

## **India's Development Partnership with Emerging Economies**

Official development assistance (ODA) is government aid designed to promote the economic development and welfare of developing countries. Development assistance to emerging economies remain vital for achieving the United Nations (UN) Sustainable Development Goals (SDGs), which would result in inclusive economic growth and opportunities in recipient countries. Aid may be provided bilaterally, from donor to recipient, or channeled through a multilateral development agency such as the United Nations (UN) or the World Bank.

One of main sources of development assistance globally are the 32 member countries of Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD), including Asian countries such as Japan and South Korea. The DAC of the OECD adopted ODA as the “gold standard” of foreign aid in 1969 and it remains the main source of financing for development aid. ODA remains a major source of external finance for developing countries and includes grants, soft loans and the provision of technical assistance. In fact, as per the OECD, ODA accounts for over two thirds of external finance for least-developed countries.

A long-standing UN target is that developed countries should devote 0.7% of their gross national income (GNI) to ODA. However, as per data derived from OECD, total ODA by OECD Development Assistance Committee (DAC) member countries reached only 0.36% of their combined GNI in 2022, way below the UN target. The share of loans and equity investments in gross bilateral ODA from DAC countries decreased to 18% in 2022 from 19% in 2021, with the rest provided as grants.

According to OECD, bilateral sovereign loans by DAC countries increased by 36%, on a grant-equivalent basis, from 2021. The countries with the highest share of loans in their bilateral ODA were Japan (60%), South Korea (32%) and France (22%)<sup>1</sup>. Aid for trade remains a major segment of ODA (26% of total ODA commitments in 2020), having a countercyclical role by providing the much-needed finance and supporting trade during the periods of turbulence.

### **A Unique Indian Approach of Development Partnership**

From aid dependency to food-security and to being the 5<sup>th</sup> largest global nation (in terms of nominal GDP in 2022)<sup>2</sup> and a major provider of development aid globally, India's growth story is nothing less than a miracle. Inspired by the spirit of '*Vasudhaiva Kutumbakam*' (*the world is one family*), India's international development cooperation mechanism is an important component of India's engagement

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<sup>1</sup> OECD Preliminary Data for ODA Levels 2022

<sup>2</sup> IMF, World Economic Outlook, October 2023

with partner countries, especially developing economies. Over the past decade, India has transitioned to a major development partner country, by providing a significant amount of development assistance to emerging economies.

Learning from its experience that political independence is not same as economic independence, India has been sharing its developmental experiences and technical expertise with other countries, supporting their efforts for economic development. India's peculiarity as a development assistance provider is that India itself is the major recipient of development assistance from the developed countries and multilateral organizations. As per OECD, India was the top beneficiary of trade aid from developed economies in 2021, with net ODA received accounting for 0.1% of India's GNI.

According to Ministry of External Affairs, Government of India, India's development engagements with partner developing countries have been traditionally based on a recipient-led and demand-driven approach, where partner country has the autonomy to decide on its development needs. India's developmental support is mainly in the form of lines of credit (LOC), grant assistance, capacity building, technical assistance and humanitarian assistance<sup>3</sup>.

Following a 'no strings approach', India is always quick with its humanitarian service, be it providing COVID Vaccine or be the first one to provide aid assistance to Turkey and Syria. India's aid assistance to developing countries, however, is not new as India has supported the construction of Gauchar Airport in Kathmandu, Nepal in as early as 1951<sup>4</sup>.

As per Ministry of External Affairs, Government of India, India also provides substantial financial and technical assistance for implementation of High Impact Community Development Projects (HICDPs) in key areas of education, health, irrigation, rural infrastructure, disaster management and livelihood development in Indian neighbouring countries. This is in addition to scholarships provided for capacity development of students and professionals from partner countries at all levels of education in a wide range of disciplines.

These development cooperation programmes have expanded significantly in recent years both in terms of geographical reach and areas of cooperation. India's long-term geopolitical, strategic, and economic interests, as well as the necessity to efficiently deliver India's assistance programme, have driven more engagement with developing countries, notably in the area of development assistance.

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<sup>3</sup> Ministry of External Affairs, Government of India - Overview of India's Development Partnership and Various Parliamentary Questions

<sup>4</sup> Embassy of India, Kathmandu, Nepal

Accordingly, India's development partnership model has received a high degree of acceptance from its partners because of the focus on keeping the requirements and priorities of the partner country at the center of the projects. India's approach towards developmental partnerships has been a comprehensive one, offering assistance and sharing of India's own developmental experience in a wide spectrum of activities, ranging from creation of infrastructure to building capacities to education, healthcare, agriculture and community development. Moreover, India's development assistance has been a major catalyst for creation of much needed infrastructure in the partner countries such as railway links, roads & bridges, waterways, border-related infrastructure, transmission lines, power generation, hydropower, etc.

India's lead ministry for managing development assistance is the Ministry of External Affairs (MEA), as foreign assistance is an important foreign and economic policy tool for the Government of India. The MEA established Development Partnership Administration (DPA) in 2012 considering the unique nature of India's development partnership and the diversification and growing complexity of the development assistance programmes. The DPA has evolved as an innovative and cost-effective instrument of delivery of a broad-based developmental assistance to foreign countries encompassing Lines of Credit, projects under Grant-in-Aid, capacity building programmes for civilian and defence personnel, etc.

### **Recent Developments in India's Development Assistance**

With the changing times and learning from its experience in over 65 countries, India has been continuously revising its main development initiative scheme, Indian Development and Economic Assistance Scheme (IDEAS), with the latest revision being done in March 2022. Subsequently, India has adopted several steps to improve the quality of the projects it undertakes in the partner countries, along with ensuring that the projects have significant socio-economic benefits to the recipients.

India Exim Bank, the policy institution of the Government of India (GOI), entrusted with the responsibility of extending concessional LOCs, is now more than ever actively involved in the project implementation, ensuring feasibility and technical quality of the project, timely delivery, and capacity building in recipient countries through effective monitoring and due diligence<sup>5</sup>. Over the years, the GOI through India Exim Bank has extended 304 LOCs, with credit commitments aggregating over USD 32 billion to as many as 68 countries, for supporting development priorities of partner countries. To provide support, the current union budget has allotted `13 billion as interest equalization support for LOCs under IDEAS (Union Budget Document, February 2023).

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<sup>5</sup> IDEAS Guidelines 2015 and 2022

In terms of geographical distribution of GOI-supported LOCs, the highest value-based exposure is in Asia, which accounts for over 53% of the total LOC portfolio, followed by Africa (38%) as of July 2023. In terms of number of LOCs extended, Africa is the largest recipient region. Value-wise it is Asia that is leading because of a few high-value LOCs to our neighbouring countries. In terms of value of LOCs signed with a single country, the highest exposure is to Bangladesh, followed by Sri Lanka and Nepal.

The LOCs extended to various countries have catalysed exports of various projects in diverse sectors such as agriculture, construction, roads, railways and transportation, irrigation, energy generation and transmission and rural electrification, technology (parks and training centres), sugar industry rehabilitation, etc, which immensely contributed to the host country's developmental endeavours. In addition to these traditional projects, LOCs are now being increasingly extended to emerging sectors such as urban housing, renewable energy, port development, defence and security, etc., among others. The scope and profile of LOCs have considerably expanded in the recent years. LOCs are not just being used to finance a localized civil project, but increasingly used to finance projects with an enhanced focus on capability creation and contribute to sustainable development.

India also sets aside `58.5 billion for 2023-24 in the current budget for aid to countries (multilateral and bilateral aid and assistance programmes, as well as aid for disaster relief and humanitarian aid), higher from `49.4 billion in 2021-22 (Union Budget Document, February 2023). A major portion of this budgeted amount is earmarked for India's neighborhood and extended neighbourhood countries, Bhutan, Nepal, Mauritius, Maldives, and Myanmar, Afghanistan and Sri Lanka, where India would be implementing various high impact community development projects, in addition to providing capacity building support and other required assistance.

Being a responsible donor, India is actively trying for strengthening the G20 Common Framework debt restructuring process for countries undergoing severe financial stress. This is evident from India's financing assurances to Sri Lankan authorities to satisfy the IMF's debt sustainability analysis and unlock the IMF-supported program. This is in addition to India's immediate economic assistance of nearly USD 4 billion to Sri Lanka to overcome its food, fuel and financing challenges<sup>6</sup>. These clearly demonstrate that India remains a dependable and reliable economic partner for global south.

India is not part of the OECD's DAC, and hence does not adhere to OECD/DAC guidelines with respect to the minimum grant elements (estimates of concessionality) and instead follow the IMF approach (grant element of at least equal to 35%)<sup>7</sup>. In terms of volume, the Indian development assistance may

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<sup>6</sup> IMF staff reports and blogs on Sri Lanka

<sup>7</sup> IDEAS Guidelines, 2015

not be comparable to developed countries, but they are highly valued because of the suitability and appropriateness to the developing countries' socio-economic conditions.

### **India's G20 Presidency and Developmental Assistance**

India with its G20 Presidency sits at the helm of global economic and political system. India has always believed in 'mutual prosperity' and is moving ahead with its theme of "One Earth One Family One Future". This has also instated India at a unique position of guiding the international development cooperation mechanism. India's model of assistance is exclusive and has established itself firmly in comparison to the traditional OECD framework. History of India's development partnership underlines the participative and accommodating nature of country while dealing with its partners.

India's development assistance promotes India's strategic, political and economic interest abroad by positioning it as an emerging economic power, investor country and partner for developing countries. India has echoed its affirmation to South-South Cooperation by using its development cooperation mechanism by aiding partner countries in development of critical infrastructure sectors like railways, electricity generation and development of grid infrastructure, healthcare, among others.

India may also consider joining the WTO Trade Facilitation Agreement Facility for assisting developing countries and LDCs in implementing trade facilitation agreement by offering technical assistance and capacity building programmes. The time is right for India to lead the alignment of development assistance strategies. Indian development assistance ecosystem can act as a model for developing a universal assistance framework that is not only driven by financial development but a wider spectacle covering idea of growing together through shared development.

*Disclaimer: These are the author's personal views.*

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