

INDIAN DEVELOPMENT COOPERATION REGAINS MOMENTUM: 7 MAIN TAKE-AWAYS FROM INDIA'S 2019-20 UNION BUDGET¹

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ABSTRACT

Since the turn of the century, India has continued to enlarge its development cooperation allocations and become a globally significant development cooperation partner. This brief analyzes India's 2019-20 Union Budget for its development assistance allocations and, using IDCR's development cooperation database, finds seven main trends in India's development assistance allocations.



In the Government of India's recently released Union Budget for 2019-2020, India committed INR 9,069.34 crore or 90.69 billion (USD 1.32 billion) of foreign development assistance in the form of grants loans, and interest rate subsidies for Exim Bank Line of Credits (LOCs). This brief analyses India's foreign assistance allocations in the recently released 2019-20 Union Budget and finds seven main trends:

- 1 This budget's foreign development assistance allocations are India's second largest
- 2 India's foreign assistance continues to be less than 1% of the overall budget
- 3 Development assistance to India's neighbourhood has not increased under Modi
- 4 The Act East Policy is not evident in foreign assistance allocations
- 5 But strategic foreign assistance to Indian Ocean countries has increased
- 6 Foreign assistance through Exim Bank's Line of Credits have continued to increase
- 7 India's development cooperation budget is significant, particularly in PPP terms

1 India's 2019/20 budget commits India's second largest foreign aid allocations

India's 2019-20 Union Budget commitments for foreign assistance are the second-largest since India started providing assistance to other countries shortly after independence. The total development assistance budget for 2019-20, which is INR 90.69 billion (USD 1.32 billion), is also the second-largest budget commitment to development cooperation under the Modi administration as seen in figure 1a.

Moreover, the 2019-20 foreign assistance commitment represents a 25 per cent increase from the previous year's six-year low of INR 67.94 billion (USD 993 million) in foreign aid commitments. The commitments for 2019-20 also reverse a three-year downward trend in foreign assistance commitments between 2015-16 and 2018-19 under Prime Minister Modi's tenure.

India's foreign assistance commitments for 2019-20 are surpassed only by its foreign aid commitments in 2015-16. In 2015-16, which was also after Prime Minister Modi's first full year in office, India committed its highest foreign assistance budget ever, with budgetary commitments of INR 97.35 billion (USD 1.52 billion). However, while the

assistance allocations in 2015-16 represent India's highest foreign aid commitments to date, many of the large projects funded in the 2015-16 budget had been agreed upon during the previous UPA government. These included several large-scale infrastructure projects which continued during 2014-16, including large projects such as the USD 290 million Afghan-India Friendship Dam in western Afghanistan which was completed in 2016. Such large infrastructure projects that were inherited from the pre-2014 government led to high and largely fixed foreign assistance commitments during the first couple of years of Prime Minister Modi's tenure.

Nevertheless, looking at the big picture of Indian foreign assistance allocations in the form of grants, loans and interest rate subsidies for Exim Bank Line of Credits (LOCs) since the turn of the century, India's 2019-20 foreign assistance commitment is significant. As seen in figures 1b and 1c, Indian foreign assistance has increased remarkably since 2000, rising gradually during the first decade of this century before increasing more rapidly and reaching a high of INR 97 billion (USD 1.5 billion) in 2015-16 and its second highest level in the budget for 2019-20. India's foreign assistance commitments in 2019-20 were higher than those of some high-income countries such as Austria.

Figure 1a: Indian development assistance (grants, loans & interest rate subsidies) under Modi Government (2014-15 to 2019-20) in INR billion

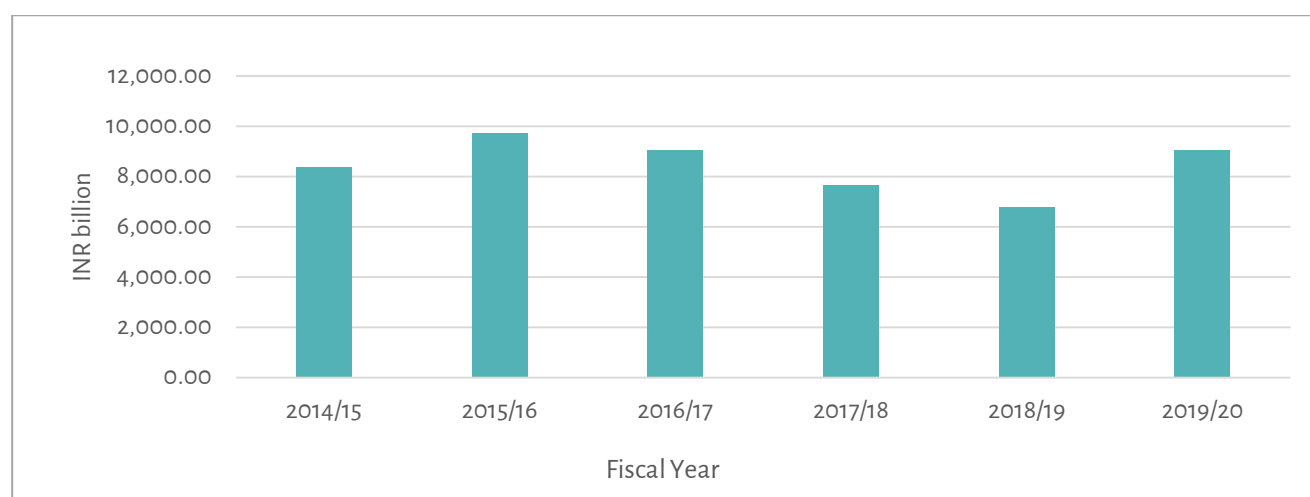


Figure 1b: Indian development assistance commitments 2000-01 to 2019-20 (INR billion)

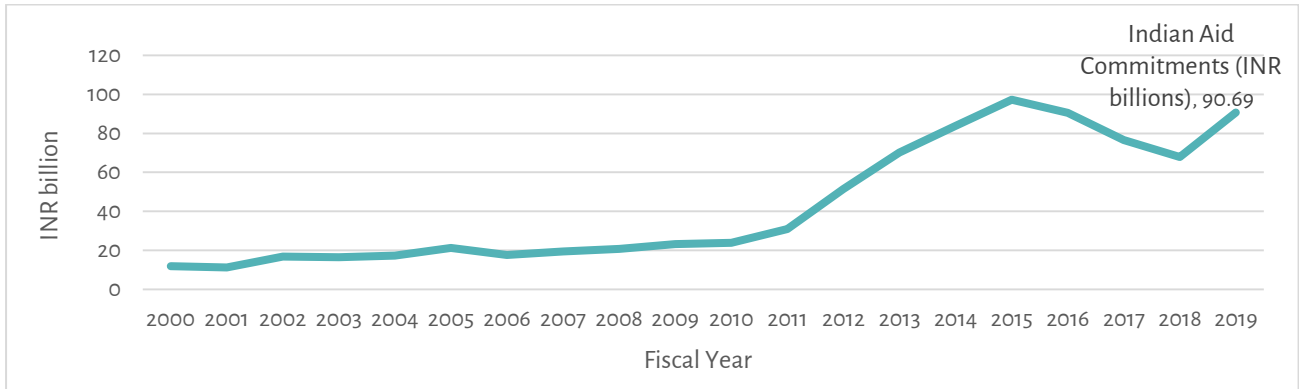


Figure 1c: Indian development assistance commitments 2000-01 to 2019-20 (USD million)

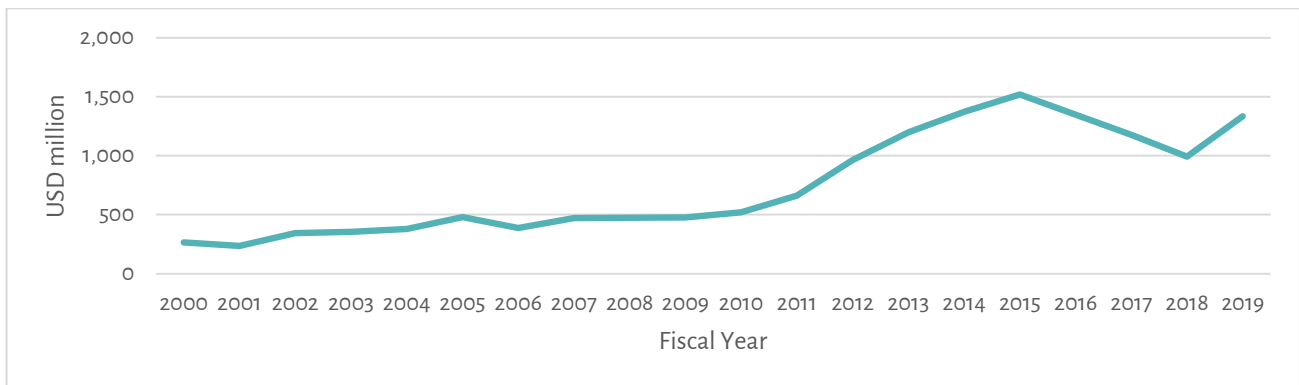
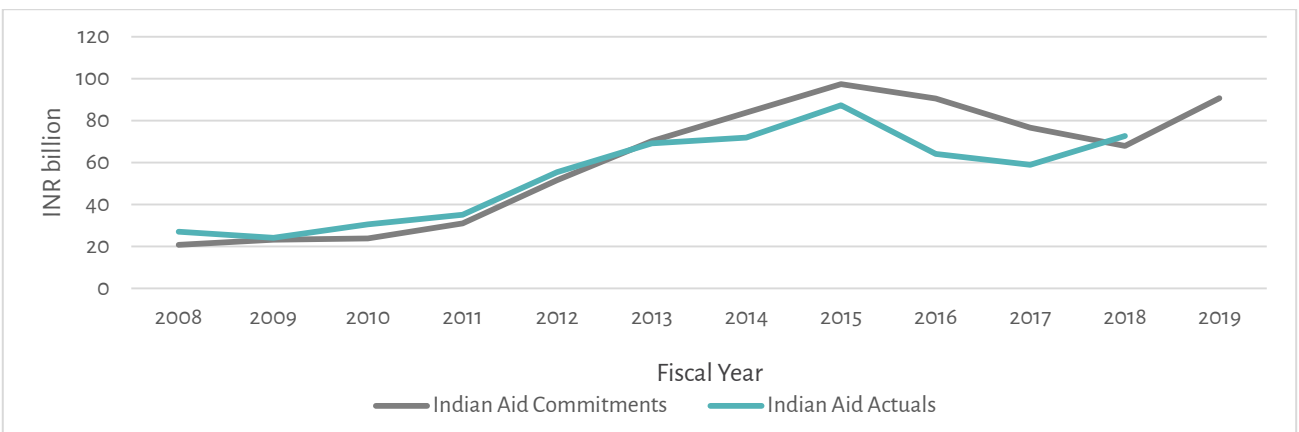


Figure 1d: Indian Foreign Assistance: Commitments versus Actuals (INR billion)



As India's 2019-20 foreign assistance commitment illustrates, India has become a significant global foreign assistance donor in the 21st century, both in Indian rupee and US dollar terms. This assessment also holds true when comparing India's foreign assistance commitments versus actual disbursements as seen in figure 1d which have historically tended to be similar. Moreover, as

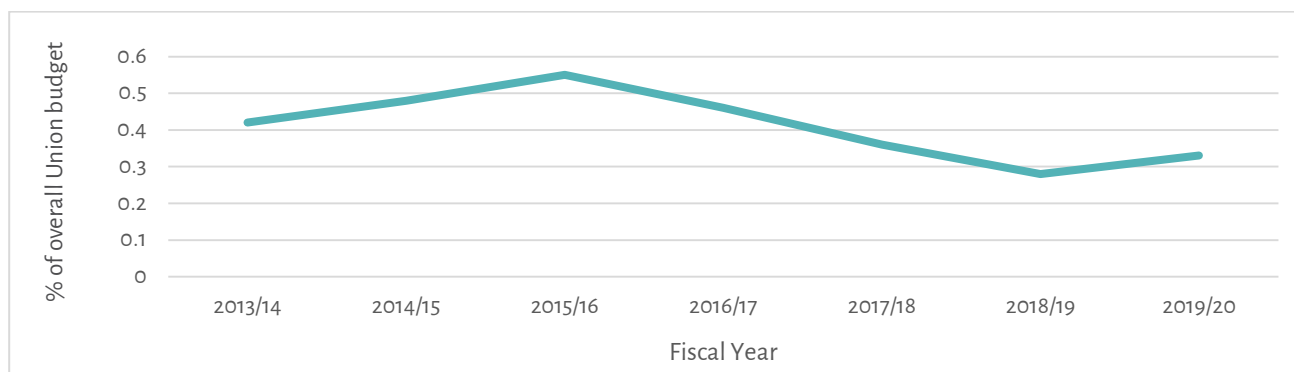
figure 1d illuminates, Indian foreign aid commitments diverged from actual expenditure only during the first few years of the Modi government, before converging again with disbursements in 2018-19. India's development assistance commitments as well as actual expenditures make India an increasingly important development assistance partner.

2 As a per cent of the budget, Indian assistance continues to be less than 1%

However, despite Indian foreign assistance commitments continuing to rise in absolute Indian rupee and US dollar terms when compared to a decade ago and despite India's 2019-20 foreign assistance commitments being India's second highest, as a percentage of India's overall expenditure budget

commitments Indian assistance was only 0.33 per cent of the overall budget commitments. Moreover, while these 2019-20 figures were higher than the 0.28 per cent in 2018-19, they were lower than the percentage during the five previous years as seen in figure 2a.

Figure 2a: Indian foreign assistance commitments as % of overall Indian budget



3 Neighbourhood First – It Ain't

Prime Minister Modi has made his “Neighbourhood First” policy, which has sought to improve India’s ties with its immediate neighbourhood, a key aspect of his foreign policy engagement. To illustrate this commitment, Modi, when he was first elected prime minister in 2014, invited all South Asian heads of government or state to his inauguration. He set a similar tone after he was re-elected for a second term in 2019 by making his first foreign trips after re-election to neighbouring South Asian countries Sri Lanka and Maldives.

Yet Modi’s focus on Neighbourhood First is not reflected in his administration’s foreign assistance allocations. India has historically given the majority of its development assistance to its neighbouring countries. And while the majority of Indian grants and loans continue to be committed to India’s neighbours, as seen in figures 3a and 3b, under Prime Minister Modi these allocations

have decreased every year between 2014-15 and 2018-19 in terms of funds committed, as well as percentage of overall foreign assistance budget committed. Though India’s foreign assistance commitments in terms of grants and loans to its neighbouring countries recovered slightly in the 2019-20 budget, these allocations in the budget remain significantly below allocation levels and percentage of overall assistance budget that Modi inherited from the previous government in 2014-15.

However, foreign assistance allocations to India’s neighbouring countries have not decreased uniformly. One of the countries which has seen its foreign assistance from India increase significantly in the 2019-20 budget is Maldives. Committed foreign assistance to Maldives in the 2019-20 budget was INR 5.76 billion – more than quadruple the budgeted allocations just a year earlier. These 2019-20 commitments to Maldives included INR

4 billion in grants and INR 1.76 billion in loans, with Maldives being the only country besides Bhutan to which India has committed the provision of development assistance in the form of loans.

This increased focus on Maldives is strategic and represents India's eagerness to improve relations with the island country after the 2018 defeat of the pro-Chinese President Abdulla Yameen. When Yameen was defeated by Ibrahim Solih, Modi attended Solih's swearing-in ceremony and directed increased foreign assistance allocations to Maldives. The strategic nature of these increased foreign assistance allocations is also seen in the types of foreign assistance projects India is contributing towards Maldives, which include a coastal radar system to help maritime surveillance around the strategically located islands of the Maldives.

Similarly, despite relations between Nepal and India remaining somewhat strained due to China's grow-

ing influence in the country, Indian foreign assistance budgetary commitments to Nepal increased from INR 6.6 billion in 2018-19 to INR 10.5 billion in 2019-20. In another example of the increasingly strategic nature of India's development assistance, the assistance to Nepal included funds for Nepal's Policy Academy which were channelled through India's Ministry of Home Affairs.

While India's development assistance allocations to Maldives and Nepal rose, allocations Bhutan fared less well. Bhutan has consistently been the largest recipient of Indian foreign assistance since the turn of the century. However, in 2019-20 India's allocations to Bhutan, both in terms of total foreign assistance commitments and as a percentage of overall foreign aid commitments, decreased from INR 61 billion in 2014-15 (or nearly three-fourths of the budget commitments) to INR 28 billion in 2019-20 (or less than a third of the budget commitments).

Figure 3a: Indian foreign assistance commitments (grants & loans) to South Asian countries

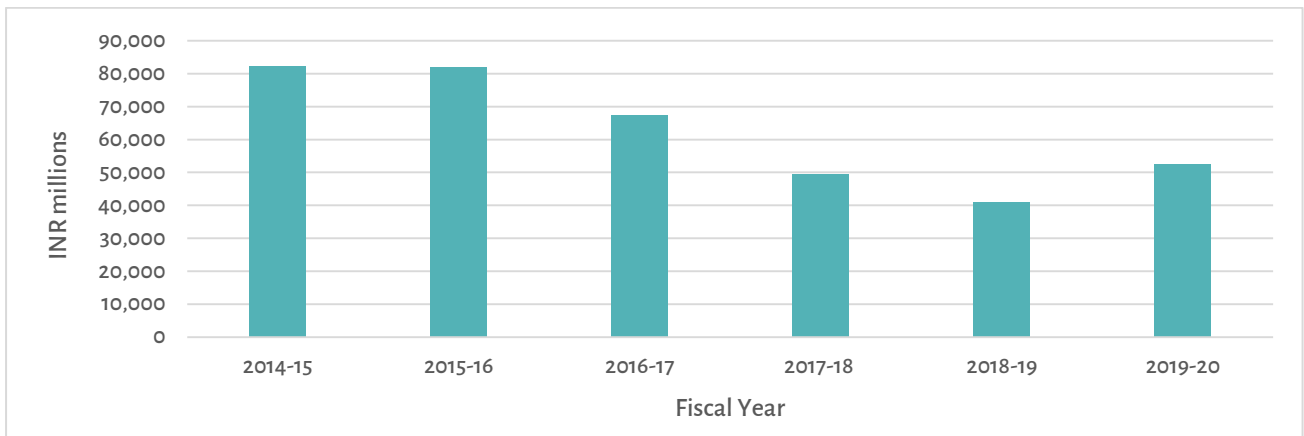
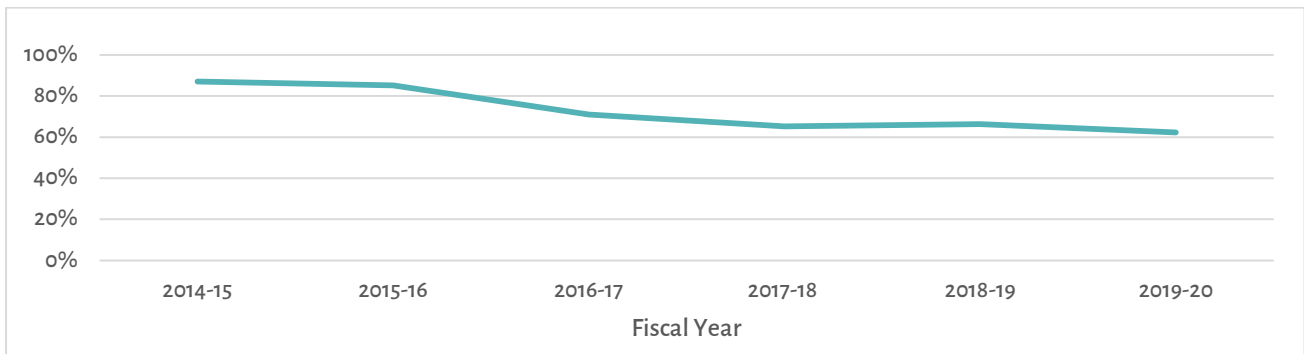


Figure 3b: Indian foreign assistance to South Asian countries as a % of India's total assistance



4 Little allocated for 'Act East'

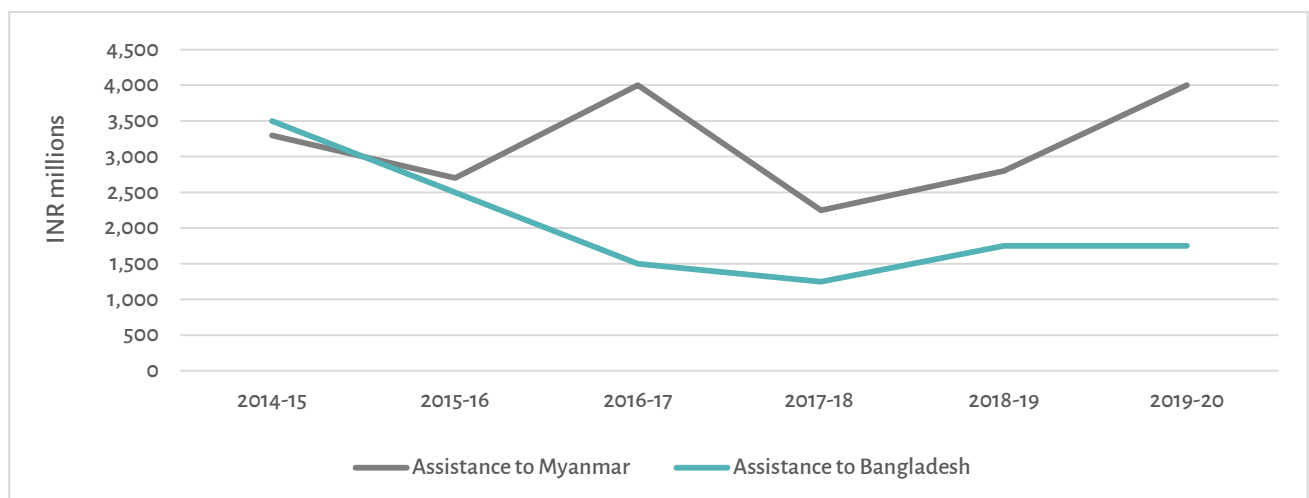
Another foreign policy focus of Prime Minister Modi has been his 'Act East Policy' which has sought to make India's relations with its eastern and East Asian neighbours a foreign policy priority. Yet while India's relationship with many of its eastern neighbours, from Myanmar to Vietnam and Singapore, has continued to deepen, and India's engagement in sub-regional organizations such as the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) and the Regional Comprehensive Economic Partnership (RCEP) has increased, Indian foreign assistance to this region has not.

Arguably, Many of the Southeast Asian countries have a higher per capita income than India, making these countries less likely development partners for India. However, India has historically had a development assistance partnership with some of its eastern neighbours, including Bangladesh, Myanmar and Vietnam, which are all key countries to its Act East Policy. In the 2019-20 budget, no itemized allocations were committed for Vietnam, while allocations to Bangladesh remained at the same levels as in 2018-19, which were about 50 percent of the budget commitments in the budget inherited from the previous government in 2014-15.

Myanmar, which is both a neighbouring country as well as a key partner for India's Act East Policy, illustrates the divide between the Modi administration's foreign policy initiatives and budget allocations to undergird that initiative. In the 2019-20 budget, Myanmar has been allocated INR 4 billion in foreign assistance, which represents an increase over the previous year's allocations of INR 2.8 billion. Yet the 2019-20 allocations are at the same level as the foreign assistance allocations in 2016-17.

Moreover, one of the key Indian foreign assistance projects in Myanmar, the Kaladan multi-modal transit transport project, which will connect Kolkata via sea links to Sittwe port in Myanmar and onwards via river and road to India's northeastern state of Mizoram, has still not been completed. This project, which was started under the previous government in 2008 and has been heralded as one of India's key investments in regional connectivity continues to face delays in project completion and funding allocation, thereby illustrating the barriers to implementation of the Act East Policy even when development funds are allocated to support India's engagement with its eastern neighbours.

Figure 4a: Indian foreign assistance allocation to its eastern neighbours Bangladesh & Myanmar



5 Increasing focus on the Indian Ocean

While India's 2019-20 Union budget allocations for foreign assistance provide little evidence of an increased focus on the neighbourhood or its Act East Policy, they do provide evidence for a growing and strategic focus on the Indian Ocean states, as well as the larger Indo-Pacific. As seen in figure 5a, India's development cooperation engagement with neighbouring Indian Ocean states such as Myanmar, Bangladesh, Sri Lanka and Maldives, fluctuated under the Modi government, often decreasing through 2018-19. However, the 2019-20 budget allocations show allocations to countries bordering the Indian Ocean remaining steady or recovering from lower assistance over the past years. Maldives, as mentioned above, was an exception since committed foreign assistance amounts to Maldives surpassed the allocation levels the Modi government inherited from its predecessors.

Another illustration of the government's focus on the Indian Ocean Rim countries has been the addition of Mauritius and Iran's Chabahar Port as separate line items in India's Union Budget over the past three years. Both Mauritius and Iran are countries with higher per capita GDP than India. India's development partnership with these two countries and the types of projects it is financing there illustrate India's growing strategic engagement in the Indian Ocean.

Indian development assistance commitments to Mauritius, an African island country in the southern Indian Ocean, has seen the largest increase among countries bordering the Indian Ocean. Indian assistance to Mauritius increased from INR 350 million or USD 5 million in the 2018-19 budget to INR 11 billion or USD 161 million in 2019-20. In addition, in an illustration of India's growing strategic engagement in the Indian Ocean, India provided a USD 52.3 million Line of Credit to Mauritius in 2017 aimed at upgrading Mauritius' coast guard's maritime and surveillance operation, including to help it fight drug trafficking in the Indian Ocean region.

Indian assistance to Iran in the form of developing its strategically located Chabahar Port and the adjacent Chabahar Free Trade Zone has also been an ongoing priority for the government of Prime

Minister Modi. Investments in Iran are important to India since Chabahar sits at the mouth of the Straits of Hormuz through which as much as a third of the world's shipment of oil passes. Iran is also India's third largest oil supplier. Moreover, Chabahar is located just 72 kilometres west of Chinese-operated Gwadar Port in Pakistan and is a key route for India to access landlocked Afghanistan, to whom India has committed over USD 2 billion in foreign assistance. Chabahar port and its planned connections via road and railroad to Afghanistan also provide Afghanistan with an alternative to what is currently its only access to the ocean trade through Pakistan.

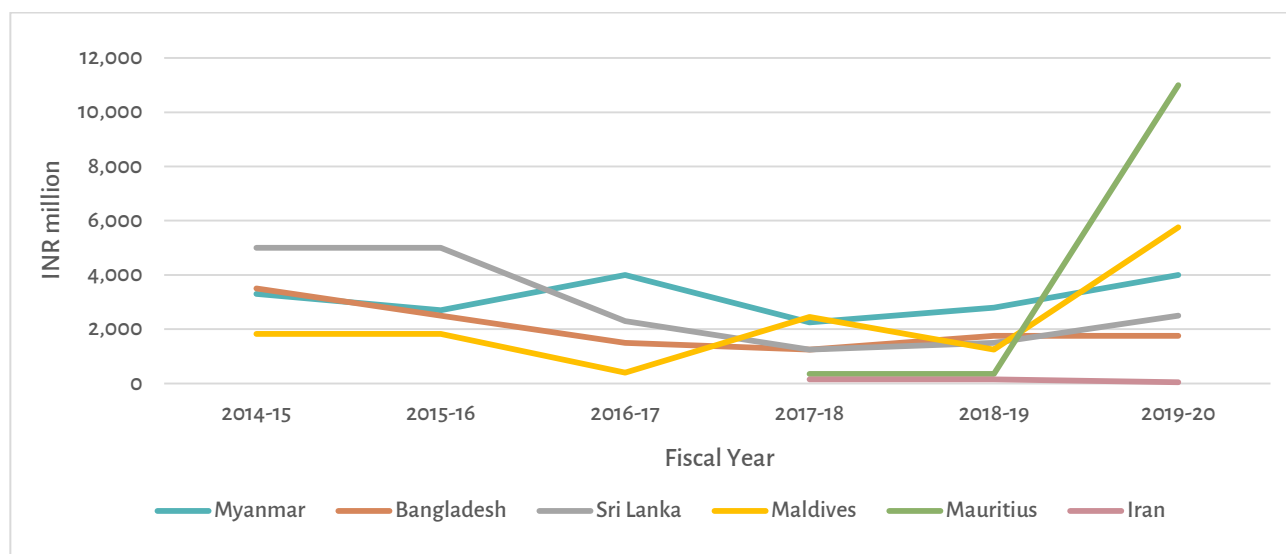
Moreover, though Indian discussions with Iran on developing the port predated the Modi administration, it was under Modi's government in 2015 that the two countries signed an MOU for the development of the port. The following year, in 2016, India, Iran and Afghanistan signed a ten-year trilateral agreement for the transit of goods from India to Afghanistan and back through the Chabahar Port. Iran offered India two port berths for development and the following year, in fiscal year 2017-18, India's budget for the first time had a separate line item showing a commitment of INR 150 or USD 2 million in development assistance for the development of the Chabahar Port, while the bulk of the USD 85 million port investment came in the form of a Line of Credit. The budget for 2018-19 had a similar grant allocation for the development of the port and at the end of 2018 Indian state-owned India Ports Global Limited (IPGL) formally took over operations of the port—a first for India in terms of operating a port outside its borders. In addition, India is also financing the construction of a USD 1.6 billion railway line to connect Chabahar Port with Zahedan, close to the Iranian-Afghan border.

Yet despite India's recent push to develop the strategic Chabahar Port, these investments have become hostage to American geopolitical interventions in Iran. Around the same time that India took over operations of Chabahar Port the U.S. State Department exempted Chabahar Port projects from its sanctions on Iran in recognition of the importance of the port to help provide landlocked Afghanistan with increased access

to trade and other economic opportunities. However, the United States kept in place its sanctions against countries importing oil from Iran – which includes India. This put the Indian government in a quandary since its investments in Chabahar and connected projects were predicated on an economic model that would have used Chabahar to export goods to Iran, Afghanistan and other Central Asian countries, while importing oil from Iran through the port. Without the ability to import oil

from Iran, ships going back to India would go back empty – making the Indian foreign aid investment in Chabahar Port economically unviable. American exemption of Chabahar Port from sanction has thus done little to make India's already significant development assistance investments into Iran an economically profitable undertaking, while at the same time, Chinese investments next to Chabahar in Pakistan's Gwadar Port surge ahead.

Figure 5a: Indian foreign assistance commitments to select Indian Ocean Rim countries



6 Line of Credits have continued to increase under Modi

Another method of foreign assistance provision which has received increased focus under the government of Prime Minister Modi is that of Lines of Credit (LOCs) offered to other countries through India's Export-Import Bank of India, or Exim Bank. The Government of India considers these LOCs to be part of its development partnership portfolio with other countries. The interest subsidy it provides for these LOCs, or the difference between the market interest rate and the interest rate at which these foreign assistance LOCs are provided to other countries, is therefore annually reported as part of its development assistance budget. India's LOCs can be thought of as "tied aid" since generally 75 percent of the goods and services bought through the LOCs have to be procured from India.

While LOCs were already a significant form of Indian foreign assistance provision under the previous government, Prime Minister Modi's government has focused on providing a greater number and amount of foreign assistance through these credit lines. During this government, the provision of these LOCs has increased significantly, with operative Lines of Credit totalling USD 24.39 billion on June 10, 2019. During the Modi government the provision of these LOCs necessarily fluctuates by year as seen in figure 6a, of the total of USD 27.8 billion LOCs approved since their inception in 2002-03, 62 percent has been approved under Modi's tenure. Furthermore, the amount of interest rate support provided by India to its Exim Bank rose significantly between 2018-19 and 2019-20, as seen in figure 6b with nearly USD 2 billion worth of credit lines in the pipeline for 2019-20.

Figure 5a: Total Exim Bank Line of Credits to foreign countries approved by fiscal year

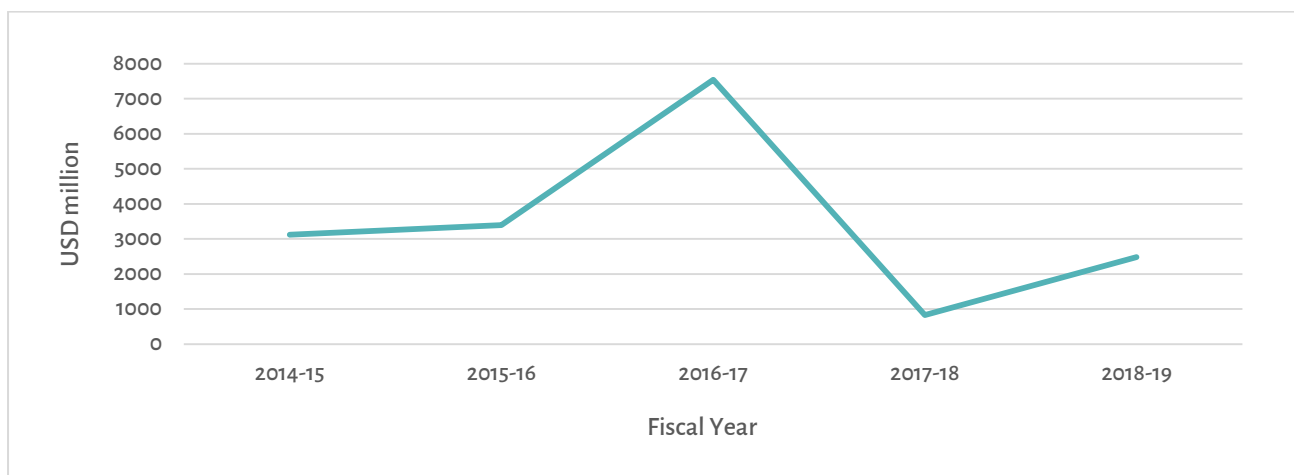
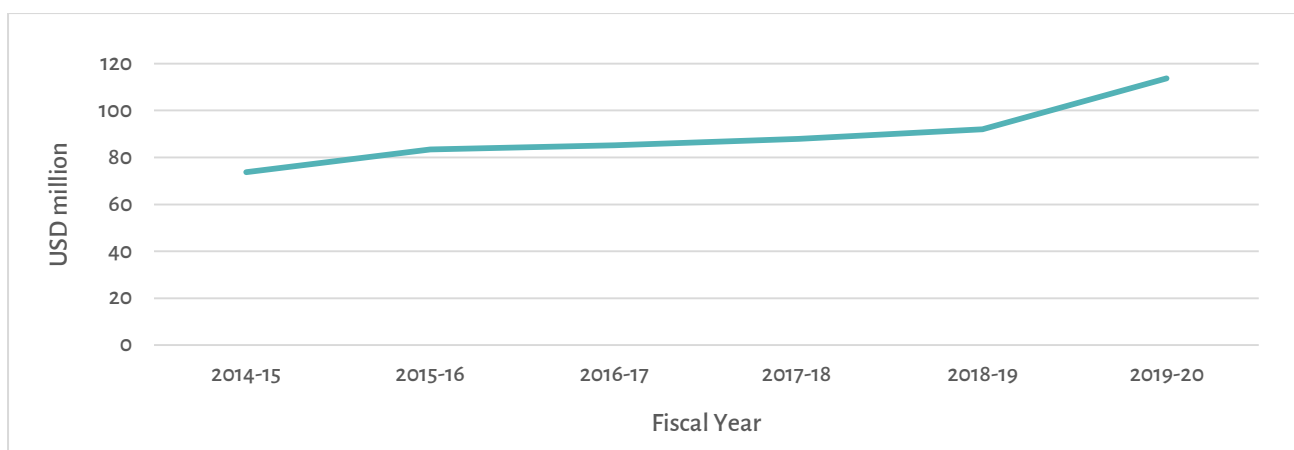


Figure 5b: Interest equalization support to Exim Bank extended by India's Ministry of Finance



7 In PPP terms, Indian foreign assistance is comparable to that of several high-income countries

India's foreign assistance commitments in grants, loans and interest rate equalization subsidy at INR 9,069.34 crore, INR 90.69 billion or USD 1.32 billion, not to mention the planned USD 2 billion in credit lines in 2019-20, already makes India a significant global foreign assistance provider in its own right. Comparing dollar for dollar, India's commitments in grants and loans alone for 2019-20 surpass the foreign assistance commitments of some smaller high-income countries such as Austria which has committed USD 1.2 billion for 2020. Moreover, if one includes India's USD 2 billion in credit lines, Indian foreign assistance surpasses that of larger

high-income countries such as Australia, which has committed AUD 4 billion or USD 2.8 billion for 2019-20.

However, as argued elsewhere,³ the better method for comparing Indian aid is in Purchasing Power Parity (PPP) terms, since most foreign aid provision by countries remains defacto tied aid, i.e. a significant amount of aid provision in the form of goods and services is sourced from the aid provider. Comparing aid budgets in dollar terms does not capture the differing ability of donor countries to provide goods and services for the same dollar amount.

For example, a significant part of Indian development assistance has historically been in the form of training of foreign civil servants in India. Some of these training agreements between the Indian government and its training institutes have kept their reported costs of training at the levels as when their agreements to provide training were first signed in the 1960s, making the reported cost of one three-week training course USD 15.⁴ While this might be an extreme example, it underscores

the fact that the cost of a training course for foreign civil servants in New Delhi is significantly less than a three week training course, for example, in Washington DC. Since a dollar of Indian aid “buys” the recipient country more foreign assistance in the form of goods and services than, for example, a dollar of Australian or American aid, comparing foreign assistance budgets in PPP terms gives a better sense of the goods and services the recipient country can purchase from the donor country.

Figure 7a: Indian foreign assistance commitments in USD versus PPP

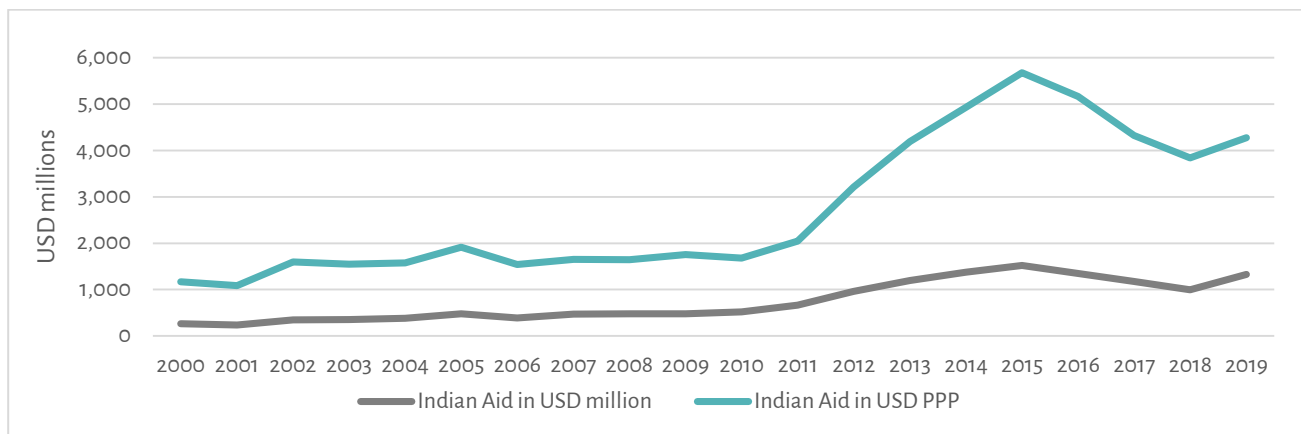
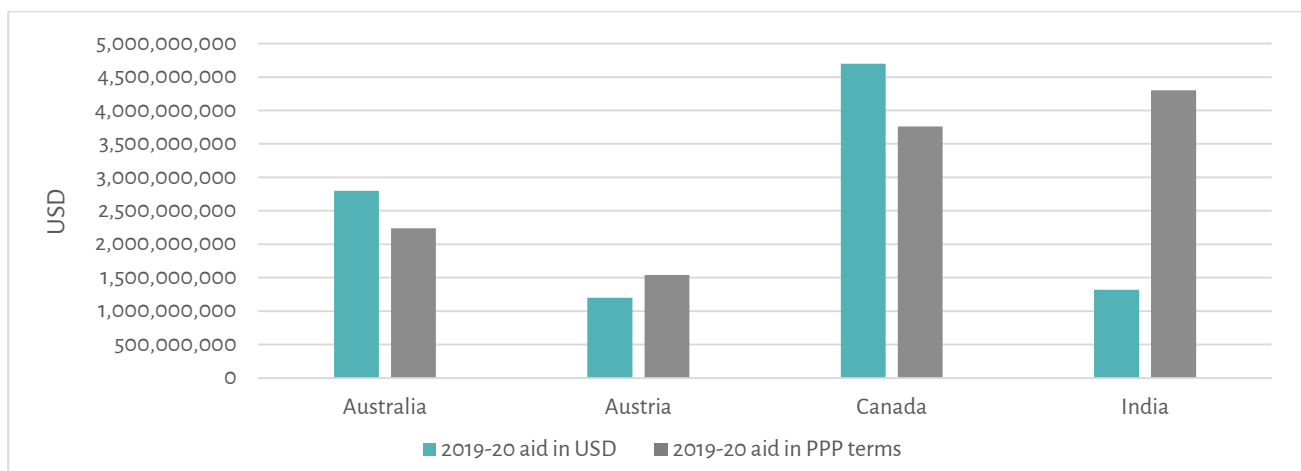


Figure 7b: Indian foreign assistance commitments in USD versus PPP



Comparing Indian foreign assistance in PPP terms, India's committed allocations for 2019-20 of USD 1.32 billion, is USD 4.3 billion in PPP terms as seen in figure 7b. In PPP terms, Indian development assistance commitments in 2019-20 are larger than the foreign aid commitments of Austria, which is USD 1.5 billion, and Australia, which is USD 2.2 billion. It is also larger than

the aid commitments of significant aid donors such as Canada, whose aid commitments for 2019-20 in PPP terms are 3.8 billion. Indian's development assistance is therefore increasingly significant at the global level and in PPP terms is comparable to the foreign assistance allocations of important higher-income donor countries.

NOTES

1. All data and figures presented here are based on data gathered by the Indian Development Cooperation Research (IDCR) at the Centre for Policy Research, New Delhi, the IDCR Database, and on budget estimates from India's Union Budget 2014-15 to 2019-20.
2. The author would like to thank Kashyap Aurora for his research assistance.
3. <https://asiafoundation.org/related-person/rani-d-mullen/>
4. Research by author and interviews with training provision institutes in 2014.