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INDIA'S FUTURE DEVELOPMENT ASSISTANCE PARTNERSHIPS

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Abstract

The COVID-19 pandemic has resulted in the stalling of many projects undertaken in the connectivity and power sector both nationally and internationally as well as in many sectors in which India had initiated investments in partnership with multiple friendly nations. As a middle-income economy and an emerging market, India invests in Official Development Assistance (ODA), partnering with other developing or middle-income countries. Learning from the strategies of the Group of 7 (G7), a democratic group of the most financially and industrially advanced countries and adapting their policies to the Indian reality would be one option for India to shape its future ODA investments. Adapting ODA to the Indian reality would mean multilaterally investing in mid-sized projects in friendly developing countries. Strategically, these developing countries would be selected around the Indo-Pacific region and within Asia. Pragmatically, it would be beneficial if these project priorities were formulated in the context of new geopolitical and economic realities, including post-Covid economic recovery, climate change, renewable energy, disaster resilient infrastructure connectivity and even the blue economy. India has reiterated its strong commitment to a rules-based multilateral order for ensuring international peace, stability, and prosperity. India would thus be in a position to invest in the sectors of sustainable environmental development, climate, energy, infrastructure connectivity, and fintech. Given India's human resource capabilities and the size of its partnership funding, the country can effectively invest in mid-sized projects in these sectors. A review of the existing policies, projects underway, and achievements thus far in the aforementioned sectors as well as further requirements, is essential before India undertakes any further ODA investments.

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INTRODUCTION

More than 40 countries have committed to providing India with the medical resources and pharmaceutical products that the country urgently needs to battle the sudden surge of COVID-19 cases, ongoing since the start of the second phase around 4th April 2021. 'They have come forward on their own. We have assisted and we are getting assistance, it shows an interdependent world' said the foreign Secretary, Ministry of External Affairs (MEA), India[2]. In 2015-2016, there was a shift that happened when India refused bilateral financial aid from most of the Group of Seven (G7) countries. Soon after in 2017, the government declared that India had been a net donor to the ODA. The Indian Government's budget for the year 2019-2020 had allocated 1.32 billion USD (INR 8415 crore) to India's foreign aid programme which was 0.3% of the overall budget. However, there is no fixed budget that is approved by the parliament as part of the Development Partnership Fund (DPF) routed through the MEA in India.

India is not alone in this foreign aid or Official Development Assistance (ODA). In this recent decade from 2010-2020, 19 countries, mostly middle-income countries with emerging economies, have reported investment with other countries through the development assistance initiative. This is a new trend among middle income countries to be involved in South-South dialogue and to be broadly categorised into three: providers of South-South Cooperation members, Arab donors, and Emerging EU donors (within the EU, some donors are newly formed countries, and some are old EU countries reviving development initiatives). Together, their contribution is estimated to be 9-10% of ODA[3].

DEVELOPMENT PARTNERSHIP ADMINISTRATION (DPA)

Within a few years of its independence, India had been participating in bilateral development assistance particularly by providing grants to its immediate neighbours in South Asia. Indian grants have funded transport infrastructure like roads and railways, dams for power and agriculture, and trade and investment. However, funding of multilateral development projects is relatively new. In the year 2019-20, India allocated foreign aid through an administrative set up known as the Development Partnership Administration (DPA) within the Ministry of Foreign Affairs (MEA). The MEA sought to learn from the experiences of various other prominent models such as those of USAID and DFID. Learning from prominent bilateral donors, DPA was created as an integral part of the MEA. Like them, it does not formulate any development assistance policies, but deals with their coordination and implementation. India's development assistance takes one of three forms: grant assistance, lines of credit, and capacity building. These Development Partnership Funds (DPFs) are closely linked to India’s foreign policy and strategic interests in commerce and economy, energy security, food security, and search for natural resources and defence interests[4]. Not being an independent agency, the DPA has no officially established ‘vision, mission or procedures’ or annual budgets. What has evolved is funding that is dependent on the geopolitical and security interests of the time. Currently, the outputs and outcomes of DAF are not transparently published in the public domain.

MODEL FOR DEVELOPMENT ASSISTANCE PARTNERSHIP

The Indian model of development partnership is comprehensive and involves multiple instruments including grant-in-aid, line of credit, and capacity building through technical assistance. Depending on the priorities of partner countries, India’s development cooperation ranges from commerce to culture, energy to engineering, health to housing, fintech to infrastructure, sports to science, disaster relief and humanitarian assistance to restoration and preservation of cultural and heritage assets[5]. India’s approach to development partnership is evolving. A largely human-centric approach marked by respect, diversity, care for the future, and sustainable development, its fundamental principle is cooperation, respecting development partners, and being guided by their development priorities. India’s development cooperation does not come with any conditions, as stated by the Hon’ble Prime Minister of India Narendra Modi in his address at the Parliament of Uganda in July 2018. “Our development partnership will be guided by your priorities. It will be on terms that will be comfortable for you, that will liberate your potential and not constrain your future… We will build as much local capacity and create as many local opportunities as possible,” said the prime minister[6].

Though there is no separate organisational set up for the DPA, it has laid down a process for handling multiple instruments for fund allocations, including grant-in-aid, line of credit and capacity building and technical assistance. Existing ranks within the MEA are assigned to carry out these processes.

NEW DIMENSION TO DPA

On 12 December 2015, after the UN Framework Convention on Climate Change, a legally binding international treaty on climate change known as the Paris Agreement was adopted by 196 Parties at COP 21 in Paris and entered into force on 4 November 2016. The goal of this treaty is to limit global warming to well below 2 degrees Celsius, preferably to 1.5 degrees Celsius, compared to pre-industrial levels[7]. In response, the MEA India through the DPA, has added one more vertical to its agenda for development projects. This is in addition to the horizontal agenda of environmentally sustainable development as per the UN Sustainable Development Goals accepted by India. The horizontal dimension refers to the measures taken for social and environmental impact mitigation and adaptation for all development aid funded infrastructure projects for their entire lifecycle[8]. The vertical dimension deals with sustainable environmental development in connectivity, climate change, green and renewable energy, and fintech sectors. This vertical dimension in the DPA is the focus of this paper.

G7 STRATEGIES FOR AID AND INVESTMENT

The MEA had sought to learn from the experiences of various other prominent models for ODA[9] to create the DPA as an integral part of itself. In 2012, the DPA was formed. It was decided that the best way to learn how to proceed further was to look at the global experience of the G7 countries who have similar initiatives, and to study their present and ongoing strategies in developing countries, with a special focus on India's experience with them.

G7 is an intergovernmental organization that was constituted in 1975 and it is made up of democracies that are the world's financially largest developed economies. The G7 ODA strategies, especially as used with regards to funding projects in India thus far, are like each other and these countries do not take any development aid from other countries. In 2011, China had stopped bilateral aid. In 2017, India declared that it would not accept bilateral foreign development aid from any country.

Until 2016, all the G7 countries except Italy had their ODA[10] funded bilateral projects in India. They provided bilateral grants termed as 'Soft-loans' and technical assistance to various infrastructure and social development projects in different regions of India including cities and rural areas. Bilateral loans, also called concessional loans, are loans given by sovereign states. They consist of 25% of the grant element to donor countries[11].

As of today, only Japan provides ODA to India. The total amount provided by Japan is approximately 203 billion JPY or 240 billion INR (1.48 JPY=1 INR) in 2019-2020. India has been the largest recipient of the Japanese ODA Loan for several years now since 2010. The cumulative amount of Japanese ODA Loan to India amounts to approximately 3,600 billion JPY. As per the RBI press release in September 2020, the overall external debt from all sources at the end of June 2020 is placed at 554.5 billion USD[12]. As the annual long-term debt for 2019-2020 is 449.5 billion USD, 105 billion USD was settled in 2019-2020. Of the 449.5 billion USD, India's bilateral debt is placed at 27.5 billion USD, while multilateral debt is placed at 64.8 billion USD. Together, these form 20.5% of annual loans, with bilateral debts forming only 6.11% of the debts that India owes to the world, including part capital and part interest.

Table 1: External Debt - Outstanding and Variation 2020

(USD billion)							
Component	Outstanding as at end of			Absolute variation		Percentage variation	
	June 2019 PR	March 2020 PR	June 2020 P	Jun-20 over Jun-19	Jun-20 over Mar-20	Jun-20 over Jun-19	Jun-20 over Mar-20
1	2	3	4	5	6	7	8
1. Multilateral	59.0	60.0	64.8	5.8	4.8	9.8	8.0
2. Bilateral	26.5	27.2	27.5	0.9			

(PR -Partially revised, P -provisional)

More recently, all independent bilateral aid agencies have merged their ODA and commercial loan funding agencies under one ministry, except the USA. The strategies they now employ can serve as a guide for the DPA's investment strategies for its future projects. There was a structural transformation that happened over the last few years in the ODA agencies that were providing aid to developing countries. Table 2 indicates the transformation, whereby the ODA agencies merged with the parent ministry, namely the Foreign Affairs, Investment and Trade Ministry that oversees these aspects in the G7 countries. Except for Japan, which continues to have ODA with India, the other countries involved have ceased their ODA. Japan has an ODA through the Japan Bank for International Cooperation (JBIC) in FY 2018-19, which was at 522.405 billion JPY in two major mega projects in connectivity, hitherto the highest ODA. Japan's bilateral trade with India, for FY 2019-20 (April – December) was 11.87 billion USD[13] in 2019-2020.

Table 2: Transition in ODA agencies to Developing Countries*

Country	Old name	New name	Status	Current Focus in India
Canada	CIDA	GAC	Merged	Gender equity
France	FDA	FDA	Merged	Multimodal transport and water Infrastructure
Germany	GTZ	GIZ	Merged	Science and technology
Italy	IADC	IADC	Merged	Trade and investment
Japan	JAICA	JBIC	Merged	Transport and water Infra-structure
UK	DFID	FCDO	Merged	Fintech
USA	USAID	USAID	Separate	Disaster proofing urban In-frastructure

*(Data is compiled using ODA country wise websites and newspaper articles)

The strategy of all the G7 countries is to accept the ODA related policy, follow the rules laid by the host government, and also to work around these rules in subtle ways when necessary. The fact remains that ODA are 'loans' that are to be returned to the bilateral donor country eventually, albeit long term low interest loans. These are relatively safe investments for the donor country as there is a sovereign guarantee against the loans given by the bilateral donor. However, they are a liability for the host country. Thus, while the interest may be low, the risk is minimal to the donor as the host takes on the burden of returning the loan.

Outstanding 'concessional debt' or development aid loans by bilateral and even multilateral aid agencies to India remained by and large range-bound for many years. The concessional debt marginally rose by 1.6 per cent to 48.2 billion USD as at the end of March 2020. As a share in the total debt, it declined significantly from around 20 per cent at the end of March 2008 to around 9 per cent at the end of March 2020[14]. Principal repayments constitute the bulk of sovereign external debt servicing. While the absolute amount of principal repayments rose over the years, the share of principal payments in the total sovereign external debt service payments declined post 2015-16. This can be mainly attributed to the 2017 'no bilateral aid' policy. In 2017, General V. K. Singh, the then Minister of State for External Affairs, made it known publicly that India had been a net donor in 2015-16 by donating 7,719.65 crore INR (1.1 billion USD) as aid and had received only 2,144.77 crore INR (300 million USD) from foreign countries and global banks for that same year[15]. Singh indicated that India could donate much more than it was receiving in concessional debts. The reduction in concessional debt over time could be substantially attributed to the cessation of ODA from bilateral donors. Thus, when these loans were stopped, the impact on sovereign finances was a positive one. Interestingly, the G7 countries now have a substantial FDI in India (Table 3), which is a higher risk investment to India and G7 than a sovereign loan with a concessional finance would have been. The following table indicates the FDI. They are in the forms of pension funds, insurance funds etc. which can be moved in and out of India relatively easily. This is a risk that India is willing to take.

Table 3: FDI by G7 countries in 2020

Country Name	USD in Billion
Canada	32.60
France	6.59
Germany	11.90
Italy	-
Japan	32.06
UK	28.32
USA	45.9
Total FDI in India 2020	157.43

*(Data compiled from Country-wise details about past trade and aid which is available on MEA website eg.https://mea.gov.in/Portal/ForeignRelation/India-Japan_Bilateral_Brief_feb_2020.pdf for details on Japan-India details, and so on.

As a result of India’s ceasing to accept bilateral aid from the G7 countries, two new triangular relations have developed with each of the G7 countries. The first of these relations involves a donor country, an industry headquartered and located in India, and a chamber of industry located in the donor country but favouring the said Indian industry. The second triangular relation involves a donor country, international NGOs located in the donor country linked with a national level NGO located in India. This industry funding is supported by FDI with Technical Assistance. While the development aid provided by these countries is given directly to multiple Indian NGOs, the funds given are modest. Both the private industry funding and the development aid funds are used for projects in the new vertical sectors. Data indicated that the triangular economic relations have brought more foreign industry and FDI into the country after the sovereign concessional and bilateral loans were stopped by India. G7 countries offer loans to government agencies, Indian private banks and Indian private industries or set up their own industries in India with their investment funds along with technical assistance and training and guidance.

WHAT CAN INDIA DO?

As seen from the aforementioned cases, India possesses the technical skills, capacity for competence, and even the ability to provide rolling stocks and equipment needed for projects. This bodes well for the future investment of DPFs in other countries for Indian DPA projects through MEA. The sectors in which DPFs can be invested are climate change, energy, connectivity, sustainable development, and fintech — namely the new verticals. Projects too, would be in sectors such as new and renewable energy, disaster risk proofing infrastructure, and fintech in the financial and service sector. Despite these positive conclusions, India lacks the large funds that are required for mega projects that G7 countries, or even China, possess and can invest easily. However, the gap between the mega projects that a developing country desires and the projects that a developing country can afford to undertake within its budget can potentially be filled with medium sized projects. This is a point of entry for India.

As per its foreign policy, India's primary focus is on its neighbour countries, i.e. Asia and the Indian Ocean rim countries. Any project selection will always have to take into account other strategic calculations besides the economic ones, namely those of energy security, defence, geopolitical security and environmental security. South-South Cooperation has created the opportunity to invest in countries that qualify these criteria. This is a new area in which India is taking a leadership role to create funds, such as the India-UN fund for South-South cooperation, which was created for disaster risk proofing infrastructure in urban areas and to which USAID expressed a willingness to contribute. Thus, the DPA MEA appears to be on a developmentally-sound track.

IMPROVING DEVELOPMENT ASSISTANCE PARTNERSHIP

A mature view would acknowledge both failures and successes, the job done and remaining to be done. India, while being a middle-income country and an emerging market, has retained third world developing country characteristics in both its bilateralism and in its multilaterally funded Development Partnership Projects. The same systems that allow for the DPA projects to not succeed, also have the capacity to respond to crises and to operate effectively on a mission mode or through Special Purpose Vehicles (SPV). To quote an example, the same DPA has shown grit and persistence in pushing for the India-Myanmar-Thailand (IMT) trilateral highway that will provide connectivity from Thailand to India, across Myanmar, thus linking the three countries effectively. When Myanmar backed out of its commitment to the four-lane Mandalay (Myanmar) to Moreh (India) connection, India stepped in to continue the project. Through the DPA, it mobilised funding through Exim Bank and hired private contractors through a global tendering process to plan, initiate, and construct a road connectivity project[16]. Thus, India has the capability to operate in mission mode and respond to crises effectively. Institutional and industrial capabilities when they function in mission mode, however, renders the "Normal" a snafu[17]. There is no accountability for finishing a project on time and within budget. The IMT project from Moreh to Mandalay was not carried out within the timeline and therefore extending the budget is an inevitable consequence. However, the current unstable geopolitical situation renders its future uncertain.

A feature of the 'third world /developing country' is lack of accountability[18]. There is no fear of action being taken against those responsible for the failure. There is no incentive to keep to the established timeline of the project or to complete the project within the allotted budget. It is only when raising international funds and when the international markets demand rigorous economic, financial, and environmental viability standards and reports do Indian funding agencies perform their duties rigorously. This rigorous accounting and the presence of systemic checks in projects is a resounding feature of all the projects carried out by the G7 countries, both within India and outside India. These systemic checks and processes of accountability are still missing in the Indian projects undertaken abroad. In India, projects favoured by the Prime Minister obtain special sanctions, a feature that is characteristic of a developing country.[19] Future challenges are going to be projects that are in new vertical sectors with no set rules or laws to guide them apart from 'best practices'. They are likely to have uncertain outcomes, with low probability and high risk of success. Therefore, accountability and transparency in the processes followed become all the more crucial for the MEA projects that India funds bilaterally and multilaterally in its neighbour countries in the future