

---

# India's Development Cooperation with Bangladesh: A focus on Lines of Credit



*Kaustuv Chakrabart\**

---

India's Development cooperation with Bangladesh is based on the modern concept of a development compact which provides for development assistance that works at five different levels: trade and investment; technology exchange; skills upgradation; lines of credit (LoCs); and finally, grants. The demand driven development collaboration, is based on wider engagement across the five elements, which emphasises the comprehensive support for economic development

---

The range and quantum of South-South Cooperation (SSC) expanded significantly in the past decade. India, as an emerging economy, has been an active player in development cooperation efforts with low-income countries in Asia and Africa. According to Chaturvedi, India's development cooperation is based on a "development compact".<sup>1</sup> The core principles of this development cooperation under the spirit of SSC are inclusivity, non-conditionality, demand-driven and mutually beneficial to India and the partner country.

A second LoC worth US\$ 2 billion was announced during the Indian PM's visit to Bangladesh in June 2015. This LoC would cover projects in areas of roads, railways, power, shipping, Special Economic Zones (SEZs), health and medical care, and technical education.

LoCs on concessional terms through the EXIM Bank has become one of the main instruments of India's development partnership with Bangladesh. These loans carry one per cent interest rate and 0.5 per cent commitment fee.<sup>2</sup> The repayment period would be 20 years with a moratorium period of five years. This is expected to create 50,000 jobs in Bangladesh. Such has been the impact of the first and second LoC to Bangladesh, that a third LoC of US\$ 4.5 billion was operationalised in October 2017 during the two day visit of the Indian finance minister to Dhaka. This is by far the single largest credit line offered by India to any country, taking the total concessional credits extended to Bangladesh to more than US\$7.3 billion.

---

\* Senior Program Officer at Society for participatory research in Asia.

*Acknowledgement: The author would like to thank Dr. Kaustuv Kanti Bandyopadhyay for his guidance and support throughout the study.*

Development assistance through Indian LoCs and its socio-economic impact on the borrowing partner country had not been sufficiently analysed in a specific country context. Hence in 2017, PRIA undertook a study to explore the growing prominence of LoCs as a mode of India's development cooperation with Bangladesh. This study focused on analysing the socio-economic impacts of the following four projects<sup>3</sup> under the LoC of US\$ 1 billion extended by India to Bangladesh from 2010.

- Construction of Second Bhairab Bridge
- Supply of 120 railway passenger coaches
- Supply of 10 broad gauge diesel electric locomotives
- Supply of 290 double-decker buses, 50 articulated and 88 single-decker air-conditioned Buses.

This article provides a brief glimpse of the findings of the study and makes a case for transparency in South-South cooperation through wider CSO and think tank participation vis-à-vis the economic and social implications of projects under bilateral South-South credit.

## Findings

The study found that the Indian Lines of credit fills the necessary investment gap in Bangladesh's transport sector which traditional donors like the World Bank and JICA had been skeptical of. Moreover, project selection and fund disbursements from the traditional providers require lengthier appraisal procedures. Therefore, the constraints of a shorter maturity period and tighter repayment conditions of LoCs are insignificant given the other benefits of acquiring relatively more cost-effective, speedy processing of funds

and no attached conditions regarding governance and macroeconomic policy reforms (UNDP, 2016)<sup>4</sup>. The following are some of the findings of the study:

- ***Multiple development cooperation instruments used simultaneously for holistic support:*** India's Development cooperation with Bangladesh is based on the modern concept of a development compact which provides for development assistance that works at five different levels: trade and investment; technology exchange; skills upgradation; lines of credit (LoCs); and finally, grants. The demand driven development collaboration, is based on wider engagement across the five elements, which emphasises the comprehensive support for economic development<sup>5</sup>. Hence there is a scope to deploy other elements of development cooperation simultaneously for supply projects funded through LoCs in the partner country.
- ***Unavailability of project specific information in the public domain:*** Information regarding the implementation, monitoring and the impact of completed projects is not well documented and to make matters worse, such documentation is not available in the public domain. While conducting the primary research study on India's development cooperation with Bangladesh, it was challenging for the authors at PRIA to find first-hand information about the planned projects, status of disbursements, and implementation under the second Indian LoC.

Officials at HCI in Dhaka are required to submit a project completion report (PCRs) to the Indian government and

EXIM Bank, capturing the present and future benefits of the project and its socio-economic impact on the region where the project is being implemented. In an interview with PRIA, members of CPD and Wave foundation of Bangladesh expressed that it is very challenging to carry out economic analysis because feasibility studies, which include analysis of the environmental impact of these projects, and monitoring reports are not shared in the public domain. It becomes an uphill task to access these for the concerned policymakers and stakeholders. Such lack of information also limits CSOs to make suggestions vis-à-vis the economic and social implications of projects under bilateral South-South credit.

- ***Uncertainty about the benefits accrued to Bangladesh due to Indian LoC*** : Socio-economic benefits derived from the projects funded by the Indian LoCs. The lack of data and information in the public domain gets perceived as lack of transparency and accountability. In interviews with PRIA, a leading think tank in Bangladesh has expressed concerns about the consistency and quality assurance of the projects undertaken with the credit, since there is no single central agency/ authority supervising such financial transfers between ministries through binding rules and regulations guiding the financial flows. It is seen as the Development cooperation being practiced through closed official circuits, without discussions in the public sphere.
- ***LoCs are demand driven, mutually beneficial and non-interfering***: In the spirit of SSC, the demand for the projects

analysed in the study was generated by the Government of Bangladesh. As reflected in the UNDP report on concessional financial flows among Southern countries, the Bangladesh government was autonomous in identifying the projects and India did not interfere with the selection process. Projects under Indian LoCs to Bangladesh were targeted according to the country's national development priorities under the Sixth Five Year Plan for market integration through developing transport networks at the domestic and regional levels with India and other neighbouring countries.

For Bangladesh, the LoC fills a necessary investment gap in its transport sector which traditional donors had been reluctant to finance. Infrastructure projects such as construction of the second Bhairab Bridge generate local employment of skilled and unskilled labour. Additionally, the supply projects under LoCs also contribute to local employment generation. For India, such development cooperation is not philanthropic. It allows for an increase in bilateral trade, where Indian contractors supply 75 per cent of goods and services and 65 per cent of construction materials from India.

Apart from the aforementioned conditions, the development cooperation extended through LoCs lives up to the normative aspect of non-interference in domestic affairs of the recipient country.

### **Policy recommendations**

Given the growth of India's development cooperation with Bangladesh and the growing importance of LoCs as a modality, the study puts forth the

following recommendations:

- ***Using multiple development cooperation instruments in tandem to build local capacities:***

Through its development compact, India not only provides concessional finance to Bangladesh through LoCs, but there is also a component of capacity building, skills and technology transfer. Financial assistance through LoCs provides Bangladesh with much needed investment in infrastructure as well as an avenue for training to build the capacity of Bangladeshi personnel to operate and maintain the assets procured under the supply projects. For example, 100 drivers have been trained to drive the double-decker buses supplied. Building capacities through trainings has a long-term impact on employment generation, economic growth and poverty reduction. Such trainings reduce the dependence of Bangladesh by capacitating the local population not only to maintain the assets but also to reverse engineer the spare parts, thereby reducing the overall loan component in the long run. Hence, it not only builds the capacity of the local professionals but also facilitates the transfer of skills and technology.

Under the 2015 guidelines on the LoC's extended by the GoI under the IDEAS6, one of the priorities of India would be to support in setting up adequate network of servicing facilities by exporters through LoCs. It might be relevant to set up local spare parts manufacturing facilities while training modules can be designed to provide regular trainings to technicians and mechanics to enable them to repair and maintain procured vehicles/coaches with ease. This

would reduce the loan component for the borrowing government and simultaneously generate local employment and facilitate knowledge transfers.

Apart from developing individual capacities through trainings of individuals, future Indian LoCs should aim to facilitate developing substantive, institutional and infrastructural capacities in partner countries. However, since only Indian organisations participate in the tendering process and, implementation of projects, this limits the scope of organisations and firms from the partner countries to participate and enhance their capacities through "learning by doing". In the spirit of mutual benefit, knowledge transfer can be achieved if these LoC conditionalities can be modified to allow Indian organisations to collaborate with organisations from the partner countries. Preference can be given to those proposals which contribute to developing local capacities by partnering with local organisations.

- ***Making the information related to project appraisal, implementation, monitoring and impact public***

The guiding framework of South-South development finance is evolving and it is flexible while the financial transfers take place bilaterally. The terms of LoC from India, is at first negotiated by the ERD under the MoF, Bangladesh. Following which the project-wise allocation is made directly to the concerned ministries under which the selected projects are to be implemented. One of the major limitations reported by the EXIM Bank of India is that the reports submitted by Bangladesh

are made on an ad hoc basis which does not provide an analytical insight into the accrued benefits and shortcomings of the project. Hence, it is advisable to make it mandatory for the borrowing government to follow the 2015 guidelines which warrant the borrowing government to make public the information on projects sought to be undertaken under the Indian LoC. This can be attributed to the fact that there is no clearly defined central reporting system in the borrowing country. The LoC guidelines of 2015 of Government of India warrant that quarterly monitoring and evaluation reports should be prepared. These will help monitor implementation status of the projects, calculate the rate of return on investment and assess the socio-economic impacts of the project. In order to maintain such reporting and information, there is a need to set up a central reporting system in the borrowing country.

According to the 2015 guidelines on LoC extended by the EXIM Bank of India to various countries under IDEAS, the borrowing government is supposed to prepare and submit a comprehensive project completion report to the Indian mission, highlighting the benefits derived/to be derived from the project, and its socio-economic impact. If such reports are made public, it will allow civil society, think tanks and other stakeholders to analyse the benefits of such partnerships and document the good practices.

- ***Civil society engagement in India's development cooperation***

The roles of indigenous CSOs in national and sub-national development has been well recognised. Civil society

organisations in India and Bangladesh are a repository of experience and expertise in the field of poverty reduction, women's empowerment, social protection, and community development. Apart from implementing projects, some Indian CSOs are well known for their knowledge building. In the past decade Indian CSOs have also extended their contributions to transnational development activities. Given their experience, the CSOs can address the needs of the most marginalised, engage in multi-stakeholder learning and capacity building, deepen ownership, mutual trust and accountability, and promote local action through global coalition building.

According to the 2015 LoC guidelines of the Indian government, the Indian mission in the borrowing country will need to report to the Indian government the long-term economic benefits of LoC. In this context, it is recommended that the Indian missions could engage those civil society organisations with strong roots in the community and think tanks in the borrowing country during the project planning stage and during both economic and social impact assessment of LoC projects. Participation of civil society organisations in development cooperation should be project specific and is likely to ensure greater transparency, accountability and public participation. Indian CSOs can be engaged during the project monitoring and evaluation stage, as well as in the impact assessment stage. As per the 2015 guidelines, the EXIM bank of India can appoint a Lender's Engineer at its cost for independent monitoring of the project. Similar provisions should be

made to cover the cost of civil society organisations being appointed by EXIM bank to independently monitor the progress of the project and its socio-economic and environmental impacts. This should factor in the necessary support to be provided by all the stakeholders of the project.

CSOs can be engaged to collate the socio-economic benefits accruing to the community. This can be a powerful advocacy tool in strengthening ties both at the bilateral level and between the people of both countries. It is relevant to study the impact of India's development cooperation given the development compact and closely examine in future the benefits accrued through the following modalities:

- » capacity building and skills transfer
- » concessional finance (further divided into grants and lines of credit)
- » preferential trade
- » investment
- » technical cooperation

At an international level, the documentation of good practices of India's development cooperation will further India's diplomacy

- ***Linking impacts of LoC to SDGs to exhibit the mutual gains of the partners.***

Sustainable Development Goals (SDGs) stress the importance of South-South cooperation in implementing the 2030 agenda. Goal 17, "Revitalize the global partnership for sustainable development," particularly emphasises on the critical role of South-South Cooperation in achieving this ambitious development agenda. It also set targets for South-South and Triangular

Cooperation that target both technology and capacity-building in which all countries have committed to achieve.

Such concessional credits to Bangladesh should be extended with the aim to promote the development, transfer, dissemination and diffusion of environmentally sound technologies on mutually agreed favourable terms, including on concessional and preferential terms. It must enhance the use of enabling technology such as information and communications technology. Such transfer of affordable and adaptable technology might be instrumental in reducing the reliance of Bangladesh on imports and increase its exports, thereby enabling it to reduce its trade deficit. This contributes to India's SDG 17 target of increasing the exports of Bangladesh. One of the targets of India under SDG 9, has a responsibility to facilitate sustainable and resilient infrastructure development through enhanced financial, technological and technical support to least developed countries like Bangladesh. A sizeable portion of the concessional finance has been invested in building infrastructure of both domestic and cross border connectivity. This will play an important role in promoting inclusive and sustainable industrialisation and increase the industry's share of employment and gross domestic product, eventually contributing to Bangladesh's national goal and SDG of reducing poverty.

Explicit mention of India's contribution in Bangladesh achieving its SGDs along with India's own commitment under SDG 17 might be crucial in depicting the benefits of India's development cooperation and its espoused values.

## Endnotes

- <sup>1</sup> Chaturvedi, S, Chenoy, A, Chopra, Joshi, A & Lagdhyan, K.H. (2014) "Indian development cooperation: the state of the debate", IDS Report 94, Institute of Development Studies, Brighton: Institute of Development Studies.
- <sup>2</sup> 'Ministry of External Affairs (2015) 'Joint declaration between Bangladesh and India during visit of prime minister of India to Bangladesh "Notun Projonmo - Nayi Disha"', <http://www.mea.gov.in/bilateral-documents.htm?dtl/25346/Joint-Declaration-between-Bangladesh-and-India-during-Visit-of-Prime-Minister-of-India-to-Bangladesh-quot-Notun-Projonmo-Nayi-Dishaquot> (Last accessed 24 March 2018).
- <sup>3</sup> These projects were selected in the study since they were completed or on the verge of completion, otherwise analysing projects would have been far more challenging.
- <sup>4</sup> United Nations Development Programme (UNDP) (2016) 'Concessional financial flows among Southern countries: Conceptualising design principles, operational modalities and an assessment framework.' 1st ed. New York: UNDP, 2016. Print
- <sup>5</sup> Chaturvedi, S (2016), "The Development Compact: A Theoretical Construct for South-South Cooperation", Discussion Paper #203, RIS.
- <sup>6</sup> Indian Development and Economic Assistance Scheme (IDEAS).

## SIWI HOSTS WORLD WATER WEEK, 26 – 31 AUGUST, 2018

World Water Week is the annual focal point for the globe's water issues. It is organised by the Stockholm International Water Institute. In 2018, World Water Week addressed the theme "Water, ecosystems and human development". In 2017 over 3,300 individuals and around 380 convening organizations from 135 countries participated. The organizations were a mix of Non-Governmental Organizations, Private Sector, Research and Academic, Intergovernmental Agencies, Governmental Agencies and Media houses. An increasing youth participation with 25% of individuals under the age of 35 years was visible. For this Week, experts, practitioners, decision-makers, business innovators and young professionals from a range of sectors and countries come to Stockholm to network, exchange ideas, foster new thinking and develop solutions to the most pressing water-related challenges of today.

SIWI's Executive Director Torgny Holmgren highlighted the need to recognize the many values attached to water, be it economic, social, environmental, cultural or religious. Taking steps towards SGD6, C40, an organization that gathers mayors of cities worldwide, told World Water Week participants about the risks that big cities face from climate change and how water is key to mitigation and adaptation efforts.

The World Water Week hosted an event taking stock of water in the implementation of both Agenda 2030 and the Paris Climate Agreement. Addressing the event, Hungarian President János Áder said the world needs a more focused global effort towards tackling water challenges. Water is key to our future prosperity and together, we can achieve a water wise world.

Source: <http://www.worldwaterweek.org/world-water-week-closes-values-of-water-must-be-better-understood/>