India's Transition to Global Donor: Limitations and Prospects (ARI)

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Theme: India has increasingly sought to expand its activities as a donor, both to reposition itself as an emerging power and to use aid as an instrument for engaging with other developing countries. This ARI looks at the current state of India's donor programme as regards both its size and scope, identifies India's role within the multilateral aid scenario and evaluates the challenges and prospects for further growth.

Summary: India has expanded its aid programme over the past decade, emerging as a serious donor in certain countries. While the amounts remain small, India's emergence has focused attention on its possible motives.

The term 'emerging donor' has, over the past decade, become an accepted part of the development world's lexicon, providing further evidence of the rise of emerging economies. This does not mean that the donors themselves are new. What is new is an increased recognition globally that emerging donors are now a viable complement, and in some cases a substitute, to aid from traditional donors.

The emergence of these donors is particularly evident now because it occurs at a time when the developed world faces fundamental questions about its own socio-economic model. The financial crisis has undermined confidence amongst OECD countries, put their aid commitments in doubt and given rise to questions about their social welfare and free market models. It is into this vacuum that India has willingly stepped in to offer its own philosophy of development and growth.

Disbursements by emerging donors were estimated at €8.5 billion in 2006.[1] While small (aid by OECD donors in 2006 totalled €103.9 billion),[2] the competition that these donors insert into what was once an oligopoly of high-income OECD nations has caused much consternation in development circles: China's aid programme has prompted both awe and fear;[3] India's stirs a mix of confusion and frustration abroad and pride and criticism at home.

India started its aid programme soon after independence, with the budget speech of 1958 referring to INR100 million in multi-year grants to Nepal and an INR200 million loan to Myanmar.[4] Since then, but particularly over the past decade, India's aid programme has evolved substantially, growing both in scale and ambition.

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[1] Matthew Martin and Jonathan Stever (2007), 'Key Challenges Facing Global Development Cooperation', discussion paper prepared for the launch of the Development Cooperation Forum, Debt Relief International, London.

[2] http://www.oecd.org/document/49/0,2340,en_2649_201185_38341265_1_1_1_1,00.html.

[3] Moises Naim (2007), 'Help Not Wanted', *New York Times*, 15/II/2007, online.

[4] 'Speech of Shri Jawahar Lal Nehru, Prime Minister and Minister of Finance Introducing the Budget for the Year 1958-59', Ministry of Finance, Government of India, http://indiabudget.nic.in/bspeech/bs195859.pdf. accessed 3/VI/2010.

This paper analyses the evolution of India's giving in recent years. However, rather than simply describing what India gives and to whom, it primarily looks at three related questions: (1) what are the main characteristics that distinguish India's aid?; (2) as India grows into a global donor, how is it likely to view multilateral engagement?; and (3) against the backdrop of almost certain growth in giving in the future, what are the challenges and options ahead?

Analysis:

Defining India's Giving

At the outset it is worth establishing what constitutes aid in the context of India's donor programme. Like most emerging donors, India's aid-related activities do not follow the traditional definition of the Development Assistance Committee (DAC). Rather, an alternative definition can be considered: spending that furthers India's standing as a donor. There are three parts to that spending, namely grants and preferential bilateral loans to governments, contributions to international organisations (IOs) and financial institutions (IFIs), and subsidies for preferential bilateral loans provided through the Export Import (EXIM) Bank of India.

Information on this spending, taken from the annual budget documents, is presented in Table 1. While these figures omit giving directed through public sector enterprises, the Prime Minister's Office or the Indian military, they nonetheless provide a floor on India's aid-related budget.

Table 1. India's foreign aid-related budget, 2004-10 (INR million)[5]

	2010	2009	2008	2007	2006	2005	2004
Grants and loans	23,834	24,083	26,999	18,133	17,290	21,620	19,619
Of which grants (%)	84.1	82.3	65.6	93.7	90.7	79.1	70.9
Contributions to IOs	5,578	5,317	12,775	3,550	3,595	3,320	2,568
Investments in IFIs	2,948	67,627	30,900	137	580	180	101
EXIM Bank expenditure	4,300	4,394	5,098	2,350	1,600	1,717	2,266
Total estimated budget	**36,660**	**101,421**	**75,772**	**24,169**	**23,065**	**26,836**	**24,554**
In US$ million	**785**	**2,171**	**1,622**	**517**	**494**	**574**	**526**

Source: indiabudget.nic.in

In 2010 India's aid-related budget allocations were INR36.66 billion[6] (US$785 million in current dollars), a compound annual growth rate (CAGR) of 6.9% from 2004 to 2010. In addition, the EXIM bank in 2008 approved loans and guarantees worth INR352.47 billion with US$3.75 billion in operative lines of credit (see Table 2 and Graph 1).

[5] Figures for 2004-09 are revised estimates from the subsequent year. Figures for 2010 are budget estimates from the 2010-11 budget documents. Investments in the share capital of the IMF or African Development Bank are not accounted as contributions to IOs, but as investments in IFIs. EXIM Bank expenditure includes both provisions of share capital and interest equalisation subsidies provided by the Ministry of Finance.

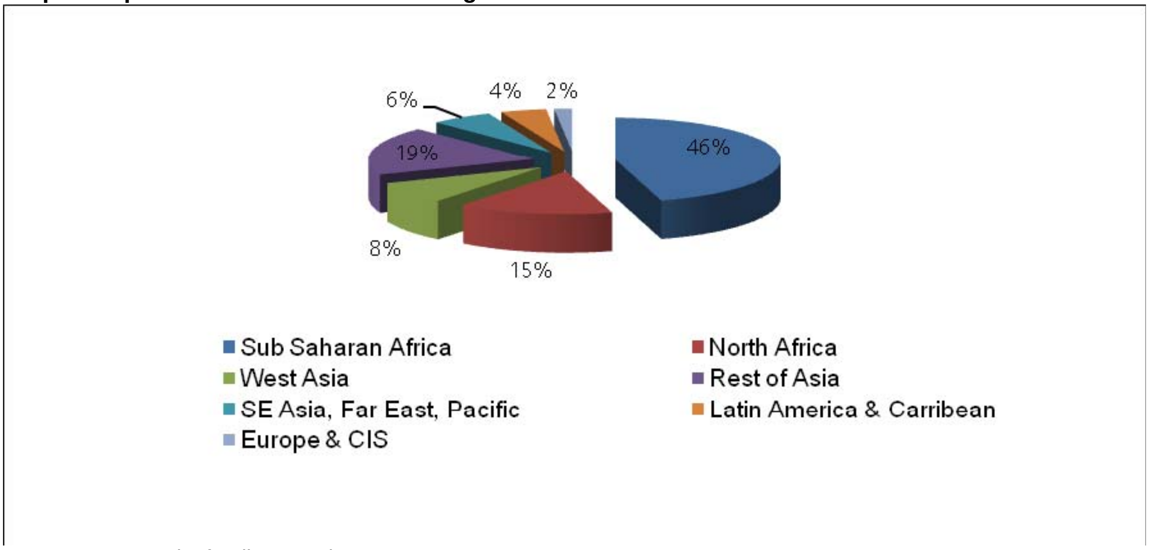
[6] The large total budget for 2008 and 2009 is attributable to higher spending towards increasing India's share in the IMF, leading to substantial differences between the amounts originally allocated in a budget year and the revised figures published subsequently.

Table 2. Loan and guarantee approvals by the EXIM bank (INR million)

	2008	2007	2006	2005	2004	1998
Loans	336,285	328,045	267,622	104,887	158,535	18,380
Guarantees	16,184	21,994	49,978	43,264	15,887	2,633
Total	**352,469**	**350,039**	**317,600**	**148,151**	**174,422**	**21,013**

Source: Exim Bank of India.

Graph 1. Operative LOCs available through the EXIM Bank as of 31 March 2009



Source: EXIM Bank of India annual report.

Distinguishing India's Giving

These numbers, while big, cannot compare with the giving of China or any of the established donors (China is estimated to have *donated* US$616 million in 2007 to Africa alone).[7] Thus, India's ability to use its aid well depend not on *how much* it gives, but rather on *how* it directs its aid and *what else* it offers.

On offer is not just aid, but a paradigm that is unique to India. While OECD countries promote the DAC's focus on developing the social sector and China offers an infrastructure-first approach, India's approach to aid is informed by its own experience of development with democracy and growth. Reflecting its own colonial heritage, India focuses on smaller interventions, allows recipient countries to define their own priorities and encourages mutual economic growth and long-term trade linkages rather than purely a development impact.

Historically, this has happened either through technical assistance or selectively through financing of hard infrastructure. Such aid is unconditional but often tied,[8] with a substantial part spent in India. For instance, the flagship ITEC programme provides training in India for visiting delegates, while many EXIM bank lines of credit (LOCs) require the purchase of Indian goods or services. While this might limit the direct benefits to the recipient country, it echoes the advice of the economist Jagdish Bhagwati[9] that foreign aid be spent elsewhere to avoid distortionary effects. Furthermore, India's willingness to finance

[7] Peter Kragelund, (2010), 'The Potential Role of Non-traditional Donor's Aid in Africa', Issue Paper nr 11, International Centre for Trade and Sustainable Development, February.
[8] Tied aid is the practice of aid provided to a recipient country conditional on spending it on the products and services of the donor country. Conditional aid refers to aid that is contingent upon specific deals or the broad policies of the recipient country such as those relating to democratic or human rights.
[9] Jagdish Bhagwati (2005), 'A Chance to Lift the Aid Curse', *Wall Street Journal*, 22/III/2005.

infrastructure in sectors such as transport and energy also contrasts with the traditional donor preference for investing in social sectors such as health and education. It thus fills a niche left empty by traditional donors and is a welcome complement for countries wanting to build up basic physical infrastructure.[10]

A related feature has been an avoidance of rent-seeking behaviour. Since India cannot offer large grants, it has instead chosen to offer low-impact but long-term engagement. The ITEC programme has trained a generation of India-friendly bureaucrats and technocrats in other developing countries. India has generated goodwill by creating local capacity and soft infrastructure through consulting services (eg, the Pan African E-Network Project). Furthermore, by leveraging its colonial heritage, India has endeared itself to governments tired of western conditionalities. The result has been the accumulation of substantial soft power –the power to 'attract or co-opt' as defined by Joseph Nye Jr.– in places where India has had an enduring presence.

Recent actions reflect a change in priorities. First, aid is increasingly global rather than regional, and directed to economic rather than political aims. In its pursuit of energy security, India has engaged the oil-rich West African nations through TEAM-9, while also increasing their ITEC quotas. The primacy of economic benefits is also reflected in the substantially higher growth of 11.3% (from 2004-10) in EXIM bank expenditure, compared with a 3.3% growth in expenditure by the MEA.

This has added a third distinguishing feature to India's aid programme: that it 'never appears alone'. Rather, where aid is economic it is only one element of a broader engagement to boost bilateral trade and gain access to new markets, often appearing together with private-sector participation on the supply or demand sides. Indian companies either sell goods (eg, Tata lorries and buses in Africa) or consume natural resources (eg. ONGC Videsh). Grants and loans are thus aimed at reducing the risk of market entry for companies or at reducing operational costs by creating necessary infrastructure. Effectively this means India's private sector is subsumed as an extension of the donor mechanism or, conversely, that the donor programme becomes an extension of the private sector's promotion strategy.

While this might seem self-serving, it offers both sides substantial benefits. India gains experience in –and links to– new markets that often resemble domestic operating conditions today or in the recent past; recipient countries gain technology, expertise and a model for a vibrant private sector of their own, learning from India its own success story.

An Ambivalent Multilateralism

As India becomes increasingly global in its giving and sees itself as a rising power, it is reviewing how it interacts with the world. This is also true within the development sector.

Given its own multi-polar view of the world, India has never had an ambivalent view towards the multilateral system itself. It has, however, had reservations about its own limited influence within that system, calling repeatedly for a permanent seat on the UN Security Council and the reform of the World Bank and IMF. Recently, it has made substantial efforts to correct those limitations on its own.

[10] Ngaire Woods (2008), 'China, Emerging Donors and the Silent Revolution in Development Assistance', in *International Affairs* (84:6), 2008.

Towards this end the country's multilateral budget has increased rapidly. In 2008 and 2009 India spent INR30,719.4 and INR67,630 million respectively (US$2.1 billion) towards increasing its IMF share quota (IMF investment accounted for 66% of the entire budget in 2009). India has also been an enthusiastic donor to the World Food Programme (WFP).

Ironically, there is one area where India has chosen to avoid closer engagement: in the field of donor coordination itself. Despite calls from other countries India has retained a certain distance and independence from the DAC and other donors, choosing instead to create institutional groups such as the Development Cooperation Forum (DCF) and the Global Network of EXIM Banks and Development Finance Institutions (G-NEXID). This may be because 'the current multilateral system is not configured to offer sufficient incentives for emerging donors to engage in it'.[11] But there are two other reasons for this distance.

First, closer coordination is limited by the institutional design of how India delivers aid, with efforts distributed across a range of ministries. While the Ministry of External Affairs plays a coordinating function, individual ministries have their own objectives and budgets both for bilateral programmes and for the funding of International Organisations. Thus, the WFP budget is paid by the Ministry of Agriculture, but the International Fund for Agricultural Development is funded by the Ministry of Finance.

More importantly, collaboration has floundered because India has objectives different from the DAC and has expended substantial effort in positioning itself as distinct from other donors. This separation is extremely valuable in positioning India as a partner in development, compensating somewhat for the country's otherwise limited resources. Nothing would do that strategic positioning more damage than a USAID-style giver with all the answers.

There are, of course, exceptions. Gareth Price notes in his 2005 analysis that India was happy to join the 'group of four' in December 2004 to coordinate an emergency response to the Indian Ocean tsunami. While that effort was short lived it happened because it acknowledged India's pre-eminence in South Asia. For traditional donors this is a useful precedent, for it illustrates that collaboration would be transactional and happen only if it offered India substantial direct benefits.

Growing Pains
This desire for direct benefits is starting to permeate how India delivers aid. While the traditional long-term approach has been useful, it –and the soft power it offers– does not provide the immediate geostrategic influence that India seeks and China often gets.

In response, India's giving has increasingly used bilateral grants, which grew from 71% of MEA expenditure in 2004 to 84% by 2010. This marks a third transition accompanying the previous two (regional to global and political to economic) that is probably both inevitable, as India seeks to raise its profile, and welcome, because it expands the portfolio of mechanisms available to India. However, it raises two questions about the future of India's giving.

[11] Ngaire Woods, 'China, Emerging Donors and the Silent Revolution in Development Assistance', *International Affairs*, vol. 84, nr 6.

First, this transition ignores a serious deficiency of institutional capacity to deliver larger amounts of direct aid effectively. This is, of course, not a problem unique to the aid programme but endemic to India's Foreign Service. As noted by Daniel Markey of the Council on Foreign Relations,[12] India's foreign policy establishment 'hinders the country from achieving great power status', and is among other things 'small, hobbled by its selection process and inadequate midcareer training, and tends not to make use of outside expertise'. As a result, India's aid programme is limited by the resources available to administer it and marked by a lack of transparency and long-term strategic planning.

Secondly, these deficiencies expose India to the entire risk of aid giving, in particular allegations of neo-colonialism (a criticism often directed at OECD donors) or of undermining human rights (a criticism directed at China). Any move to expand direct aid should thus be made with caution.

What does this mean for India's donor programme? How are the limitations of India's bureaucracy to be reconciled with its ambitions?

Greater private-sector involvement offers one opportunity. India's private sector has a competitive advantage when operating in other developing countries, as Indian companies are often used to operating in resource constrained environments. Therefore, the 'frugal innovation' that they generate is directly applicable to local challenges. Furthermore, this also can lead to collaboration with other donors, as in Bhutan and Afghanistan where other donors have chosen to provide aid through Indian companies (Price). Applying this strategy to other countries might garner greater collaboration from India, but donors and recipients would also benefit as India can provide 'cheaper, or possibly more appropriate, technology' without any colonial baggage.

Commentators have noted a similar potential in India's vibrant non-profit sector. A paper by the planning commission in 2007[13] recognised that 'the voluntary sector can play an important role in the development process'. It also suggested the use of NGOs as a delivery mechanism for aid outside India.[14] The presence of Indian NGOs abroad may be a cause for friction, particularly in countries with weak democratic histories or uneasy relations with India. On the other hand, as Subhash Agrawal of Indiafocus points out, their presence might also allow long-term coordination with other donors.

These opportunities cannot, however, be realised unless India builds a strategic, rather than a transactional approach, to its giving. It is important to identify clear objectives, long-term priorities and strengths while accepting limitations on short-term gains. Most importantly, India must recognise that the most valuable thing it has to offer is not money but its own development experience of growth with democracy and relative stability delivered through private enterprise and a pluralistic non-profit sector. That experience should be a valuable element of India's development assistance and should not be eclipsed by the increasing focus on grants that purchase immediate benefits.

[12] Daniel Markey (2009), 'Developing India's Foreign Policy "Software"', *Asia Policy*, nr 8, July.
[13] 'National Policy on the Voluntary Sector', Voluntary Action Cell, Planning Commission, Government of India, May 2007.
[14] Subhash Agrawal (2007), 'Emerging Donors in International Development Assistance: The India Case', IDRC, December.

Conclusions: There is no doubt that recent changes to India's aid programme mirror a more general re-think of India's role in the world. Responding to increasing ambitions the programme has evolved to be more global, economic and bilateral. India has sought to engage more closely with the multilateral system, while creating its own niche within the development universe by remaining distinct from other donors.

China has often used aid to facilitate access to natural resources. India's approach, by contrast, is described by Kragelund[15] as being 'on a smaller scale, a bit tardier and not spurring the same dichotomous reactions'. It can be argued that this has prevented India's giving from realising its full strategic potential. However, that smaller scale and tardiness have also prevented India from tripping up on its own good intentions in what is still an early period of its programme.

The risk is that as India increases its giving it may try to achieve too many things –political pre-eminence in its vicinity, economic links with East Africa and access to strategic resources (natural or military) in Burma or West Africa–. As that happens, India will expose itself to the same criticisms levelled against China and against traditional donors –a risk amplified by India's institutional limitations that hinder transparency and accountability–. In short, India's ambitions will continue to outstrip available resources and capabilities.

Those limited resources should therefore be used as much to gain direct leverage as to promote India's private and non-profit sectors in the developing world. Collaboration with other donors can happen, so long as it promotes those general principles. What is needed is a more conscious, transparent and cohesive approach to develop this strategy, rather than the current opportunistic one, because these sectors have always been India's strengths.

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[15] Kragelund (2010), *op. cit*.