africa had endorsed India's candidature for a permanent UNSC seat in the context of the UN reform sought by India.

India had been offering training and expertise to Africa under the ITEC programme since the early 1960s.

In 2004, India declared its intent to build a fibre-optic E-connectivity network for Africa. There was also close cooperation with the ECOWAS group of West African states (established 1975) with the ambassador to Nigeria accredited as the permanent representative to ECOWAS. India committed to building the Beira railway systems in Mozambique, and became the second largest investor in the private sector in Ghana, with NIIT, Aptech, Tata, Telco, Maruti, Dr. Reddy's Lab, and other companies participating. LOCs of $423 m. were approved, with $352 m. more in the pipeline.

In 2005, India engaged with COMESA (Common Market for Eastern and Southern Africa, established 1994) based on an India-COMESA MOU. An India-Africa Conclave was held in Delhi in March 2005, and the SADC-India Forum was approved by the (14-nation) SADC (Southern Africa Development Community, established 1992) Council of Ministers. A CII-Exim Bank conclave was held in Delhi in November 2005 on the India-Africa Project Partnership. The MEA participated actively in the CII organized India-Africa Project Partnership conclaves. The TEAM-9 Initiative (India plus eight West African countries) was launched at the margins of the UN General Assembly in New York in September 2005 and action was taken to operationalise the $500 m. LOC offered to TEAM-9. An LOC of $200 m. was extended to several countries for execution of projects and purchase of equipment under the New Partnership for African Development (NEPAD). The first pilot project of the India-AU Pan-African E-network Project was launched in Ethiopia, with ISRO, AIIMS and IGNOU involved. Its cost was to be met through the Aid of Africa programme of the MEA.

In 2006-07, the historic IBSA summit was held in September. Indo-South African trade crossed $2 bn in 2006, and start of negotiations for a Preferential Trade Agreement leading to a Free Trade Agreement. Investments in South Africa by several leading Indian companies took place, including by Tata (vehicles, IT), United Breweries (beer), Mahindras (utility vehicles), Ranbaxy and CIPLA (both pharmaceuticals). India joined the African Capacity Building Foundation (based in Harare) as a full member and an LOC of $250 m. was extended to the ECOWAS Bank for Investment and Development. Four thousand ITEC and SCAAP slots were allotted to Africa, spanning 39 institutions in India.

In 2007-08, India stepped up interaction with NEPAD and the TEAM-9 countries, signed the Abuja Declaration on Strategic Partnership with Nigeria, which included defence cooperation. Private investment reached almost half a billion dollars in Ethiopia, and the private firm Vedanta invested $1 bn in a copper mine in Zambia.

A landmark event in India’s aid policy to Africa was the India-Africa Forum Summit held on April 8-9, 2008 in Delhi. It ended with the Delhi Declaration, a new architecture and framework for Africa-India cooperation, and a doubling of LOCs to Africa to $5.4 bn over the next five years (2008-13). These LOCs were concentrated in agriculture and food, small and medium enterprises, irrigation, infrastructure, IT, energy, pharmaceuticals. There was a separate grant of $500 m. for capacity building and human resource development, and a doubling of scholarships, and a Duty Free Tariff Preference scheme for access to products from African LDCs. So 2008 represented a major upward shift in India's assistance to and cooperation with Africa. Follow-up activities continued over 2009-10. Separately, and politically significantly, South Africa in 2008 lent support to the proposal to enable full civil nuclear cooperation with India at the International Atomic Energy Agency (IAEA) and Nuclear Suppliers Group (NSG) meetings, and Indian companies were estimated to be executing projects worth $2.5 bn in South Africa. The COMESA Business Council signed an MOU with CII.

Four Pan-African institutions were established as part of the follow-up to the India-African Forum Summit. These were:

(1) India-Africa Institute of Foreign Trade.

(2) India-Africa Diamond Institute.

(3) India-Africa Institute of Educational Planning and Administration.

(4) the India-Africa Institute of Information Technology.

The Duty Free Tariff Preference scheme was offered to 33 African Least Developed Countries, of which 18 acceded to it. The Pan-African E-network was implemented in 34 out of 47 states in 2010-11. An LOC of $29 m. was offered to SADC projects and an LOC of $250 m. to the ECOWAS Bank for infrastructure projects.

In May 2011, the second Africa-India Forum Summit was held in Addis Ababa, resulting in the Addis Ababa Declaration and Africa-India Framework for Enhanced Cooperation, another step-up in the level of cooperation. The Declaration was a political document covering UN reform, WTO, climate change and terrorism among other things. LOCs of $5 bn over the next three years, 2011-14 were agreed to, as well as 22,000 scholarships. The next India-Africa Forum Summit is slated for 2014.

The second meeting between India and African Regional Economic Communities was held in November 2011. India has MOUs with four such entities – COMESA, ECOWAS, ECCAS (Economic Community of Central African States, established 1985) and SADC. South Africa joined the BRIC grouping, making it BRICS, in April 2011 and the fifth IBSA summit was held in Pretoria.

Traditionally, an important part of Indian assistance to Africa was the ITEC programme. This has been supplemented by the Special Commonwealth Assistance to Africa Programme. There is no comprehensive and complete database on the ITEC, SCAAP and other training programmes but such data is expected to become available at a later date in 2014.

Discernible Patterns and a Tentative Impact Assessment

Among the major recipients of Indian aid, the following patterns are discernible:

First, in the cases of Bhutan and Nepal, India bulks large in their trade, inward investment and tourism profiles, while they are of marginal significance in India's trade and outward investment profile. They matter to India's security calculations in a major way as they are neighbours with porous borders and buffer states between India and China. Hence, India's aid to them is primarily motivated by political and security considerations but is important to the recipients in economic terms. An important point here is that India's aid is widely distributed geographically across both countries in the form of a large number of small projects, thus maximizing popular awareness and impact. Also that a large number of students and trainees receive scholarships and training slots, India being the principal destination for higher studies and training, thus creating a widespread alumni network in both countries. Another important point is that India's aid is one of long-term commitment as signified by the fact that India's aid comes from its Plan budget as well as Non-Plan budget for decades.

Second, Bangladesh and Sri Lanka, which are both neighbours of India and in which India perceives competition for diplomatic influence from Pakistan and China in the former case, and China and to a much lesser extent Pakistan in the latter case, are both of relative insignificance to India's trade and outward investment profile but of considerable importance to the recipients' trade, inward investment, remittances (for Bangladesh) and (for Sri Lanka) tourism revenue profile. In both cases, Indian aid is fairly recent, becoming significant over the past decade or even half decade only, and relatively concentrated in large lines of credit rather than being thinly spread across the countries in small projects. Scholarships and training are significant in both cases.

Third, Afghanistan and Myanmar are again recent cases of aid, primarily over the past decade, particularly half-decade, and motivated primarily by political and security considerations with perceived competition for political influence from Pakistan in the Afghan case and from China in the Myanmar case. In both cases, the recipient country is of marginal economic significance to India but major geopolitical significance, although both can be of significance for India's natural resource import needs in the future. This is because if the democratically elected Afghan government is not stabilized, and if there is a Pakistani-backed Taliban takeover after the eventual US pullout, now scheduled for end-2014, then a regime backing terrorism in India might get entrenched in Kabul. Likewise, a Myanmar overwhelmingly dependent on and aligned to China is not in India's security interests, given the growing Chinese presence in the Indian Ocean. In these two cases, however, unlike for India's immediate South Asian neighbours, India does not bulk large in their trade and inward investment. The pattern of aid is one of large lines of credit rather than small projects geographically widely distributed, although this is beginning to happen in Afghanistan. In the Afghan case, scholarships and training are significant.

Fourth, in the case of Africa, aid again is fairly recent in its growth, particularly after the India-Africa summits of 2008 and 2011. It consists of well over a hundred lines of credit (129 of 182 operative as a whole, with an average worth of $48 m., with only 14 of over $100 m.) to a whole range (36 countries taken individually and the ECOWAS Bank of Investment) of African countries spread across Southern, East, Central and West Africa, and the Horn of Africa, plus Sudan and Djibouti, and is concentrated in most countries in fairly large to medium projects in infrastructure and agriculture, not in a large number of distributed small projects, although scholarships and training are important. Africa is not a case of geopolitics and security competition but more of advance investment in relationship-building with a resource-rich continent that promises to be increasingly important in the future, both economically and politically. Within Africa, there has been a shift of Indian assistance from Eastern and Southern Africa to West Africa, recognized to be energy- and mineral-rich. However, in 2012-13 as noted earlier, \$28.8 bn of the \$58 trade was with Nigeria (\$14.8 bn) and South Africa (\$14.0 bn) and these are not where the LOCs go, and account for only one LOC to Nigeria of \$20 m. in a total of 129 LOCs to Africa worth \$6.186 bn. Hence, aid to Africa is not driven by immediate trade and resource considerations but by long-term relationship-building, no doubt with future trade and investment in mind, plus close to fifty UN General Assembly votes factored in.

Overall, the Indian aid programme is still in its relative infancy compared to the programs of DAC donors which are immeasurably larger and over half a century old. It is too early to be able to make an impact assessment.. However, five points emerge from the internal assessment in the MEA.

First, India eschews terms like donor, and prefers to use the term “development partner” as a fellow developing country and DAC aid recipient. It is only with the formation of the DPA, that the aid program can be said to have acquired the character of a program. Historically, it was “demand-driven” in that aid was given in response to would-be recipient requests made either to or by high-level political visitors or to the Indian embassy, and such requests were processed and decisions made on an ad hoc basis. As the amounts increased it gradually acquired the character of a program in two shifts – the shift to LOCs through the Exim Bank from 2004, and the formation of the DPA as an implementation agency in 2012.

Second, while the purpose of the aid programme is admittedly political, it is said to be meant to cultivate goodwill and long-term relationships rather than immediate payoffs, either political or economic. In fact, the former head of the DPA, Ambassador P. S. Raghavan was explicit that aid by a low-income country like India could only be justified if it was clearly linked to foreign policy needs. As regards India's South Asian neighbours, particularly the Himalayan buffer states of Bhutan and Nepal, and also Bangladesh, Sri Lanka and the Maldives, the political goal is to induce a positive inclination towards India and prevent or reduce the influence of India's perceived security threats, Pakistan and China. As regards Africa and other countries further afield, aid is again not primarily to promote exports of Indian goods and services but an instrument to build long-term relations for the future with economically and politically important developing countries or regions. The focus is on the long term and not on quick payoffs.

Third, the MEA maintains that Indian aid is not in competition with or influenced by China's program or actions but an independent long-term program. It is tacitly admitted that India cannot compete quantitatively with China's financial capacity or turnkey project delivery capacity. However, India is concerned about the fact that China has expanded its naval patrols in the Indian Ocean over the past several years and has civilian port construction-plus-arms supply relationships with four of India's immediate neighbours – Myanmar, Bangladesh, Sri Lanka and Pakistan. Although China does not have a naval base in the Indian Ocean region as yet, barring a monitoring facility in Myanmar's Cocos Islands in the Bay of Bengal, India is keeping these relationships under scrutiny. Aid is clearly influenced by the need to keep these countries, other than Pakistan, from drifting further into China's strategic and economic orbit.

Fourth, following from the last point, the ITEC programme is considered the most cost-effective and the one that had yielded the best returns in terms of long term goodwill because it trains key personnel in India builds long-term human relationships. India, because of English language education, is seen to have a comparative advantage in education and training of developing country personnel and can now draw on a large ITEC and similar program alumni network all over Africa and many other developing countries.

Fifth, there is no clear economic development philosophy or macroeconomic policy prescription that emerges from a scrutiny of the aid programme so far. The aid pattern has been demand-driven and politically punctuated, and not guided by an overall strategy or philosophy of economic development. The basic philosophy seems to be to be seen as a fellow developing country partner that fits in with what the recipient wants rather than attempt to guide the recipient’s development except that the aid is largely tied to India-sourced supplies. The Indian programme is non-prescriptive.

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Endnotes

[1] http://www.oecd.org/dac/stats/TAB33e.xls.
[2] See Chaturvedi (2012: 171-177) for a historical account until the 2000s.
[3] Source: http://finmin.nic.in/the_ministry/dept_eco_affairs/cie2sec/cie2sec_index.asp
[4] Ibid.
[5] All conclusions about the political and strategic motivations of aid are from confidential interviews with officials, which it might be possible to cite by the time of the final draft.
[6] http://indiabudget.nic.in/es2012-13/echap-07.pdf