

India's Foreign Aid: Prospects and Challenges

by

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I wish to thank the students of the Harvard Business School and the Harvard Kennedy School for inviting me to participate in the Student Conference on India, the theme of which is “India, Turning the Page: Prospects and Paradoxes”. I suspect that the image of India as a source of foreign aid, as such a concept is commonly understood, must have been considered one of the paradoxes that the Indian experience manifests. After all, India is still a developing country with widespread poverty. How come it is extending assistance to other developing countries? Should it not be taking care of its own people first? This is similar to other observations one often hears about India. Why is India spending precious resources sending a space ship to distant Mars, when its own terrestrial transport infrastructure is so weak and often rickety?

Let me begin by suggesting a semantic modification which will bring the subject we seek to cover this morning in line with India's own perspective on the issue of its economic assistance to sister developing countries. The term “foreign aid” derives from the concept of “Overseas Development Assistance” or ODA. In

U. N. parlance, ODA is a commitment assumed by developed countries, members of the Organisation for Economic Cooperation and Development or the OECD, to extend development assistance to developing countries. Currently, developed countries are committed to transferring 0.7% of their GDP as ODA to developing countries, though few have achieved this target.

The economic assistance which India extends to other developing countries is voluntary and not an obligation like ODA is. India characterizes such assistance as “development cooperation” and not foreign aid. Unlike ODA, we do not posit a donor-recipient relationship; in fact we see our assistance as a reflection of a mutually beneficial partnership. It is true that in recent years, the scale of such development cooperation has expanded, while ODA levels have either remained static or even declined. However, there is no question of development cooperation among countries of the South becoming a substitute or even a supplement to ODA. The current effort amongst some developed countries to blur the fundamental distinction between North-South Cooperation and South-South Cooperation must be rejected. The need for increased flows of ODA to assist developing countries to confront the challenges they confront in eradicating poverty and combating hunger and disease, is patently obvious. The consequences of the global economic and financial crisis have impacted most

adversely on the development prospects in the developing world. In meeting the Millennium Development Goals (MDGs) by 2015 and more importantly, to ensure the success of the post-2015 MDGs and the Sustainable Development Goals, currently being debated at the U.N., will need much larger commitments of ODA. South-South Cooperation would be welcome and needs to be encouraged, but cannot be put on a par with ODA.

So what is India's philosophy concerning development cooperation and how does its approach to such cooperation differ from North-South or ODA-led cooperation?

It should come as no surprise that like much of India's foreign policy and world view, the concept of development cooperation owes its inspiration to India's first Prime Minister, Pandit Jawaharlal Nehru. Soon after the country's independence Nehru put forward the view that despite India being a poor country, with limited resources, it had an internationalist responsibility to share its modest resources and capabilities with other developing countries which were then emerging from the yoke of colonial rule. Such cooperation was an expression of India's solidarity with countries of the South. It was his view that India's own rich experience in social and economic development could provide some lessons to others traversing a similar path. In turn India could also learn

from the experience of other developing countries. He put a great deal of emphasis on education and capacity building as drivers of growth. In its development cooperation programmes India has put capacity building as its most significant contribution.

Viewed in this perspective, India sees no contradiction in being a major beneficiary of ODA for its own development effort, even as it shares its modest capacities with other developing countries in a spirit of South-South Cooperation. Considering itself as a member of a larger family of nations, India also does not see its contribution to the development of developing countries as diminishing its own prospects for alleviating the poverty of its citizens. In fact, to the extent that we see our economic assistance programmes as mutually beneficial partnerships, they can, in a longer term perspective, enlarge our own prospects by creating bigger trade and investment opportunities.

How is India's development cooperation different from ODA based North-South Cooperation?

India's development cooperation is based on the priorities set by the partner country, with projects determined on the basis of friendly consultations. We attach no conditionalities to our economic assistance, nor do we attempt to

bypass the governmental machinery in the partner country in implementing projects. Our assistance is delivered in the most economical manner possible, avoiding undue financial burden on our partners. Thus, typically Indian assistance carries no administrative load. There is no array of experts and consultants, whose generous pay package become part of the project cost. The objective of our assistance is to raise the economic and human capacity in a partner country, so its ability to generate growth is enhanced. Such growth would then expand the opportunities for trade and investment bilaterally. If people say that there is a commercial dimension to our assistance, you bet there is. But we do not see a one-way commercial benefit. The partner country benefits as well.

I mentioned earlier that our first Prime Minister emphasized the importance of human resource capacity building as a driver of economic growth and independent policy making. Capacity building and skills development have been the centre-piece of our development cooperation programmes over the past several decades, even though the nature and scope of such cooperation has undergone important changes. The Indian Technical and Economic Cooperation or ITEC programme was launched in 1964 with the objective precisely, or sharing our knowledge and skills with fellow developing countries. In the past half century, ITEC and its sister initiatives, the Special Commonwealth Assistance for

Africa Programme (SCAAP) and the Colombo Plan, have made a significant contribution.

India has recently set up a Development Partnership Administration (DPA) in the Ministry of External Affairs, in order to coordinate India's development cooperation activities and to ensure more effective and timely implementation and evaluation. In the Ministry of External Affairs itself, all economic assistance, including that earlier handled by territorial divisions, will now be administered by the DPA. There will be better coordination of credit lines which are within the remit of the Ministry of Finance. While the DPA falls short of the original proposal to establish an autonomous Development Cooperation Agency, it is a considerable improvement over the fragmented approach to development cooperation which prevailed earlier.

In 2012, nearly 9000 civilian personnel from 161 countries attended training courses in a very wide range of disciplines, conducted in 47 Indian institutions. The disciplines cover entrepreneurship development, business management, information technology, vocational training and Foreign Service training among others. India also offers 2300 scholarships annually for degree courses in Indian universities, including in the much sought after fields of science and technology, medicine and engineering. There is an increasing demand for

special and custom-made specialized courses such as election management, parliamentary practices, WTO studies and promotion of small and medium scale industries. At the India-Africa summits held in 2008 and 2011 respectively, India committed itself to establishing nearly 100 institutions in different African countries to strengthen capacities in fields as diverse as IT, Textile Technology, Diamond-Cutting, Agriculture and Rural Development Vocational Training and several more. We also depute experts abroad to share our expertise in a number of areas like IT, Audit Practices, Public Administration and Pharmacology.

One of the most ambitious development projects undertaken by India is the Pan-Africa E-network. This is a visionary project initiated by India's former President Dr. Abdul Kalam, which is providing facilities for e-education and tele-medicine in 54 African countries. The network is equipped to support e-governance, e-commerce, remote-mapping and meteorological data sharing.

I would like to draw your attention to a new initiative in our development cooperation programme. This goes by the name of Small Development Project or the SDP initiative. This was initially launched in Nepal in 2003. From 16 projects undertaken in 2003, this has expanded to over 400 in 2013. What are its main features?

- (i) An SDP is typically a low budget project; in the case of Nepal, no SDP should exceed a limit of Rs. 30 million, or about \$0.5 million. At least 10% of the project cost must be contributed by the local community, which is the beneficiary.
- (ii) The project must emerge as an initiative from a local community and must demonstrably being benefit to the community.
- (iii) The project should be quick yielding, typically extending from 6 months to one year.
- (iv) The SDPs are pursued under a tripartite MoU among the local community, the resident Indian diplomatic mission and the local government authority (in the case of Nepal, the LDO). The tender process, execution and audit are all as per the regulations of the partner country. The supervision of the project is conducted through a tripartite Committee with representatives of the mission, the local government and the community.

This pattern of development assistance has been extremely successful and has now been extended to Sri Lanka, Afghanistan and Bhutan.

As would be apparent, the SDP incorporates all the key principles which underlie India's overall approach to development cooperation.

More recently, India has also participated in tripartite cooperation involving an OECD donor country or IFI such as the World Bank or the U.N., a sister developing country and ourselves as partners. Typically, the donor country provides funds which permit personnel from a recipient country to be trained in India, with India meeting some of the costs. This allows limited resources to achieve bigger results due to cheaper costs prevailing in India. We believe that such cooperation is likely to expand in the future.

I trust I have been able to give you a clearer sense of India's approach to the issue of foreign aid and its own philosophy of development cooperation. We do not wish to be cast in the role of a foreign aid donor, old or emerging. We see ourselves as a development partner and in this role, India has a long history, as long a history as the history of independent India. Our philosophy of development cooperation and the principles and practices which underlie our economic assistance, are shared by several other emerging economies, including China, Brazil and South Africa. This has led to a renewed interest in South-South cooperation and the discussion of norms which should underlie such cooperation. These may be lessons for the OECD to learn. Are there lessons we can learn from the traditional donors? Yes certainly. For example, we need to do a much better job in evaluating results and increasing accountability, without these becoming

onerous conditionalities. We are also open to new forms of cooperation with the OECD countries and IFIs such as the World Bank and the ADB. What we will be unable to accept are the imposition of OECD norms for the pursuit of South-South Cooperation.

Thank you for your attention.