



India's Development Cooperation – Opportunities and Challenges for International Development Cooperation

India has been a provider of development assistance since its independence, but its role and contribution has gained momentum more recently as a result of its growing economic and political influence in the global community.

In contrast to OECD/DAC countries until today India do not have any publicly declared policy paper or standards. The guiding principles for its foreign policy and its development cooperation are founded in the Panchsheel/Bandung Principles.

According to this approach India's development cooperation is implemented by various ministries and institutions with the Ministry of External Affairs (MEA) as the leading ministry. As India does not have a single agency for Indian Development Cooperation (IDC), estimates about the magnitude of India's development assistance have to be culled out of the budget outlays of the relevant Ministries/Departments and other sources.

According to available data India's aid focuses first on neighbouring countries, followed by African countries.

In recent years India became an important actor in promoting regional integration. Main instruments were trade relations and increased investment in regional infrastructure. Since 2002 India also played a significant role in the reconstruction of Afghanistan.

In addition India is strengthening its ties with Africa through lines of credit, foreign direct investment (FDIs), and technical assistance. Considerably, India continues to be the largest contributor to peace keeping missions in Africa. Besides the expected benefits from India's development cooperation for African countries there also remain some challenges and risks.

India's development cooperation policy approach is clearly distinct from the OECD/DAC approach, the principles of non-interference and mutual respect for sovereignty remaining major features. However there are also some rethinking and discussions going on about the need for improved databases and for aid indicators as well as dialogues with traditional donors, India's participation in the Heiligendamm Process being a case in point.

1. Guiding principles and conceptual approach

Panchsheel Principles have been guiding principles of India's foreign policy since 1950s. Afterwards these principles were extended and developed into the Bandung Principles (Box 1). In addition India's development policy is shaped by its own experience as a recipient of development assistance and its specific role in the Non-Alignment Movement (NAM).

Box 1: Panchsheel principles
<ul style="list-style-type: none"> • Mutual respect for each other's territorial integrity and sovereignty, • Mutual non-aggression, • Mutual non-interference, • Equality and mutual benefit, and • Peaceful co-existence.
<p>Source: Government of India, Ministry of External Affairs, Annual reports 2006-2007</p>

Initially, Indian development cooperation was strongly ideological and political. Since India's reform towards economic liberalization, privatization and globalization the country's foreign policy became also increasingly influenced by geoeconomic considerations. Against this background India strengthened its economic activities by sup-

porting regional integration arrangements and economic relations with numerous African countries.

2. Institutional structure, financial volume and distribution

IDC is implemented by various ministries, institutions and programmes.

The Ministry of External Affairs (MEA) plays the instrumental role for delivery of IDC. MEA has various institutional arrangements under its wings, such as the Indian Technical and Economic Cooperation (ITEC) Programme, Aid to African countries through Special Commonwealth Assistance Programme for Africa (SCAAP), Bilateral Aid to neighbouring and other developing countries. In 2007 India proposed the setting up of the India International Development Cooperation Agency (IIDCA). However until today the IIDCA has not been established and thus India's development cooperation policy remains fragmented in the responsibility of various ministries.

Financial volume and geographical distribution

As India does not have any nodal agency for IDC there are only rough estimates about the magnitude of India's de-

velopment assistance available. According to the various existing sources India's annual financial volume for development cooperation is currently estimated as being in between half a billion and one billion US\$.

In terms of geographical distribution most assistance is provided to Indian's neighbouring countries, followed by African nations. Table 1 gives country-wise details of India's aid programme.

Financial cooperation and technical assistance

India provides its assistance in the form of financial and technical assistance. Financial assistance is provided as grants, concessional Lines of Credit (LoC) by the Eximbank and assistance through joint ventures (JV) and debt forgiveness.

Table 1: Principal Destination of India's Aid Programmes* Value: Original in Rupees Crores; Figures in million US\$ given in brackets**				
S.No	Aid to Countries	2005-06	2006-07	2007-08
1	Bhutan	1131.11 (251.36)	541.8 (120.4)	731 (162.44)
2	Bangladesh	52 (11.56)	20 (4.44)	60 (13.33)
3	Nepal	66.01 (14.67)	210 (46.67)	100 (22.22)
4	Sri Lanka	25 (5.56)	28.02 (6.23)	28 (6.22)
5	Myanmar	22 (4.89)	40 (8.89)	20 (4.44)
6	Maldives	13.2 (2.93)	6 (1.33)	19.5 (4.33)
7	African Countries	60.98 (13.55)	20 (4.44)	50 (11.11)
8	Afghanistan			434 (96.44)
9	Central Asia			20 (4.44)
10	Latin American Countries			1.53 (0.34)
11	Other (Incl. Developing Countries)	503.83 (111.96)	445.23 (98.94)	240.08 (53.35)
*Excluding Lines of Credit **Rupee exchange rate 1 US\$ = Rs 45; 1 crore Rs = 10 mio. Rs Source: Government of India, Ministry of External Affairs, Annual reports 2006-2007				

Financial Assistance: In general Eximbank extends Lines of Credit to governments, parastatal organizations, commercial banks, financial institutions and to regional development banks to support the export of eligible goods on deferred payment terms. In total the Exim Bank has 93 operative lines of credit amounting US\$ 3,108 million in developing countries as on June 30, 2008. While there is no officially declared rate of interest under which LoCs are issued by the Eximbank, the concessional interest rate is estimated to be at 4 %.

Under Indian Development and Economic Assistance Scheme (IDEAS) the Government of India (GoI) adminis-

ters Government to Government LoCs and GoI supported LoCs routed through Exim Bank or any other nominated Bank to eligible countries (excluding Bangladesh, Nepal, Bhutan).

The Government of India also promotes cooperation and investments by the Indian private sector in particular in African countries. In Nigeria and Sudan major investments are implemented by the Indian state-owned Oil and Natural Gas Company (ONGC).

Finally, India has written off debt owed by countries under the Heavily Indebted Poor Countries (HIPC) initiative and also restructured commercial debts. However according to World Bank statistics the total debt written off by India is only about US\$ 37 million as many of its debt relief agreements have not yet been signed.

Technical Assistance (TA): India has various programmes for technical cooperation. Among the most important are the ITEC and the SCAAP. In addition there is the Indian Council for Cultural Relations (ICCR) which has the specific objective to strengthening cultural relations and mutual understanding between India and other countries.

Under ITEC and SCAAP 156 countries in Asia, East Europe, Central Asia, Africa and Latin America are invited to share in the Indian developmental experience. Since 1964 when ITEC was founded India has provided over US\$ 2 billion worth of technical assistance, the annual budget is about US\$ 12 million.

India's TA programme includes a variety of activities. Broadly they can be divided into five parts- training in India of nominees of ITEC partner countries, project and project related activities such as feasibility studies and consultancy services, deputation of Indian experts, study tours and aid for disaster relief Aid for Disaster Relief (ADR).

Training constitutes about 40 per cent of the annual ITEC programme. In 2007-2008 alone more than 4000 developing country participants were trained. These training courses are highly appreciated by ITEC partner countries.

The ICCR is also of major importance, in particular the provision of scholarships to students from over 70 countries for attending different Indian universities and educational institutions.

3. India's role in regional cooperation

In recent years India became an important actor in promoting regional integration. This is obvious from India's trade concessions within the Association of South East Asian Nation (ASEAN) Free Trade Agreement (FTA) as well as within South Asian Association for Regional Cooperation (SAARC) and South Asian Free Trade Area (SAFTA). The main mechanism here is the issue of sensitive lists and compensation for customs revenue loss of Least Developed Countries (LDCs). Further more India is playing a major role in strengthening the existing regional infrastructure and the support for the development in human resources. The following activities are typical examples:

Myanmar: Financial assistance for the India-Myanmar friendship road (US\$ 20m) as well as the upgradation of infrastructure at Sittwe Port.

Sri Lanka: Provision of LoCs for the refurbishment of the southern railway and from Colombo to Matara (with the help from IRCON, LTD. and RITES); a joint venture for the thermal power plant of 500W between Ceylon Electricity Board (CEB), NTPC and Government of Sri Lanka (GoSL).

Nepal: Since more than five decades India has been deeply involved in Nepal's economic development. Main focus is on infrastructural projects, especially the building of roads, bridges, hospitals and airports. More recently India's assistance also includes projects in health, industrial estates and other sectors, e.g. distributing items such as solid wastes handling equipment for Kathmandu & Lalitpur Municipalities as well as railway locomotives and coaches.

Afghanistan: Since 2002 India has also played a significant role in the reconstruction and redevelopment of Afghanistan. The present level of India's assistance stands at US\$ 750 million, making India the 5th largest bilateral donor in Afghanistan after the US, UK, Japan and Germany. India has undertaken projects virtually in all parts of Afghanistan, in a wide range of sectors including hydro-electricity, power transmission lines, road construction, agriculture and industry, telecommunications, information and broadcasting, education and health, which have been identified by the Afghan government as priority areas for development.

Maldives. Here India focused its developmental efforts especially in the areas of human resource development and public health care. Among these project activities are various hospitals, institutes for technical educations and selected faculties at universities.

Further regional cooperation projects are under preparation, one of the most prominent projects are discussed within the **Mekong-Ganga Cooperation (MGC)**, the main focus is on the construction of the 1360 km Trilateral Highway with the cost US\$ 700 million as well as on building the railway connectivity involving the ASEAN partners Singapore, Myanmar, Thailand, Cambodia and Vietnam.

4. India's development cooperation in Africa

For understanding India's engagement in Africa the historical ties between both sides as well as India's role as an emerging power are of main importance. The following historical and political aspects are of specific relevance.

- Contacts between India and Africa go back into ancient periods and were much deepened by common experiences of British colonialism. During the Cold War the relations were characterized by political solidarity for Africa's struggle for independence and India's specific role in the NAM.
- Since the end of the Cold War and India's economic reforms India started to reconcile its ideological commitments to its emerging economic interests while at the same time rejuvenating its old relationship with Africa.
- While India's contemporary Africa policy is aligned to a confluence of interests around justice in the global order, India's policy towards African countries is also strongly guided by domestic concerns.
- Due to India's own experience as a developing country and its non-interventionist and sovereignty respecting policy approaches and its orientation towards mutual

benefit and equality African governments feel rather comfortable when dealing with India. From its Diaspora related advantages India and African countries are also benefiting in identifying the interests of both partners involved.

- India's current engagement in Africa indicate that alongside other external actors, the countries demand for energy and other natural resources as well as business opportunities and improved market access are also of importance.

Even though India has only little international leverage as a provider of development assistance towards Africa on the operational level its contribution is significant in many ways:

- There are 58 different LoCs provided by Exim Bank worth USD 1882.44 million at present in Africa with a promise of increasing the amount to USD 5.4 billion in five years.
- The LoCs are not limited to just a few African countries; as many as two dozens sovereign nations and about a dozen regional and national banks share these lines of credit. However there are some obvious bigger beneficiaries like Sudan and Nigeria.
- India continues to be one of the largest contributors to peacekeeping in Africa (e.g. it currently has 3000 troops in Sudan, 3,500 in Democratic Republic of Congo and over 1,000 on the Ethiopia-Eritrea border).
- The positive impact of India's policy approach for the Indian diaspora in Africa contributed to a considerable increase in investment, Indian FDIs to Africa; by now the volume has reached US\$ 105 billion.
- India is educating many Africans in its educational institutions and contributes to improving health and sanitation infrastructure by providing the much needed medicines like anti-AIDS retroviral and malaria, small pox and polio vaccines.

Among India's the most important activities in African countries are India's provisions for the Pan African E-Network Project, India's contribution to the New Partnership for Africa's Development (NEPAD) and the Team-9 Initiative.

Pan-African E-Network Project: In 2004, India announced an initiative to bridge the digital divide and accelerate development on the African continent. India started its work on a connectivity mission in Africa which will support tele-education, tele-medicine, e-commerce, e-governance, info-tainment, resource-mapping and meteorological services. This landmark project will assist African countries in meeting MDGs in education and healthcare.

NEPAD: This programme is a vision and strategic framework for Africa's renewal. For the implementation of various projects under NEPAD India has contributed USD 200 million.

TEAM-9 Initiative: The Techno-Economic Approach for Africa-India Movement (TEAM-9), is a credit facility with a volume of 500m US\$ launched in 2004 for eight African countries: Burkina Faso, Chad, Cote D'Ivoire, Equatorial Guinea, Ghana, Guinea Bissau, Mali and Senegal. The aim is to promote socio-economic development in these countries via access to Indian technology.

The latest manifestation of India's increased and intensified cooperation with African countries was the India-Africa Forum Summit in 2008. During the Summit India made the following three major announcements:

- First, India promised to double the existing levels of credit to Africa and allocate US\$ 5.4 billion in lines of credit in the next five years. These credits will be utilized for agricultural production, development of infrastructure and energy sectors, small and medium enterprises, irrigation, food processing, IT and pharmaceuticals. As of 30 June 2008, there is US\$ 1.9 billion worth of lines of credit open for Africa by EXIM Bank of India.
- Second, India announced a Duty Free Tariff Preference Scheme for LDCs. Thirty Four of the Fifty LDCs are in Africa. The scheme will cover 94 % of total tariff lines of India. In terms of increased market access potential for LDCs, the covered lines will comprise 92.5 % of the total global exports of all LDCs. Products of interest to Africa covered in these lines include cotton, cocoa, aluminium ores, copper ores, cashew nuts, cane sugar, ready-made garments, fish fillets and non-industrial diamonds.
- Third, the Aid to Africa budget of the Ministry of External Affairs of India will be enhanced to grants in excess of half a billion US dollars with human resources development and capacity building as critical areas of focus. In addition, it was decided to increase the slots in ITEC long-term scholarship programmes from 1100 to 1600 every year.

While India's recent economic cooperation activities with African countries seem obviously rather beneficial for the African continent there are also a number of challenges and risks.

There is a risk that if IDC focuses only on Africa's energy and other natural resources, African economies may see some enclave syndrome effects. However, as of now there is no evidence that IDC is focusing only on energy and commodities. There could also be a risk of adding to Africa's debt burden if the credit advanced by India through EXIM bank etc. is limited to provision of Indian goods. However, it is pertinent to also note that India's credit facilities are a small fraction of the credit reaching Africa globally, and India is also participating in the HIPC initiative and waiving debt of LDCs in Africa. Although currently exported products from Africa to India are mostly primary commodities, it is a challenge for African LDCs to take additional benefit from the Duty Free Trade Preferences Scheme of India to graduate to some of the value added products included in the scheme.

5. India's contribution to the future international development agenda

India's contemporary development policy approach is in a transforming process in various respects. While until today India does not have an officially declared policy on development cooperation its obvious continuing policies along the Bandung Principles as well as its rejection to link its development cooperation to any conditionality remain major features. The Indian approach treats recipients of aid as development partners and at the same time acts in solidarity with them, by supporting developing countries needs and demands by providing advanced but relatively low cost technology and dealing with them on the basis of equal partnership and mutual benefit instead of acting in the traditional donor-recipient approach.

However as an emerging provider of development cooperation there is growing debate among scholars on rethinking in the current approach of IDC. The discussion about a more transparent policy approach as well as the need to have indicators and a database which would enable the measurement of efficiency of India's development activities are also on the agenda. This ongoing process within India and last not least the Heiligendamm Process, where India along with Brazil, China, Mexiko and South Africa is playing a decisive role in working together with G-8 countries to better achieve the MDGs is a promising contribution for shaping and synergizing the future development cooperation agenda.

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This Briefing Paper presents the major results of a joint research project between IIFT and DIE. The authors are thankful for the scientific support from Debashis Chakraborty and Rajneesh Kumar Gupta (IIFT).

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