

## India's Neighbourhood Aid Policy *Opportunities and Challenges*

Saurabh Kumar\*

Aparna Sharma\*\*

### Contents

<b>Abstract.....</b>	<b>2</b>
<b>Introduction.....</b>	<b>3</b>
<b>Overview of Aid.....</b>	<b>4</b>
<i>The India's Overseas Technical and Economic Cooperation.....</i>	<i>4</i>
<i>Line of Credits.....</i>	<i>5</i>
<b>Objectives, Politics and Necessity of Neighbourhood Aid.....</b>	<b>7</b>
<i>Nepal and Bhutan.....</i>	<i>9</i>
<i>Bangladesh.....</i>	<i>10</i>
<i>Afghanistan .....</i>	<i>11</i>
<i>Sri Lanka .....</i>	<i>12</i>
<i>Maldives .....</i>	<i>12</i>
<i>Pakistan.....</i>	<i>13</i>
<b>Conclusions and Way Forward .....</b>	<b>13</b>
<b>References.....</b>	<b>15</b>

© CUTS International 2015. This Discussion Paper is produced by CUTS to inform, educate and provoke debate on issues of trade and development. Readers are encouraged to quote or reproduce material from this paper for their own use, but as the copyright holder, CUTS requests due acknowledgement and a copy of the publication.

This Discussion Paper was researched and written for CUTS Centre for International Trade, Economics & Environment (CUTS CITEE), D-217, Bhaskar Marg, Bani Park, Jaipur 302016, India, Ph: 91.141.2282821, Fax: 91.141.2282485, Email: [cuts@cuts.org](mailto:cuts@cuts.org), Web: [www.cuts-international.org](http://www.cuts-international.org).

\* Policy Analyst, CUTS CITEE

\*\*Research Assistant, CUTS CITEE

The views expressed here are those of the authors and not that of CUTS International.

## **Abstract**

Over the past few decades, India's status has changed at the global level specifically because of its high economic growth, steady integration with the international economy, growth in business processing, induction of nuclear weapons and enhancement of national defence strategy. But the question occurs, what does it mean in terms of its foreign relations with its immediate neighbourhood? There can be several stories about the success of India as a global rising power but does it changes the scene of regional power struggle. There are several misconceptions, missing elements, incoherence and vagueness when it comes to the foreign policy of India to its neighbours particularly in aid policies.

India's aid policy towards South Asian neighbours has been driven by economic, historical and political reasons. Political factors include the need to ensure that anti-India forces such as Taliban or LTTE do not capture the political sphere. Historical reasons include cultural similarities and the shared colonial experience which makes a moral pressure on India to act as a big brother in the region not as a bully. Economic factors include the economic benefits of expanding Indian multinational corporations (MNCs), India's energy interests and long term natural resource sustainability.

In this context, this paper focuses on the India's role in the growth and development of its neighbourhood. It also analyses the misconceptions about India's aid policies and politics. Finally, the paper offers suggestions to address those misconceptions.

## Introduction

India is the world's largest democracy with more than 1.2 billion people with a trillion dollar economy. Since 1980 to 2010, India achieved an economic growth of 6.2 per cent. Despite the global slowdown it has been growing at the rate of around 7.7 per cent per annum (2001-2011). In terms of purchasing power parity (PPP), it is the fourth largest economy in the world (after the US, Japan, and China). Gross National Income (GNI) of India has increased from US\$730 billion in 2005 to US\$1410 billion in 2011 (World Bank 2013; Ministry of Finance 2013a).

India is the 2<sup>nd</sup> fastest (after China) middle-income country in the world and it is capable to spend money (around US\$1.3 billion by next year) on space programme and have its own aid agency with a budget worth US\$11.3 billion by the next five years.

India also exhibits a paradox of growth and development. According to the World Bank, about 37 per cent of the Indian population lives on less than US\$1.25 a day in 2011. About 30 per cent of new-borns in India are of low birth weight and about 36 per cent of adult women suffer from chronic energy deficiency (UNDAF 2013). At present, 40 per cent (around 217 million) of the world's malnourished children are in India (World Bank 2013).

India suffers an estimated food grain and agriculture loss of US\$8.12 billion every year due to lack of adequate post-harvest infrastructure. It also faces grave energy shortages. Imported oil, which met 60 per cent of India's oil demand in 2006, is expected to have to meet 90 per cent of the country's oil demand in 2015 (Chong 2013).

Therefore, it is not surprising to note that despite rapid economic growth over the past few years, India is still the recipient of development aid to construct its infrastructure and finance its development. In 2009, the total net official development assistance (ODA) received by India from all donor countries was about US\$2.5 billion (OECD 2012). India's own external debt stock stood at US\$390 billion at the end of March 2013, while the proportion of concessional loans in total external debt was only 11.7 per cent (Ministry of Finance 2013b).

One may ask, why does India, with the largest number of poor people in the world, a recipient of foreign aid for its development programmes, paradoxically give out aid and assistance to other neighbouring countries as a development partner?<sup>1</sup> But such observations ignore that India has a record of foreign aid and donor or development partner since independence.

Despite this, officially India's motives for giving aid and assistance to its neighbours and its economic, geographic and political priorities with regards to aid remain largely unknown. In an attempt to close this critical gap, this paper evaluates India's aid and assistance towards its neighbours focussing on its objectives, politics and necessity.

---

<sup>1</sup> India avoids the term "donor" because of its colonial and western meaning that focusses only on one way flow. India rather perceives itself as a partner in South-South development cooperation (see also Chaturvedi 2008).

## Overview of India's Overseas Aid

India started to provide aid to neighbouring countries such as Nepal, Sri Lanka and Bhutan in the 1950s.<sup>2</sup> Traditionally, Indian aid has focussed on technical assistance. It has been involved in aid through the use of its manpower assets in the form of human capacity and the provisioning of training. Between 1992-2009 official foreign aid and assistance provided under the umbrella of the Ministry of External Affairs, India (MEA) amounted to US\$4.4 billion. In 2009 alone, it totalled US\$444 million (Fuchs and Vadlamannati 2012).

Humanitarian along with technical and economic assistance is listed under non-plan grants in the Indian budget. The plan expenditure by the MEA is for development projects such as hydroelectric projects. India's aid, assistance and technical cooperation to its neighbours is still not very large but has risen by over 160 per cent between 2006-07 and 2011-12. There are no consolidated estimates of India's aid programs. Its annual budget allocation serves as a useful substitute. In 2008, India allocated approximately US\$547 million to aid related activities. India's aid budget rose from US\$40.3 million in 1966 to US\$362.8 million in 2010 (around 0.04 per cent of the country's GDP) (Ministry of External Affairs, India 2012).

In addition to MEA, India provides concessional finance via EXIM bank. EXIM bank provided US\$2.45 billion to developing countries between 2005 and 2009. But the largest share of around 73 per cent of EXIM bank loans goes to sub-Saharan African (SSA) countries. India approved US\$704 million in 2007-08 through EXIM bank's credit lines. Around 89.7 per cent of India's aid given by MEA allocated to its neighbouring countries. Sector wise, 23.1 per cent of aid is targeted to the energy sector covering both the production and distribution of energy in recipient countries. The second most important sector was drinking water and sanitation facilities making up 15 per cent of the MEA's total aid amount, while 12.8 per cent goes to transport and storage facilities (Fuchs and Vadlamannati 2012).

### *The Indian Technical and Economic Cooperation*

The Indian Technical and Economic Cooperation (ITEC) scheme is being implemented since 1964 and provides training to more than 161 countries.<sup>3</sup> Since its inception in 1964, ITEC has provided training, education and technical expertise to many officers, scholars and political leaders from neighbouring countries (Agrawal 2007). India spends US\$11-12 million annually on ITEC activities (The Chronicle 2011).

The ITEC programme has the following components: civilian and military training to officials in India from partner countries; feasibility studies and consultancy services; study tours; donations of equipment; and aid for disaster relief.

---

<sup>2</sup> The origin of India's aid and assistance programme goes back to 1950s when the Colombo Plan was launched in Sri Lanka by a group of Commonwealth countries that included India. After independence from British colonial rule in 1947, India signed an agreement with Bhutan in 1949 under which it retained the right to guide the foreign policy of Bhutan including security and promised not to interfere in the domestic matters of Bhutan in exchange of financial and technical aid.

<sup>3</sup> ITEC programme was started on 15 September 1964 as a bilateral programme of assistance by the India to its neighbours and developing countries. Although, it was based on the vision of Jawaharlal Nehru, but it was formally launched by the Lal Bahadur Shastri. Initially it was based on the bilateral cooperation notion but later multilateral cooperation and facilitation from other international organisation was added to it, such as ASEAN, BIMSTEC, IOR-ARC, and CARICOM among others (ITEC 2012).

ITEC works under the umbrella of MEA and its annual budget was US\$11 million in 2005, though this is likely to rise significantly as India expands its overseas assistance programme (ITEC 2011).

Around 40 per cent of its budget is spent on training, primarily tuition fees, accommodation, airfares and allowances. Most of the training courses have six weeks duration, although some last one year. Indian embassies in the ITEC applicable countries request governments to nominate personnel for training. Following a recommendation from the Embassy, the MEA and the relevant institute decide on their suitability. There are currently more than 51 Indian experts serving overseas under ITEC. These normally involve a two-year posting. ITEC funds feasibility studies in the area of geography and regional development. These studies are generally carried out by state owned companies and institutions.

ITEC is also responsible for some project assistance, for instance establishing vocational training in Afghanistan and disaster relief. The initial needs assessment is carried out by the local Indian embassy, which makes recommendations regarding the type of items which should be provided (Price 2005). In January 2012, the MEA set up a Development Partnership Administration (DPA), India's own foreign aid agency combining the different arms of its foreign assistance programmes that have evolved since 1950 commencing with special programmes for neighbours (Rana 2013).<sup>4</sup> With a budget of US\$15 billion to be spent over the next five years, the DPA will oversee the management of India's overseas development projects, providing MEA the support for effective delivery to fellow developing states (Price 2013).

While the ITEC has been the major means by which India has provided aid and assistance to other countries, including neighbours, there is a growing recognition that Line of Credits (LoCs) are also a successful developmental tool.

### *Line of Credits*

The MEA is responsible for LoCs to Bangladesh, Nepal and Bhutan, while the Department of Economic Affairs (DEA) in the Ministry of Finance (MoF) is responsible for extending LoCs to other countries. Following the start of the India Development Initiative (IDI) in 2003, the DEA stopped sanctioning LoCs from budgetary sources, and began providing interest subsidies and counter guarantees to the EXIM Bank of India providing LoCs from its own sources.<sup>5</sup>

Originally denominated in rupees, since the 1990s LoCs have been denominated in US\$. They cover 90 per cent of the free on board value of export and cover capital goods, manufactured consumer durables and consultancy services. Interest on LoCs is charged at the LIBOR six month rates.<sup>6</sup> The repayment period for capital goods is 12 years, including a three-year grace period. These terms can vary depending on recommendations from the MEA and requests from the recipient government (Price 2005).

---

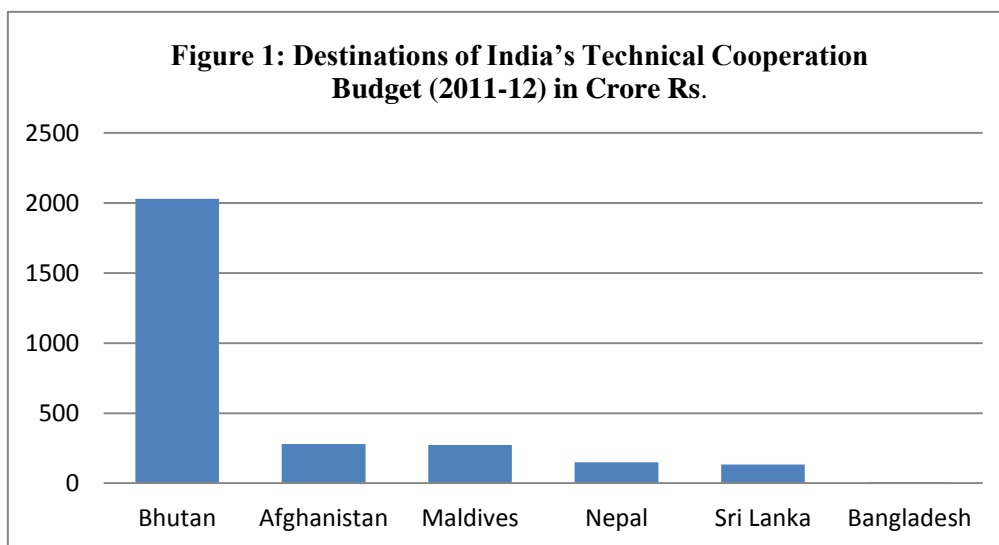
<sup>4</sup> DPA was started by MEA to create in-house, specialised technical, legal and financial skills in order to fast track all stages of project implementation. DPA-I deals with project appraisal and lines of credit; DPA-II deals with capacity building schemes, disaster relief, ITEC; and DPA-III deals with project implementation (see also Ministry of External Affairs 2012).

<sup>5</sup> India started IDI programme to give grants and project assistance to developing countries in Africa, South Asia and other developing countries (The Economic Times 2003)

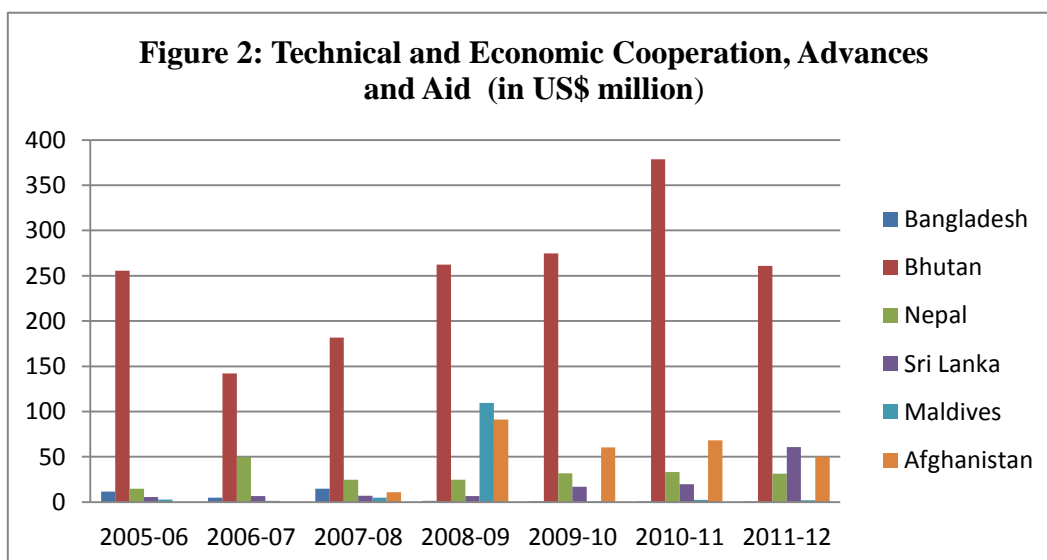
<sup>6</sup> The London Interbank Offer Rate (LIBOR) is an estimate of prevailing interest rate in London money markets (Murphy 2012)

The two major strands of the Indian DPA development assistance are LoCs and capacity-building. Since 2003, almost US\$10 billion worth of LoCs has been extended. Such LoCs are used to fund a wide range of projects in areas such as agriculture, irrigation, food processing, rural electrification, healthcare, IT and infrastructure. Notable recipients include Sri Lanka (US\$966 million) and Bangladesh (US\$800 million) (Raghavan 2013).

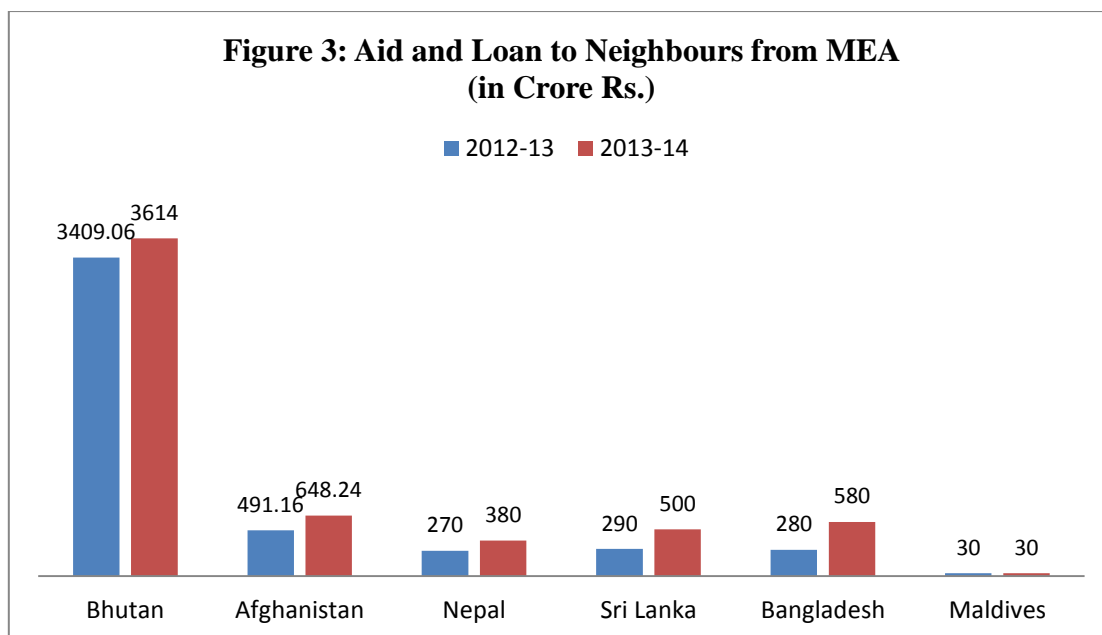
The following figures provide an overview of India’s aid and assistance to its neighbours. As mentioned in these figures, it can be observed from Figure 1 that Bhutan is the largest recipient of India’s assistance whether it is ITEC assistance or loan. It is also evident from Figure 2 that over the past few years, shares of Maldives and Afghanistan have declined in India’s aid programmes, while on the other hand, Sri Lanka is increasingly gaining importance in aid programmes (see Figure 3).



Source: MEA, Outcome Budget 2013-14



Source: MEA, Outcome Budget 2013-14



Source: MEA, Outcome Budget 2013-14

### Objectives, Politics and Necessity of Neighbourhood Aid

There is no clear answer for why India provides aid to its neighbours. No specific policy of the MEA in India guides the aid decisions, and therefore can be attributed to its changing foreign policy planning. Sometimes, these are ad hoc decisions while there are some fixed channels also for aid delivery, as well as some underlying cultural principles and priorities.

A major reason for providing aid is desire to help poor neighbours and wish to foster friendly relations. Aid and assistance lies also at the heart of Indian philosophical and cultural values. Hinduism, Buddhism, Islam are all major religions in India that espouse solidarity with the poor and promote charity. In Hindu mythology “*Daan*” has a very special place. Bhagavad Gita, a noted religious book of Hinduism, also preaches that “there should be no motive in charity”. India’s MEA also conceives aid and assistance as a “goodwill gesture” (MEA 2011).

India’s relationship with its neighbours can be contextualised in the broader framework of hegemony and globalisation. Free from structural limitations of the cold war, India is seeking to build strategic political and economic alliances at the bilateral and regional level that holds promise of rich security dividends (Bava 2007). The Gujral Doctrine of 1990s was also based on the notion of non-reciprocity in India’s relations with its neighbours.<sup>7</sup> As India’s personal

<sup>7</sup> In his famous Chatham House speech in London in September 1996, I. K. Gujral as India’s Minister of External Affairs in the cabinet of Prime Minister H. D. Devegowda outlined his approach towards the neighbours and stated: “The United Front Government’s neighbourhood policy now stands on five basic principles: First, with the neighbours like Nepal, Bangladesh, Bhutan, Maldives and Sri Lanka, India does not ask for reciprocity but gives all that it can in good faith and trust. Secondly, no South Asian country will allow its territory to be used against the interest of another country of the region. Thirdly, none will interfere in the internal affairs of another. Fourthly, all South Asian countries must respect each other’s territorial integrity and sovereignty. And finally, they will settle all their disputes through peaceful bilateral negotiations. These five principles, scrupulously observed, will, I am sure, recast South Asia’s regional relationship, including the tormented relationship between India and Pakistan, in a friendly, cooperative mould.” Gujral reiterated these five principles later in another speech at Bandaranaike Centre for International Studies (BCIS), Colombo in January 1997. It is noteworthy that Pakistan did not feature in the list of countries Gujral identified in his speech for non-reciprocal treatment. This policy approach was called ‘*Gujral doctrine*’ by noted Indian journalist Bhabani Sen Gupta (1997).

stakes for security are higher in South Asian region in terms of maintaining stability, India should be willing to give more than it receives with its neighbouring countries. However, some scholars have argued on this doctrine as they completely disagreed with it. Gauhar (1997) stating that, “The Gujral Doctrine is not a doctrine of good neighbourly relations but a Bharti Plan to seize the neighbour peacefully”.

Although the decisions in policy circles are based on national interests that are viewed from various lenses, the logic of economic interest has dominated this arena and most domestic actors agreed on it despite their political differences. That is why, Chidambaram (2007) also stated that, “India is respected not because it has acquired the capacity to launch rockets or satellites, or because of the size of its population, or because of its dominant presence in Asia. The world respects India because of its capacity to emerge as an economic powerhouse”. From a foreign policy point of view, India is no longer willing to lead the poor countries of the developing world in a struggle against imperialism, and no longer wishes to project its power merely within the conflicted confines of its own neighbourhood.<sup>8</sup> It is pressing its suit on the world stage, not least within the boundaries of World Trade Organisation (WTO).

Two major drivers determined India’s increasing partnership in South Asia and particularly in the South Asian Association for Regional Cooperation (SAARC). India viewed SAARC as a modality suited to the smaller countries for achieving a better strategic balance with India. Most of the countries are not willing to deal with India directly given the geographic and economic realities. Another important factor that has led to the change in the Indian policymaking circle is China’s growing influence in the region. India also wants to secure territorial integrity in its peripheral regions which cannot be served without collective regional initiatives.

The series of political and military crises in different South Asian countries and increasing role of China in the neighbourhood has raised concerns in India for a comprehensive cooperative policy towards its neighbours. As India’s power and outreach becomes wider and deeper, its stand on economic diplomacy is becoming more assertive. Although currently, India is trying to become a leading donor of aid in developing countries especially in South Asia, yet it needs a well-organised mechanism to channel and supervise its aid strategy. The idea to create supremacy in South Asian region has been a major component of India’s neighbourhood policy. Former Indian Prime Minister Indira Gandhi’s strict approach to neighbouring countries and later former Indian Prime Minister Rajeev Gandhi’s diplomatic and military strategies proved this assertion (Raja Mohan 2013).

As India’s military and economic power increases, its interests became important on the frontiers of its historical influences. That is why India expanded its neighbourhood cooperation in recent years. Jawaharlal Nehru’s vision was not limited only to promoting the national interests of India, he emphasise the responsibility to assist friends and partners.

---

<sup>8</sup> Since 2003, India focussed on the denial of bilateral assistance from other countries to project itself on a table of power players in global politics. It refused the aid from the U.K. in 2011, saying that India does not require bilateral aid as other countries project India as a country of poverty and hunger. But later the U.K. started to lobby to remain a foreign aid donor to India to show that it wants healthy relations while bidding in the Indian defence sector (Mullen 2012). India refused aid from other countries for the 2004 Tsunami, 2005 earthquake, 2006 flood in Mumbai; while India offered aid to the US in 2005 after Hurricane Katrina. India now ranks among the top 20 creditors to international organisations including International Monetary Fund (IMF). India had deployed 38 ships, 21 helicopters, 8 air crafts and more than 5500 personals to aid Sri Lanka, Maldives and Indonesia at the time of 2004 Indian Ocean Tsunami (Pai 2011).



India claims that its aid is more needs-oriented than aid from rich donor countries as its economic and social structure is closer to that of neighbouring countries. Some argue, that India might be increasingly using aid as an instrument to gain access to overseas markets for its goods and services, pave the way for Indian investment abroad, and secure access to natural resources in the long run (Agrawal 2007; Kragelund 2008). But at the same time, India also admits that the government has been using development aid, including grants and LoCs on concessional terms, as a tool for the promotion of India's political, economic and commercial interest. Aid programmes also constitutes an integral part of India's South-South cooperation effort which has been a traditional pillar of the country's foreign policy and diplomacy (ITEC 2011).

### ***Nepal and Bhutan***

Treaties with the British system were signed with Nepal in 1819 and 1923 and with Bhutan in 1865 and 1910. Jawaharlal Nehru reconstructed the economic and security treaties with these countries.<sup>9</sup> After independence, India signed a treaty with Nepal in 1947 that allowed it to recruit Nepalese in Indian security forces. Even Nehru invited Nepal and Bhutan to participate in the First Asia Relations conference of April 1947 in New Delhi that was hosted a few month before the Indian independence, it started a new beginning in the foreign relations of these isolated small countries with the rest of the world (Inayat 2007: 13 in Bailes *et al* 2007).

In the early days of independence the objective of aid was to support small neighbouring countries especially Bhutan and Nepal. Indian aid commitments were US\$21 million in multi-year grants to Nepal and financing of 60 per cent of Bhutan's budget in 1958 (Chanana 2009). India's aid was confined to only technical assistance mainly because India was also in dire need for money at that time to finance its own development projects. Not only this, as India was the founder of the Non-Aligned movement group, its aid was driven by the larger objectives of this group.<sup>10</sup>

In 1960-61, India supported Nepal's five year plan to the tune of US\$36 million. A mere focus on quantity of amount in aid packages misses the fact that even small amounts given in the form of advice and technical assistance and training creates a multiplier effect by creating goodwill and prospects for further improvement in relations. As India did with Nepal and Bhutan since the 1950s, several political leaders, bureaucrats and academicians were trained and taught in Indian institutions, which created the shadow effect of Indian ideology on the economic, political and foreign policy of these countries. In the case of Nepal, politicians of India that shared border regions with Nepal supported the Madhesi movement for autonomy (Malone and Mukherjee 2011).

---

<sup>9</sup> The principle architect of India's economic and foreign policy, former Indian Prime Minister Jawaharlal Nehru said in constituent assembly on December 6<sup>th</sup>, 1950: "So far as the Himalayas are concerned, they lie on the other side of Nepal, not on this side. Therefore, the principle barrier to India lies on the other side of Nepal. We are not going to tolerate any person coming over that barrier. Therefore, much as we can appreciate the independence of Nepal, we cannot risk our own security by anything not done in Nepal which permits either that barrier to be crossed or otherwise leads to the weakening of our frontiers" (please refer Raja Mohan 2013).

<sup>10</sup> Jawaharlal Nehru convened the Asian Relations Conference even before the independence of India in 1947. Asian Relations Conference of 1947 was followed by a conference in 1949 in Indonesia and another one in Bandung in 1955. This became the pillar for the establishment of the Non-Aligned Movement (NAM) in 1961 (For NAM see URL: <<http://www.e-nam.org.my/mainb.php?pg=map?>>).

India's reluctant yet influential role in bringing the official political parties and Maoists rebels since 2005 has countered some of the negativism towards India in Nepal; their distrust is still very high with regard to the Indian policy. India's long support for the monarchy of Nepal and their influential role in the Nepalese politics, made the Indian ambassador in Nepal to behave like a viceroy in Nepal. In Nepal, India has long tried to influence politics through economic means. This was complicated when Maoist insurgency started. Again when India stopped the arms supply in 2005 to the Nepal's monarchy when they took a decision to dismiss all political parties, China stepped in, creating a competition for two regional hegemons. But India also ignored the requests of Nepal in the repatriation of Bhutanese refugees. India's abandoning leadership capabilities and efforts on political issues can be cited as a lack of vision on economic issues (Bailes 2007).

Although India gives Nepal duty free access to all agricultural and industrial exports, there are still issues of quarantine testing of Nepalese agricultural products by India. Nepal argues that since both India and Nepal share the same agro-climatic zones, India should not conduct quarantine tests, which can raise costs and make Nepalese products uncompetitive in the Indian market. Indian policymakers need to understand that they must go beyond the traditional concepts of aid such as building roads, hospitals, etc. They cannot leave Nepal economically isolated as it needs support not only in aid but also through policy (Hogg 2007).

With its immediate neighbour, India continues to be Nepal's major trading partner: nearly 60 per cent of Nepal's foreign trade is with India and 40 per cent of its foreign direct investment (FDI) comes from India. Around 40 per cent of Nepal's tourists come from India and there are around 5 million Nepalese working in India. The possibility of creating a win-win situation for energy starved India and the fact that anything that Nepal does on its rivers will have implications for the states of Bihar, Uttar Pradesh and perhaps even West Bengal promises the possibility for greater cooperation in this area.

India enjoys a very special relationship with Bhutan; its borders touch Sikkim, West Bengal, Assam and Arunachal Pradesh and the relationship has been founded in a very close partnership, both in the security field and the economic field. India has agreed to the Bhutanese target of achieving 10000 megawatts of energy by 2020, up from a little over a 1000 MW right now. For instance, India is constructing Punatsangshu II Hydroelectric project (1200 MW), and Mangdechu Hydroelectric Project (720 MW) in Bhutan. Apart from that, Bhutan also received Rs. 1330 cr in 2010-11 for hydroelectric power projects from India (Bakshi 2012).

### ***Bangladesh***

For a very long period India remained un-interested in opening its market to its neighbours. India often paid attention to duty free trade, despite the challenges of non-tariff barriers. Bangladeshi products such as ceramic, garments, leather and footwear, fish and seeds are in demand in India. Mandatory testing requirements and certification procedures hinder cross-border trade. For example, textile and leather products from Bangladesh are sent to Lucknow in Northern India for testing which takes time and money. A lengthy licencing procedure, the lack of laboratories and testing cells near the border discourages traders for further trade. This also creates negative pressure on the governments of neighbouring countries. For example, Bangladesh rejected the proposal of a USA based company to supply gas from Sylhet to New Delhi through pipeline crossing Bangladesh (Bhasin 2008).

There was a surge in India's aid budget in 1972 due to India providing external assistance to Bangladesh, which obtained independence from West Pakistan (Pakistan) in 1971 with military support from India. India allocated US\$422.5 million (in 2000 constant prices) to Bangladesh in 1972 in the form of grants and concessional loans (Fuchs and Vadlamannati 2012). While India has tried to do its best in the field of bilateral relations, it has after a long time agreed through the Framework Agreement with Bangladesh to look at issues of trade and transport connectivity and water resources in a regional construct. India has traditionally wanted to keep these issues bilateral but now the process has expanded to the regional level where there is opportunity for Nepal, Bhutan, Bangladesh and India to sit together and discuss areas of common concern. India provided US\$37 million to help Bangladesh cope with natural disasters and floods in 2007-08. India's assistance was also given in the form of shelters and food products such as milk and rice (ASPEN 2012).

India is building rail links from the Akhaura-Agartala and Inland river port in Ashuganj to promote trade linkages between the two countries. In 2011-12 it gave US\$100 million to Bangladesh as grant assistance and committed to give a total of US\$200 million. To secure markets and increase trade India gave US\$1 billion as LoC to Bangladesh in 2010 to invest in infrastructure so that it can be connected with North-eastern Indian states. 80 per cent of this LoC was tied to the use of Indian contractors. In 2013, India reviewed the projects implemented in LoC's to Bangladesh worth US\$800 million and announced that projects worth US\$785.45 million. India also converted US\$200 million of LoC into grants. The interest rates for the remaining loans were also reduced from 1.75 to 1 per cent. Apart from that, India also agreed to facilitate transit for Bangladesh to Nepal and Bhutan and supply around 250 MW power (High Commission of India 2013; FICCI 2012).

### *Afghanistan*

India's assistance to Afghanistan has been wide ranging and included training, humanitarian assistance, rehabilitation, enhancement of public transportation, supplying aircraft and other military equipment's, and supervision of food assistance. Since the overthrow of the Taliban in Afghanistan, India has become a major donor in the country. India's cumulative aid to Afghanistan was US\$2 billion in 2011-12, making it the 5<sup>th</sup> largest donor (Mullen 2013).

India is also involved in a US\$70 million project constructing the Zaranj-Dalaram road, reconstruction of major political buildings including parliament, Salma Dam Power project in Herat Province, and double circuit transmission line from Pul-e Khumri to Kabul. India also constructed a 220/110 KV substation in Kabul and two additional 220/110 KV substations at Doshi and Charikar. Construction of railways and road links in Bamiyan and Hajigak are not only counter strategic for Pakistan but also encompass India's ambition to explore iron-ore, coal and steel in that region, as some Indian companies have won bids for these in that region (Ghosh 2012).

India is implementing its aid programme in Afghanistan in the form of Small Development Projects (SDPs). Under the two of the three phases of the SDP, India has built a number of basic health clinics, schools, and children's hospitals and dug borewells across the border provinces of Afghanistan. The SDP was initially implemented in two phases — the first in July 2006 comprising 50 projects worth US\$11 million; and the second in June 2008 comprising 51 projects worth US\$8 million. India also passed a tranche of development aid worth Rs 540 crore to provide help to war affected local communities. The third phase of the SDP was cleared by Indian Prime Minister Manmohan Singh in 2012, which is being implemented across all 34 provinces of Afghanistan (DNA 2012).

## ***Sri Lanka***

Indian populations in border regions tend to share a common ethnic and religious bond with the populations in adjacent countries. Tamil people and the state government of Tamil Nadu supported the Liberation Tigers of Tamil Eelam until the early 1990s; it forced the Government of India to become involved in the Sri Lankan conflict. The Sri Lanka crisis in the 1980s led India to adopt an overly cautious and passive policy with its neighbour. For example, India did not supply arms officially to Sri Lanka until the 1980s. Muthuvel Karunanidhi and his party Dravida Munnetra Kazhagam (DMK) pressed the central government of India to take a pro-Tamil stand in Sinhalese-Tamil struggle in Sri-Lanka (Mitra and Schottli 2007).

Bilateral trade between India and Sri Lanka was US\$4 billion in 2012. India was the second largest FDI investor in Sri Lanka in 2011 with US\$147 million. In 2012, out of the total 1,005,605 tourists in Sri Lanka, 176,340 were from India constituting 17.54 per cent (MEA 2013).

India views bilateral free trade as a tool to strengthen the regional cooperation. For instance, in the case of the India-Sri Lanka Free Trade Agreement (FTA) it was said by the Indian establishments that though it is an economic instrument which may have political consequences in promoting collective interests and building intra-regional interdependent relationships. The increased trade also led to an increment in flights operating between both countries, thus demonstrating integration as the result of natural spill over instead of being forced by political pressure. India's total outlay for housing construction and repairing in the Eastern provinces of Sri Lanka after the end of the civil war with LTTE was US\$270 million.

Under a LoC of US\$167.4 million, India provided for up-gradation of the Colombo-Matara rail link. India provided US\$800 million as a line of credit for construction of railway lines, setting up of telecommunications system in northern Sri Lanka, especially in Medawachchiya, Madhu, Talaimannar, Omanthai, Pallai and Kankesanthuri. India is also setting up a hospital in Dickoya, it is constructing around 50,000 houses in Northern and eastern provinces. To promote trade, it is assisting Sri Lanka in the up-gradation and reconstruction of Kankesanthurai Harbour in Jaffna province. India also gave a Rs 200 million grant to Sri Lanka as a counter to China, which is investing in the development of ports in Sri Lanka with more than US\$50 billion (Mullen 2013). As a gesture of friendship, India donated US\$22 million worth of medical equipment to the people of Northern Sri Lanka under DPA in 2011-12 (Roche 2012; MEA 2012).

## ***Maldives***

From a geostrategic point of view, India wants to maintain its security in Indian Ocean and Arabian Sea. These factors led India to increase its defence aid to Maldives.<sup>11</sup> For instance, India is assisting the Maldives in setting up a National Police Academy with Rs. 15 crore. In 2011, Indian Prime Minister Manmohan Singh during his visit to the Maldives announced a stand-by credit facility of US\$100 million. India also subsidised fully the US\$100 million bonds issued by the Maldives Monetary Authority (Gupta 2012).

---

<sup>11</sup> India was one of the first countries to establish diplomatic relations with the Maldives after it gained independence in 1965. India in November 1988 on a request of de jure government of Maldives helped with military to crush the attempted coup on the request of then President Maumoon Abdul Gayoom. Even following the February 2012 soft coup against the democratically elected Mohamad Nasheed, India did not waver its support to Maldives (see also Heitzman and Worden 1995).

India established the Indira Gandhi Memorial Hospital in Male in 1995 with US\$13.1 million. It is also assisting the Maldives with the up-gradation and renovation of this medical complex with US\$7.76 million since 2011. The recent example of the Indian company GMR's contract to manage an airport in the Maldives being terminated by the new regime and the response by India threatened to put aid to the Maldives on hold in retaliation illustrates the priorities of Indian aid and assistance. But the political change in the Maldives did not make a long-term negative impact on the bilateral diplomatic relations of both the countries as India adjusted the terms of the 2011 stand-by credit facility of US\$75 million for budgetary support and US\$25 million for Indian import.<sup>12</sup>

Indian aid has averaged around US\$25 million over the past few years and was scheduled to be US\$6 million in grants and US\$40 million in LoCs last fiscal year. India has historically kept a closer relationship with Maldives because it is a refuelling station for Indian Naval Ships and an important route for India to expand its geostrategic reach. The geo-strategic importance of the nearly 1200 islands of the Maldives is necessary to protect India's economic and political outreach as there is increasing threat to India's sea lines of communication (Poplin 2013).

### ***Pakistan***

Despite strained relations with Pakistan, India provides aid to Pakistan on an *ad hoc* basis. For instance, after the 2005 earthquake, India provided US\$25 million in cash to its neighbour. India also contributed US\$15 million in kind contributions from the private sector. The two countries also agreed to open five border points in the Kashmir region to transfer goods in relief packages (Kelman 2006; Chandran 2009). In another instance, after the 2010 floods in several regions in Pakistan, India provided US\$25 million disaster relief, which was disbursed through various international organisations such as US\$5 million via the World Food Programme and US\$20 million via the UN (Joshua 2010; Dikshit and Joshua 2010).

It is noteworthy that initially India offered only US\$5 million to Pakistan. Pakistan did not respond to India's offer. In this case, the US intervened and asked Pakistan to consider India's aid offer. After that Pakistan accepted the increased aid package of India but agreed to distribute it only through the channel of international organisations (Meier and Murthy 2011).

### **Conclusion and way forward:**

Indian President Pranab Mukherjee stated in 2012 that India is no more wants to be perceived as an aid-recipient country and termed foreign aid to India as "*peanut*" compared to India's own development expenditure (The Telegraph 2012). India also made its ambitions clear by announcing to setup a foreign aid agency, which will manage the distribution of aid amounting to 11.3 billion US\$ over the next five years (The Economist 2011).<sup>13</sup>

India needs clearly defined legislations, goals, objectives and transparency to enhance the scope for further coordination with other aid donors; it will also improve India's credibility as

---

<sup>12</sup> In 1981, India and the Maldives signed a bilateral trade agreement. India's trade with the Maldives has grown over the past decade from 1999-2000. Bilateral trade was around US\$7.8 million, while in 2011-12 it was around US\$144.52 million, making India third largest trading partner with the Maldives (Ministry of Commerce and Industry, Government of India 2013).

<sup>13</sup> India is implementing 135 grant assistance projects in total 61 countries. South Asia alone accounts for 70 percent of India's total commitments under grant assistance (Roche 2012).

an emerging development partner. India also needs to clarify operational methods of aid and increase in transparency in aid policy. In a changing political-economic scenario not only MEA but also a mix of other ministries and government agencies in aid policy is needed especially in the context of increasing need of humanitarian assistance. New initiatives such as small development projects should be encouraged more as these can draw long term social and economic benefits.

Neighbouring countries of India will grow and region will progress if India promotes interdependencies and cooperate with smaller countries from a sharing point of view. India as a biggest country of region has a responsibility to promote and develop cooperation and mutual interest not only for its own national interest but also for peace and stability of the region as a whole. Aid and assistance given by India today will have profound impact on the growth and development of region in the next few years. Every year, new challenges in aid and assistance will arise but with a progressive aid policy India should counter those to make aid policy more effective. From a geo-strategic point of view, India's concern to secure its vast coast lines, rivalry with China particularly in the Indian Ocean, and the desire to act as a responsible power in international politics forces it to increase its aid volume. This is going to be one of the critical challenges for India to deal with in the future.

India's aid and assistance may seem marginal if regarded in absolute figures, yet they are effective within the wider framework of social, economic and political cooperation that India offers to its neighbours in South Asia. As India does not act solely as a donor and remains a partner, future debates must address the question of what effects these aid and assistance programmes will have in the long-term. In this context it is also necessary to manage public opinion as most of the aid program will remain unpopular in the foreseeable future.

## References

- Agrawal, Subhash (2007), "Emerging donors in international development assistance: the India case", IDRC.
- ASPEN (2012), "New dimensions of India's foreign policy and national security", ASPEN Institute India: Gurgaon.
- Bailes, Alyson J. K., John Gooneratne, Mavara Inayat, Jamshed Ayaz Khan and Swaran Singh (2007), "Regionalism in South Asian Diplomacy", SIPRI Policy paper No. 15, SIPRI: Stockholm.
- Bakshi, Varoon (2012), "Diplomacy: India's global aid agency: DPA", URL: <http://mrunal.org/2012/07/diplo-dpa.html>.
- Bava, Ummu Salma (2007), "New powers for global change: India's role in the emerging world order", FES Briefing Paper 4/2007, FES: New Delhi.
- Bhasin, Madhavi (2008), "India's role in South Asia- perceived hegemony or reluctant leadership", online web accessed on 1<sup>st</sup> August 2013, URL: online web accessed on September 5<sup>th</sup>, 2013, URL: <http://www.globalindiafoundation.org/MadhaviBhasin.pdf>.
- Chanana, Dweepa (2009), "India as an emerging donor", Economic and Political Weekly, XLIV, (12): 11-14.
- Chandran, Suba D. (2009), "India's disaster relief diplomacy", Indian foreign affairs journal, 4, 63-80.
- Chaturvedi, Sachin (2008), "Emerging Patterns in architecture for management of economic assistance and development cooperation: implications and challenges for India", RIS discussion paper no 139, RIS: New Delhi.
- Chidambaram, P. (2007), "India empowered to me is", in A View from the outside: why good economics works for everyone", Penguin: New Delhi.
- Chong, Li Choy (2013), "Is growth in India sustainable", Asia Research Centre, University of St Gallen, online web accessed on 10<sup>th</sup> August 2013, URL: [http://www.lim.ethz.ch/lehre/fruehjahrensemester/international\\_management/ETH3b\\_S1a3\\_Is\\_growth\\_in\\_India\\_sustainable\\_2013.pdf](http://www.lim.ethz.ch/lehre/fruehjahrensemester/international_management/ETH3b_S1a3_Is_growth_in_India_sustainable_2013.pdf).
- Dikshit, Sandeep and Anita Joshua (2010), "India awaits Pakistan's response", The Hindu, 17-08-2010.
- DNA (2012), "Govt Clears Rs 540 crore development aid for Afghanistan", URL: <http://www.dnaindia.com/india/report-govt-clears-rs540-crore-development-aid-for-afghanistan-1762114>.
- FICCI (2012), "India Bangladesh Parliamentary Dialogue", URL: <http://www.ficci-inbdpd.com/htm/backgrounder.html>.

- Fuchs, Andreas and Krishna Chaitanya Vadlamannati (2012), "The needy donor: an empirical analysis of India's aid motives", June 2012, Discussion paper series 532, Heidelberg University: Heidelberg.
- Gauhar, Altaf (1997), "Gujral Doctrine", The Times of India, 15 June 1997.
- Ghosh, Anwesha (2012), "Is donor India flexing its foreign aid muscle in Afghanistan?", 14 October 2012, Institute of Foreign Policy Studies: Kolkata.
- Gupta, Arvind (2012), "The Imperatives of Deep Engagement with Maldives", online web, URL: <http://www.idsa.in/node/8600/3499>.
- Gupta, Bhabani Sen (1997), "India in the Twenty First Century", International Affairs, Vol. 73, Issue 2, 1997, pp. 308-309.
- Heitzman, James and Robert Worden (1995), "Maldives," in A Country Study: India, (ed.) James Heitzman and Robert Worden, Washington: GPO for the Library of Congress.
- High Commission of India (2013), "16 Feb, 2013 - Joint Statement on the Second meeting of the Joint Consultative Commission between Bangladesh and India", URL: <http://www.hcidhaka.org/SpeechesDetails.php?id=122>.
- Hogg, Charu Lata (2007), "India and its neighbours: do economic interests have the potential to build peace?", Chatham House Report October 2007, Chatham House: London.
- Inayat, Mavara (2007), "The South Asian Association for Regional Cooperation", in Bailes, Alyson J. K., John Gooneratne, Mavara Inayat, Jamshed Ayaz Khan and Swaran Singh, "Regionalism in South Asian Diplomacy", SIPRI Policy paper No. 15, SIPRI: Stockholm.
- ITEC (2011), "Technical Cooperation Division", Ministry of External Affairs, online web accessed on August 12<sup>th</sup>, 2013, URL: <http://itec.mea.gov.in/>.
- ITEC (2012), "ITEC and LoCs", URL: <http://itec.mea.gov.in/?1320?000>.
- Joshua, Anita (2010), "India among top 10 nations providing aid to Pakistan", The Hindu, 02-09-2010.
- Kelman, Ilan (2006), "Acting on disaster diplomacy", Journal of International affairs, 59, 215-240.
- Kragelund, Peter (2008), "The return of non-DAC to Africa: new prospects for African development?", Development Policy review, 26 (5): 555-84.
- Malone, David and Rohan Mukherjee (2011), "Polity, Security and Foreign Policy in Contemporary India", South Asia's Weak States: Understanding the Regional Insecurity Predicament. Stanford: Stanford University Press.
- Meier, Claudia and C S R Murthy (2011), "India's growing involvement in humanitarian assistance", GPPI Publications: Berlin.



- Ministry of Commerce and Industry (2013), “Commerce and Trade Statistics”, URL: <http://commerce.nic.in/eidb/default.asp>.
- Ministry of External Affairs (2011), “India’s Foreign Relations- 2011 Documents”, online web, accessed on August 11<sup>th</sup>, 2013, URL: <http://www.mea.gov.in/Images/pdf/India-foreign-relation-2011.pdf>.
- Ministry of External Affairs (2012), “Development Partnership Administration”, URL: <http://www.mea.gov.in/development-partnership-administration.htm>.
- Ministry of External Affairs (2013), “India and Neighbours”, online web accessed between 1<sup>st</sup> August – 30<sup>th</sup> August 2013, URL: <http://www.mea.gov.in/india-and-neighbours.htm>.
- Ministry of External Affairs (2014), “Outcome Budget 2013-2014”, MEA: New Delhi.
- Ministry of Finance (2013a), “India Budget 2011-2012”, online web accessed on August 22<sup>nd</sup>, 2013, URL: <http://indiabudget.nic.in/es2011-12/echap-14.pdf>.
- Ministry of Finance (2013b), “India’s external debt: a status report- 2012/2013”, online web accessed on August 25<sup>th</sup>, 2013, URL: [http://www.finmin.nic.in/the\\_ministry/dept\\_eco\\_affairs/economic\\_div/India\\_External\\_Debt201213E.pdf](http://www.finmin.nic.in/the_ministry/dept_eco_affairs/economic_div/India_External_Debt201213E.pdf).
- Mitra, Subrata K. and Jivanta Schottli (2007), “The new dynamics if Indian foreign policy and its ambiguities”, *Irish Studies in International Affairs*, volume 18 (2007): 19-34.
- Mullen, Rani D. (2012), “Perspective: India Flexes its foreign aid muscle”, *Current History*, 111 (744): 154-156.
- Mullen, Rani D. (2013), “India’s development assistance: will it change the global development finance paradigm?”, online web accessed on September 1<sup>st</sup>, 2013, URL: <http://www.iilj.org/newsandevents/documents/mullen.pdf>.
- Murphy, Edward V. (2012), “LIBOR: Frequently Asked Questions”, URL: <http://www.fas.org/sgp/crs/misc/R42608.pdf>.
- OECD (2012), “Creditor Reporting System Aid Activities Database”, online web accessed on August 20<sup>th</sup>, 2013, URL: <http://stats.oecd.org/Index.aspx>
- Pai, Nitin (2011), “The paradox of proximity: India’s approach to fragility in the neighbourhood”, NYU/CIC working paper: New York.
- Poplin, Cody M. (2013), “Maldives-India Developing an Indian Ocean”, IDCR Brief, 16 May 2013, URL: [http://idcr.cprindia.org/p/blog-page\\_8821.html](http://idcr.cprindia.org/p/blog-page_8821.html).
- Price, Gareth (2005), “Diversity in donorship: the chaging landscape of official humanitarian aid- India’s official aid programme””, ODI: London.
- Price, Gereth (2013), “India’s developing international role”, ORF issue brief 52/ June 2013, ORF: New Delhi.

- Raghavan, P. S. (2013), “Talk by P. S. Raghavan, SS (DP) on Development Partnership Administration (DPA)”, URL: <http://idsa.in/event/TalkbyShriPSRaghavan>.
- Raja Mohan, C. (2013), “India’s regional security cooperation: The Nehru Raj legacy”, ISAS working paper no. 168-7, March 2013, ISAS: Singapore.
- Rana, Kishan S. (2013), “India’s aid diplomacy”, Business Standard, May 11, 2013.
- Roche, Elizabeth (2012), “India goes from Aid Beneficiary to Donor”, Livemint, July 1<sup>st</sup>, 2012.
- The Chronicle (2011), “India spends 12 million dollar annually on ITEC,” URL: <http://thechronicle.com.gh/india-spends-over-12m-annually-on-itec/>.
- The Economist (2011), “Aid 2.0”, 13 August 2011.
- The Economic Times (2003), “India Development Initiative to aid Developing Nations: Jalan”, URL: <http://timesofindia.indiatimes.com/business/international-business/India-Development-Initiative-to-aid-developing-nations-Jalan/articleshow/43185418.cms>.
- The Telegraph (2012), “India tells Britain: we don’t want your aid”, 4 February 2012.
- UNDAF (2013), “India-UNDAF: United Nations Development Action Framework, 2013-2017, UNDAF: New Delhi.
- World Bank (2013), “India Overview”, online web accessed on 25<sup>th</sup>, August 2013, URL: <http://www.worldbank.org/en/country/india/overview>.