

INDIA-BANGLADESH DEVELOPMENT PARTNERSHIP: EXTENSION OF A US\$4.5 BILLION CREDIT LINE BY INDIA TOWARDS ITS EASTERN NEIGHBOR

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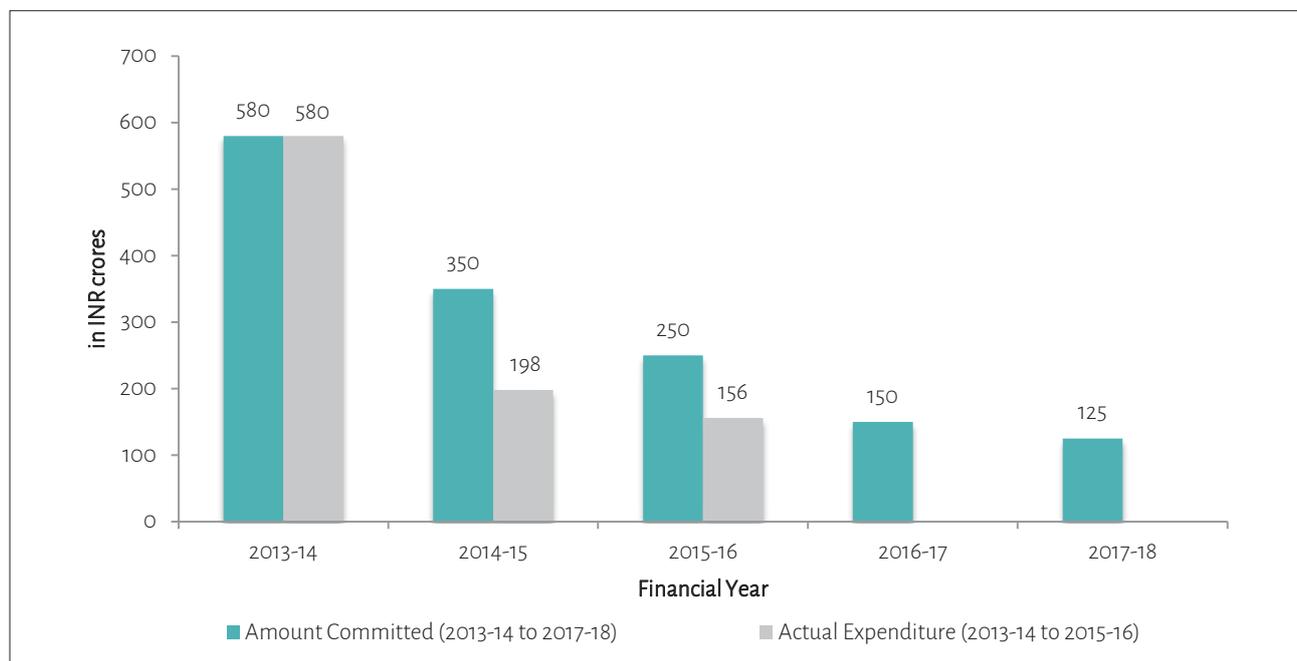
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Indian Prime Minister, Narendra Modi holding bilateral meeting with the Prime Minister of Bangladesh, Sheikh Hasina, on the sidelines of BRICS-BIMSTEC outreach summit, in Goa (October, 2016)

Bangladesh as one of India's crucial neighbor holds strategic and economic importance for India. A strong India-Bangladesh relationship is important to promote regional stability, enhance India's connectivity with East Asia and bring economic benefits to India's landlocked Northeastern region. Bangladesh is also increasingly sourcing capital machinery, raw materials and essential commodities from India and presents ample opportunities to Indian enterprises especially with respect to infrastructural development. Moreover, India's assistance towards Bangladesh also fares well for India's south-south model of development cooperation. Thus, considering Bangladesh as an important country within India's sphere of influence, successive Indian governments have worked towards strengthening bilateral ties with Bangladesh. This can be well noticed by The development assistance committed by India towards Bangladesh. In this respect, an important development instrument used by India are the concessional credit lines. A most recent example of this is the signing of a USD 4.5 billion line of credit (LOC) agreement between the two countries on 4th October 2017. This along with previous LOCs extended by India towards Bangladesh have been highlighted in detail in the brief.¹

Figure 1: Bar chart highlighting India's budgetary commitments and expenditure towards Bangladesh (FY2013-14 to FY2017-18)



Source: Indian Development Cooperation Research (IDCR) Program at the Centre for Policy Research

INDIA-BANGLADESH DEVELOPMENT PARTNERSHIP: LINES OF CREDIT (LOCS)

India first extended a credit line worth US\$1 billion towards Bangladesh in the year 2010. This credit line was later transformed into a grant of US\$200 million along a LOC of US\$800 million, which in 2015 was subsequently enhanced to US\$862 million. Some of the projects cleared under this LOC include modernization of signaling system of three stations between Ashuganj and Akhaura section of Bangladesh railway, construction of second Bhairab and second Titas Bridge, Khulna-Mongla port rail line, third and fourth dual gauge track between Dhaka-Tongi section and doubling of dual gauge track between Tongi-Joydebpur, rehabilitation of the Kulaura-Shahbajpur of Bangladesh railway. The credit line also included procurement of buses, locomotives, passenger coaches and rolling stock. During PM Modi's visit to Bangladesh in 2015, the Indian government further extended a landmark US\$2 billion credit line towards Bangladesh. This commitment took the cumulative sum of LOCs extended by India towards Bangladesh to US\$2.86 billion, thus, making Bangladesh the largest individual recipient nation with respect to amount of LOCs extended by India globally. As of March 2016, fourteen projects were planned to be implemented under this credit line. These included projects spanning across avenues such as infrastructural development (power, roads, railways and transport), shipping, and information and communication technology. In addition to the above, the agreement also emphasized on usage of this

credit line for development in social sectors such as health and technical education. This includes initiatives such as upgrading of forty-nine polytechnic institutes, modernization of two teacher training institutes, and establishment of medical colleges and hospitals. However, as of July 2016, the EXIM Bank of India approved only four out of the eight projects sent by the Bangladesh's Economic Relations Division (ERD). These included four-lane road project from Ashuganj river port to Akhaura land port and two projects to purchase trucks and buses from India, and another project to set up a new workshop at Sayedpur railway workshop to build passenger coaches.²

The LOC of US\$2 billion which at that time was the largest LOC ever extended by India towards another country, was supplemented by a much larger LOC worth US\$4.5 billion, agreement for which was signed in October, 2017. This is the largest quantum of a single credit line ever extended by India towards another country. The credit line aimed at developing Bangladesh's infrastructure, health and education sector, takes the total financial support by India towards Bangladesh to more than US\$8 billion. As with previous LOCs, Bangladesh will be paying an interest of one percent per annum on this credit line. The loan will have a payback period of twenty years, with a grace period of five years. Further, of the total amount, US\$500 million has been earmarked for setting up of new economic zones for Indian and other investors, which is pivotal for Bangladesh as it looks to encourage greater private investments. Of this, US\$100 million was extended

towards building a dedicated economic zone spanning 1005 acres in Mirsarai, another US\$100 million towards developing a special economic zone at Payra or Moheshkhali and US\$300 million for development of infrastructure of different economic zones respectively. Other projects to be financed by the credit line include, construction of new dual gauge rail-line from Bogra to Shaheed M Mansur Ali station in Sirajganj, up gradation of Benapole-Jessore-Narail-Bhanga, Ramgarh-Baruerhat and Moynamoti-Brahmanbaria-Sarail highways into four lanes each, development of Saidpur airport in Nilphamari and 765KV interconnected power transmission network. Further, around US\$1 billion of the credit line is expected to be spent on the infrastructural development of the Rooppur nuclear power plant. The Indian side also proposed revival of the railway system that existed during the British period to enhance India-Bangladesh connectivity. In addition to the LOC agreement, India also signed a joint interpretive note with Bangladesh to update the bilateral investment promotion agreement. India also set up a representative office of the EXIM Bank of India in Dhaka. All these steps are crucial for facilitating greater development partnership and higher amount Indian investments into Bangladesh.³

The third LOC of US\$4.5 billion comes at a very crucial time, especially as China deepens its partnership with Bangladesh as can be seen through its pledge of US\$24 billion in loans

for the South Asian nation. India's operationalization of the third LOC also comes at a time when Bangladesh and India are concerned with the unstable situation in Myanmar regarding Myanmar's military push after Rohingya insurgents attacked police posts and an army base in August. India's lack of acknowledgment of the humanitarian crisis-taking place in Myanmar has been looked at unfavorably by Bangladesh. Crucially, in both these countries India views the growing Chinese assistance and influence with concern.

However, though India has extended this substantial credit line, but the performance of the earlier two credit lines in terms of implementation of projects hasn't been satisfactory. Projects under these credit lines have been plagued with delays which have been attributed to varied reasons including project selection, land acquisition, local governance issues, procedural flaws and lengthy time taken for finalizing projects. The need for sorting out such problems becomes important when one considers increasing competition from China in India's immediate neighborhood. Moreover, many analysts believe that despite strong political relations between the two nations, Indian enterprises are yet to explore full potential of promising opportunities in Bangladesh. Thus, all these factors necessitate India to push its model of development cooperation and filter out problems with respect to disbursement of LOCs and implementation of Indian LOC financed projects in Bangladesh.⁴

END NOTES

1. See “India’s development cooperation with Bangladesh: Lines of credit (LOCs)”, 20th January, 2017, Indian Development Cooperation Research (IDCR) Program, Centre for Policy Research (CPR) India, available at <http://cprindia.org/sites/default/files/op-eds/India%20development%20cooperation%20with%20Bangladesh%20Lines%20of%20credit%20%28LOCs%29%20%281%29.pdf>, last accessed on 10th October, 2017.
2. See “India’s development cooperation with Bangladesh: Lines of credit (LOCs)”, 20th January, 2017, Indian Development Cooperation Research (IDCR) Program, Centre for Policy Research (CPR) India, available at <http://cprindia.org/sites/default/files/op-eds/India%20development%20cooperation%20with%20Bangladesh%20Lines%20of%20credit%20%28LOCs%29%20%281%29.pdf>, last accessed on 10th October, 2017.
3. See “Bangladesh signs \$ 4.5 bn loan deal with India, 4th October, 2017, The Hindu, available at <http://www.thehindu.com/news/national/bangladesh-signs-usd-45-bn-loan-deal-with-india/article19795608.ece>; Bangladesh signs \$4.5bn 3rd LOC deal with India, 4th October, 2017, Dhaka Tribune, available at <http://www.dhakatribune.com/bangladesh/development/2017/10/04/bangladesh-signs-4-5bn-3rd-loc-deal-india/>, last accessed on 10th October, 2017.
4. See “India extends helping hand to Bangladesh, provides USD 4.5 billion credit”, 4th October, 2017, Deccan Chronicle, available at <http://www.deccanchronicle.com/business/economy/041017/india-extends-helping-hand-to-bangladesh-provides-usd-45-billion-credit.html>; “Bangladesh, India set to sign \$4.5 billion line of credit deal on Arun Jaitley visit”, 4th October, 2017, The Indian Express, available at <http://indianexpress.com/article/india/bangladesh-india-set-to-sign-4-5-billion-loc-line-of-credit-deal-on-arun-jaitley-visit-4873554/>; India extends \$4.5 billion loan to Bangladesh, 5th October, 2017, Livemint, available at <http://www.livemint.com/Politics/PJNGy9mN1sOLFqVTKKdI5L/Bangladesh-signs-45-billion-loan-deal-with-India.html>; “Arun Jaitley is in the house”, 3rd October, 2017, Dhaka Tribune, available at <http://www.dhakatribune.com/opinion/oped/2017/10/03/arun-jaitley-house/>, last accessed on 10th October, 2017.