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India's aid dynamics: from recipient to donor?

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Summary

The NDA government oversaw a dramatic change in India's aid policy. This paper examines the reasons behind the new policy, and assesses the substance of the changes. The paper argues that the move was intended to enhance India's global position, but that the impact was less than the rhetoric implied. The key problem with the development package was the blurring of the distinction between the various new economic, political and developmental objectives. This was reinforced by a lack of transparency over what was actually being done and confusion over whether the India Development Initiative, in particular, was intended to develop India, as was suggested when the package was first announced, or as a means of channelling Indian assistance to other countries.

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Introduction

In his 2003/04 budget speech, the then finance minister, Jaswant Singh, announced a change in India's aid policy intended to raise India's global profile:

> 117. An initiative to promote India as both a production centre and an investment destination, called 'India Development Initiative', shall be established in the Ministry of Finance, with an allocation of [Rs2bn] for 2003/04. This initiative will also leverage and promote our strategic economic interests abroad...
>
> 126. Mr. Speaker, Sir, a stage has come in our development where we should now, firstly, review our dependence on external donors. Second, extend support to the national efforts of other developing countries. And, thirdly, re-examine the line of credit route of international assistance to others. Having carefully weighed all aspects, I propose the following measures:
>
> a) While being grateful to all our development partners of the past, I wish to announce that the Government of India would now prefer to provide relief to certain bilateral partners, with smaller assistance packages, so that their resources can be transferred to specified non-governmental organisations (NGOs) in greater need of official development assistance. The current agreed programmes will, however, continue and reach their completion. Of course, there will be no more "tied aid" any longer.
>
> b) Having fought against poverty, as a country and a people, we know the pain and the challenge that this burden imposes. For the Heavily Indebted Poor Countries (HIPCs), owing overdue payments of substantial sums to India, I am happy to announce that we will be considering a debt relief package. This will be announced shortly in consultation with the Ministry of External Affairs.
>
> c) I am also happy to announce that the Government proposes to generally discontinue the practice of extending loans or credit lines to fellow developing countries. Instead, in future, I propose to utilize the 'India Development Initiative', which I have already announced, for providing grants or project assistance to developing countries in Africa, South Asia and other parts of the developing world.[1]

The specifics of the new policy were set out in June 2003:

- India would not accept any tied aid (that which is provided on condition that use is made of the lender's resources) in the future;

- India would accept bilateral aid from just five countries (the United Kingdom, the United States of America, Russia, Germany, Japan) and the European Union. A further 22 bilateral donors were asked to channel assistance funds through non-governmental organisations, United Nations agencies or other multilateral institutions;

[1] 2003/04 Union budget speech (www.indiabudget.nic.in/ub2003-04/bs/speecha.htm).

- India would pre-pay all outstanding debt owed to bilateral donors (apart from Japan, Germany, the US and France). This followed the pre-payment of $2.8bn of more-expensive debt owed to the World Bank and Asian Development Bank earlier in 2003;

- India would cancel debt to seven Heavily Indebted Poor Countries (Ghana; Mozambique; Tanzania; Uganda; Zambia; Guyana and Nicaragua);

- India would use the 'India Development Initiative' to provide grant or project assistance to developing countries in Africa, South Asia and elsewhere and to promote India as an investment and production centre.

In June 2004 it was reported that the new finance minister, Palaniappan Chidambaram, had given the India Development Initiative "temporary relief" pending a review.[2] This paper examines the reasons behind the change in policy under the National Democratic Alliance (NDA) government and assesses the impact of the changes they introduced.

Part One: The consolidation of incoming assistance

Five countries—Japan, UK, Germany, the US and the Russian Federation—as well as the EU, were to be allowed to continue providing assistance. All other bilateral donors were to be allowed to complete on-going projects but would have to channel any future assistance through NGOs, UN agencies or multilateral institutions. The move was intended to allow a more efficient use of resources—by transferring resources directly to NGOs the cost of administering assistance packages would be reduced. Concentrating government attention on larger aid providers would enable a more effective use of aid.

In some respects, the move would have little impact. Multilateral donors provide around 60% of the foreign assistance received by India, and borrowing from these sources is likely to increase. At the same time, the three largest bilateral donors (Japan, the UK and Germany) were unaffected by the move. And while India is one of the largest recipients of aid in the world, when translated into per capita terms it is much less reliant on aid.

However, it is difficult to fully substantiate this argument. Russia and the US, in particular, have historically been relatively small providers of aid to India (see Table One), though Russian assistance soared in 2002/03 and 2003/04. On the other hand, some of those governments asked to channel future funding through other routes had provided significant amounts of aid to India for many years. In 2001/02, the Netherlands was the fourth largest bilateral donor to India, providing $57m; India was the largest recipient of aid from Sweden, which was preparing a five-year development plan worth around $25m per year and Canada had been an active aid provider to India since the 1950s providing around $23m per year.[3]

Furthermore, while the amounts lent may have been relatively small in relation to the overall population or economy (in comparison with other aid recipients), in relation to the

[2] Iyer, P. Vaidyanathan, "Chidambaram shelves aid initiative", *Rediff.com*, June 26th 2004.
[3] Marcelo, Ray, "India Opts to Decline Aid from All but Six Countries", *Financial Times.* July 8th 2003.

budgets of specific ministries in individual states, they can be substantial. It is unclear whether the central government consulted with states that could be affected.

Table One: Total utilisation of external assistance (loans and grants; $ m)

Country/ Agency	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Japan	746.7	734.8	864.9	598.8	882.5	700.7	733.8
UK	52.6	61.1	68.2	67.4	171.7	163.9	286.3
Russian Federation	—	—	6.4	28.5	6.1	66.5	172.6
Germany	116.6	150.4	94.9	84.9	78.9	116.7	104.9
Netherlands	33.1	30.9	30.8	15.4	57.1	21.4	43.6
EU	61.3	29.1	65.1	8.0	7.4	68.6	30.0
US	14.2	14.9	17.2	17.8	13.6	10.5	24.7
Denmark	9.8	7.1	12.4	10.9	7.1	11.5	10.9
France	60.6	15.4	7.5	14.3	5.4	10.9	8.5
IBRD	589.9	578.1	651.7	712.2	774.3	667.7	1,187.8
IDA	828.1	871.1	847.1	1,065.6	1,184.6	905.8	944.8
ADB	601.1	613.9	610.5	470.9	392.3	544.7	608.3

Source: Ministry of Finance, *Economic Survey 2003-04.*

Clearly, other factors contributed to the decision. Several explanations have been put forward. First, that India was concerned that donors used their aid packages as instruments of foreign policy—several countries suspended or cut back their assistance following India's nuclear tests in 1998. These included several of the banned donors—Denmark, Sweden, Canada, Australia—as well as Germany, the US and Japan. Second, that the policy change was an exertion of India's own foreign policy. The Indian government resented international criticism following the outbreak of communal violence in Gujarat in 2002; criticism from the Netherlands was particularly vociferous.[4]

However, if the decision was made to punish countries for having criticised India, several of the countries allowed to continue to give aid had also cut back their aid programmes in response to Indian policies. The third explanation for the move is that India felt its global ambitions, and particularly its desire to secure a permanent seat on the UN Security Council, were being hindered by its use of foreign aid from countries with less strategic ambitions. While India allowed three current and three potential future permanent members of the Security Council to continue to provide aid, the move demonstrated its relative importance compared with other countries:

> The [NDA] regime, more than any other, rarely misses an opportunity to flaunt its nationalist credentials. Being classified as an aid-receiving country hardly adds to pride and self-worth. So, now that our forex reserves are comfortable, why not return loans (even when not due) and discontinue aid arrangements?[5]

Sethi highlights a fourth explanation for the move, namely that it fitted in with other moves by the NDA to centralise decision-making. Bureaucrats and politicians may, Sethi argues, have opposed donors' moves to involve NGOs and community groups in

[4] Mukul, Akshaya, "European MPs' criticism may have led Jaswant to shun aid", *Times of India*, April 21st 2003.
[5] Sethi, Harsh, ''What Price Hubris'', *The Hindu*, June 20th 2003.

decision-making. While future aid could be directed towards NGOs, there must have been an assumption that donors would prefer to channel funds to more willing recipients.

India's decision to repay some of its bilateral debt to all but four countries was similarly driven by the desire to demonstrate India's growing strength. The Ministry of Finance announced that it would repay bilateral credit owed to 15 countries (the Netherlands, Russian Federation, Canada, Sweden, Italy, Denmark, Belgium, Austria, Kuwait, Spain, Switzerland, Saudi Arabia, Australia and the Czech and Slovak Republics). This involved the repayment of Rs74.9bn (US$1.6bn). India's remaining bilateral debt (owed to Japan, Germany, the US and France) stood at Rs588.3bn (US$12.7bn). The pre-payment of bilateral debt followed moves to pre-pay almost $3bn of more expensive debt owed to the ADB and the World Bank in 2002/03. The strength of India's foreign reserves enabled the bilateral debt pre-payment, which was justified thus:

> With this step, India would now provide relief to a large number of its bilateral partners with smaller assistance packages, so that their resources can be transferred to specified NGOs in greater need of official development assistance.[6]

France's position is anomalous. Banned from continuing its direct aid programme, its debt was not repaid. While it is one of the four largest bilateral creditors to India, being owed $577m at the end of 2002, this debt is only slightly higher than that of the fifth-placed Netherlands, which stood at $435m.

Part Two: The India Development Initiative

As budget speech made clear, the India Development Initiative contained several discrete aims. It would be used to attract foreign investment from the west, to support Indian interests overseas and to provide assistance to other developing countries. What was unclear, however, was whether the developmental aspect was meant to stand alone, or whether it was part of the means by which Indian interests would be promoted.

However, while each of the aims shared an international focus, the India Development Initiative budget was primarily used to fund the "India Shining" campaign, which celebrated India's economic success. While this did have a small international component (Rs8.6m or $190,000 was spent funding advertisements in the *Financial Times* and *The Economist*) a much greater sum was spent on domestic advertisements. The India Shining campaign was allocated Rs650m (US$14m) from the India Development Initiative, and a couple of weeks before the campaign ended it was reported that around Rs483m (US$10.4m) had been spent.[7] Although different ministries may have funded a proportion of the campaign,[8] the bulk of the funding appears to have come from the India Development Initiative.

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[6] Ministry of Finance, "India to discontinue receiving small aid packages, to prepay [Rs74.9bn] of bilateral debt", Press Release, June 2nd 2003.

[7] Rajnish Sharma, "India Shining to go global after elections", *Hindustan Times*, February 10th 2004. Kumar, Navika and Santwana Bhattacharya, "Government does account juggling for India Shining", *Indian Express*, February 12th 2004.

[8] "Ad campaign: We are within the law, says Vajpayee", *The Hindu*, February 10th 2004.

Spending on the India Shining campaign was equivalent to one-third of the budget for the India Development Initiative in 2003/04, of which only half was actually spent. Opposition parties criticised the use of public money on the campaign, arguing that it was, in effect, a party political election campaign. Certainly, it is difficult to argue that the campaign was primarily intended to boost foreign investment in India. But the India Shining campaign shared with the external policy changes the intention of selling a positive image of India, to Indians themselves as well as to other countries.

The means by which India expanded its development assistance is also unclear. The budget announcement suggested that lines of credit would not be the means by which assistance was to be extended. But in February 2004, the Ministry of Finance released a brochure detailing the status of implementation of budget announcements. In relation to the India Development Initiative it announced that:

> "India Development Initiative" has been established. Some schemes under this initiative such as interest equalisation support to Exim Bank for extension of credit lines to other countries and media campaign for promotion of India's economic and financial interests are already under operation. Certain other parameters of the scheme on individual components are being firmed up in consultation with the concerned Ministries
> ACTION COMPLETED[9]

The status report did not mention any grant or project assistance and it appears that extending credit lines was the primary means by which assistance was given. In June 2003, according to the General Manager and Regional Resident Representative of the Export-Import Bank, Sunil Trikha, "India has now taken a decision to route all LCs through our bank".[10] Table Two provides details of new credit lines offered by the Exim Bank in 2003/04.

Table Two: Export-Import Bank Lines of Credit 2003/04 ($ m)

Recipient	**Amount**
ABSA Bank Ltd (South Africa)	10
Central Bank of Dijbouti	10
Government of Ghana	15
West African Development Bank (Togo)	10
Export-Import Bank of Hungary	10
Government of Zambia	10
Government of Sudan	50
National Economy Bank (Poland)	10
Bank TuranAlem (Kazakhstan)	10
Iranian Commercial Banks	20
Government of Angola	5
Republic Bank (Trinidad & Tobago)	8
Total	**168**

Source: Export-Import Bank of India*, Performance Highlights: 2003/04*

[9] See indiabudget.nic.in/ub2004-05(I)/bud/impbud.pdf.
[10] "India to route all credit through Exim Bank", *Asia Pulse*, June 10th 2003.

This policy seems to have changed early in 2004. In March the government chose to use the State Bank of India, the Bank of Baroda and the Indian Overseas Banks to channel some credit to other countries.[11] India extended credit lines worth $200m to the New Partnership for Africa's Development (NEPAD) and $500m to African countries in "Team-9", which comprises India and eight West African countries (Burkina Faso, Chad, Cote d'Ivoire, Equatorial Guinea, Ghana, Guinea Bissau, Mali and Senegal). The credit terms are listed in Table Three, but the take up of this credit is unclear.

Table Three: Interest payable on NEPAD and Team-9 credit lines

Category	Interest rate (%)	Repayment period (years)	Grace period (years)	Subsidy (%)
HIPC	1.75	20	5	41.3
Low income, high debt	LIBOR + 0.5	15	5	35.1
Middle income, high debt	LIBOR + 0.5	12	4	28.8
Middle income, low debt	LIBOR + 0.5	8-10	2-3	17.1-24.6

Source: *Economic Times*

The *Economic Times* detailed the means by which the India Development Initiative was used to finance the scheme.

> The government plans to provide [interest equalisation] support of up to 2.5% to compensate the Exim Bank and other banks for providing lines of credit to several countries for long tenors at a rate marginally above the Libor. In other words, the interest equalisation support is making good the difference to these banks on the interest rate they would have charged in the normal course.
>
> The lines of credit… would be offered at Libor plus 50 basis points for a maturity of over 20 years. In the normal course, the Exim Bank would have charged 3% while extending such lines of credit.
>
> It is this difference of 2.5% which is being compensated by the government from this fiscal onwards as part of a broad strategy to forge stronger trade ties with several countries especially in the African region. The India Development Initiative has been charted out by Jaswant Singh specifically with this in mind.[12]

The India Development Initiative was also intended to provide aid and grants to other developing countries, though the debt relief component (discussed below) does not appear to have come from the India Development Initiative. However, while India provided grants and loans to other governments worth Rs17.5bn (US$380m) in 2003/04, only Rs1bn was spent under the India Development Initiative. If around Rs650m (US$14m) was spent on the 'Indian Shining' campaign, this would leave around Rs350m ($7.5m) for other spending, the bulk of which appears to be on equalising interest rates on credit lines. Any project or grant assistance would appear to be small-scale, and few

[11] "Exim monopoly goes; new windows opened", *Economic Times*, March 11th 2004.
[12] Vikraman, Shaji & Nayak, Gayatri, "Govt to bridge interest gap on bank loans to nations", *Economic Times*, March 16th 2004.

details of grants provided are available, though according to the Ministry of External Affairs, India offered Senegal a grant to undertake, through the consultancy arm of Indian Railways, RITES, a feasibility study of the Dakar-Tambakounda-Ziguinchor railway line.[13]

While the government was keen to be perceived as an aid donor internationally, domestically its position was more difficult. Despite the government's attempts to talk up India's successes, India's weak fiscal position and levels of poverty would mean that the transfer of resources to aid other countries' development without any corresponding benefits would be unpopular. Consequently, the government was keen to emphasise the benefits for India that were accruing from its aid programme. Following the election, citing government sources, P. Vaidyanathan Iyer wrote that;

> The India Development Initiative has lent and promised funds largely to African countries like Mozambique, Sudan and Angola and in turn sought to promote India's economic interests in these countries.
>
> For instance, India has negotiated for concessions in Sudanese oil in return for the aid being extended. In Angola it has procured mining rights at a concession…
>
> …the aid extended might, at first glance, appear to be generating negligible returns. But the government has managed, and is expecting, to derive mileage by boosting Indian business interests in the countries that are being supported in the initiative.
>
> The India Development Initiative is estimated to contribute over [Rs20bn] of exports from India. Companies like RITES, Tata Motors and the state-owned oil firms have benefited from the initiative.[14]

Indian expertise in sectors such as infrastructure; pharmaceuticals; healthcare; IT and automobiles clearly has potential benefits to African countries. At the same time, the expansion of Indian companies' activities overseas spurred the government to link its diplomacy more explicitly with its economic requirements. Whether or not there was a correlation with the policy change, Indian commercial links with Africa clearly increased. India's exports to Africa rose by 16% in 2003/04[15] and Indian companies expanded their operations in Africa. (This expansion included the acquisition by the state-owned oil producer, ONGC Videsh, of assets in Sudan costing $750m. Tata Motors won a World Bank tender to provide 500 buses for a transport company in Senegal, Senbus, worth $19m. Tata plans to use Senegal as its production hub in West Africa[16] and in April 2004, Tata Motors was short-listed to provide 150,000 minibuses to South Africa. RITES, the consultancy arm of Indian railways, has also won a contract to export locomotives to Sudan Railways and to rehabilitate old locomotives. RITES is also working in Tanzania, Ethiopia and Uganda.)

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[13] See meaindia.nic.in/foreignrelation/22fr05.htm.
[14] P. Vaidyanathan Iyer, "Chidambaram shelves aid initiative", *Rediff.com*, June 26th 2004.
[15] Sunit Arora, "Sethji goes on a Safari", *The Sunday Express*, September 5th 2004.
[16] "Tata Motors sees Senegal as its hub for Western Africa", *Financial Express*. October 13th 2004.

But while the policy changes were entirely legitimate, the interpretation of these moves as assistance is somewhat misleading. Under its new policy towards donors, India banned tied aid but it appears that much of the assistance provided by India was itself linked to purchases of Indian goods and services. India's new aid policy was far from unique in that it was driven not by pure altruism, but primarily from the domestic and international political and economic benefits that would accrue from it. The move was intended to project India's strength internationally and domestically. Indeed, when the new policy was introduced, Jaswant Singh made clear that the key aim of the "India Development Initiative" was to help India's development. Nonetheless, confusion over whether the primary purpose of the India Development Initiative was to assist India or to develop other countries, appears widespread. The contrast between India's rejection of incoming tied aid and its own emphasis on extending lines of credit—a practice which the budget speech suggested would be generally discontinued—is surprising.[17]

Part Three: Other policy changes

India's surging foreign-exchange reserves enabled two further policy changes to be introduced in 2003/04. On June 5th, 2003, the Ministry of Finance released the following press release;

> India has decided to write off the dues of seven heavily indebted poor countries (HIPC). The countries include Mozambique, Tanzania, Zambia, Guyana, Nicaragua, Ghana and Uganda. The dues amounted to [Rs954.4m] as on March 31, 2003.
>
> The decision follows implementation of India Development Initiative approach announced by the Finance Minister, Shri Jaswant Singh in his Budget Speech this year.[18]

The debt relief package was clearly beneficial to the recipients, and was intended to encourage other creditors to follow suit. At the same time, the relief package was meant to demonstrate India's key leadership role in the developing world. The wording of the press release is ambiguous. It does not appear that the debt relief package actually fell within the India Development Initiative, but at the same time it implies that the India Development Initiative was an assistance package. According to the Press Trust of

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17 While the use of tied aid remains commonplace, in 2001 the OECD's Development Assistance Committee (DAC) recommended that overseas development assistance (ODA) to least developed countries should be untied to the greatest degree possible. While the OECD recognised that countries use tied aid as a means of gaining public support for an assistance package, it suggested that tied aid "may be construed as a costly way of subsidising jobs in donor countries" (OECD Policy Brief, 2001, "*Untying Aid to Least Developed Countries*") and that "tied aid increases the administrative burden on both recipients and donors, and also tends to favour projects that require capital intensive imports or donor-based technical expertise rather than smaller and more poverty-focussed programmes".

18 Ministry of Finance, "India to write of [Rs950m] debt of poor countries", Press Release, June 5th 2003.

India, India cancelled Rs90m of debt owed by Mozambique; Rs174m owed by Tanzania; Rs140m by Uganda; Rs100m by Zambia and Rs50m by Ghana.[19]

India's relationship with multilateral agencies also changed. In May and June 2003, India provided SDRs205m to the IMF's Financial Transactions Plan used to bail out countries facing balance of payments difficulties. These moves were prompted in part by India's soaring foreign-exchange reserves, which have surged in the past two years to stand at $118bn in July 2004. At the same time, the moves were seen as a means of strengthening India's global financial position. Currently, the IMF has five appointed members, representing the five countries with the largest fund quotas (the USA, Japan, Germany, the UK and France). At the 2003 Spring meeting of IMF, the Governor of the Reserve Bank of India, Bimal Jalan, called for the quota shares of developing countries to be raised to reflect their growing importance in the world economy and to give them a greater role in the IMF. Mr Jalan called for quotas to take into account the size of the economy on a purchasing power parity basis, under which India is currently the world's fourth largest economy.[20]

Part Four: Traditional Indian assistance

The NDA was keen to project its policy changes as a shift from an aid recipient to an aid donor. But the substance of many of its changes were less than the rhetoric implied; the rejection of some bilateral assistance, for instance, does not negate the fact that multilateral inflows are growing. There was also an emphasis on the Indian Development Initiative even though, in 2003/04, India provided grants and loans to other governments worth Rs17.5bn; only Rs1bn was spent on the India Development Initiative.

Ironically, India has been a long-standing provider of aid, primarily through the use of its manpower assets and the provision of training. The Indian Technical and Economic Co-operation (ITEC) scheme, which provides training programmes to 154 countries, has been running since 1964. This scheme provides technical assistance and utilises India's strengths in certain types of education provision. ITEC (along with the Special Commonwealth African Assistance Programme which targets African countries in the Commonwealth) has four components: training; projects and project related activities; deputations of experts and study tours. According to the Ministry of External Affairs, India spends around Rs500m ($11m) annually on ITEC activities, training around 3,000 people each year. India has also willingly offered its manpower skills, providing experts for multilateral organisations including the Commonwealth, the ADB and the World Bank, and has been one of the largest providers of peacekeepers for the UN.

India has also provided substantial amounts of assistance to its neighbours, particularly Nepal and Bhutan (see Table Four; assistance to Bhutan is under-stated in the table: the bulk of India's plan budget is also used to finance large-scale projects in Bhutan). In the 1980s, India also provided relatively large amounts of aid to Bangladesh and Vietnam, though these programmes were reduced during the 1990s. According to the Ministry of External Affairs, the total value of Indian assistance since 1964 is around $2bn.

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[19] Press Trust of India, "India waives repayment of debt from Africa", *Hindustan Times*, August 19th 2004.

[20] "India Development Initiative to aid developing nations: Jalan", *Times of India*, April 12th 2003.

Since the overthrow of the Taliban, Afghanistan, too, has become a major beneficiary of Indian aid. While this partly stems from rivalry with Pakistan, India had been a long-standing supporter of the Northern Alliance. Aid to Afghanistan was not included in the India Development Initiative, and the manner of the assistance more closely matches that offered to India's neighbours than that under the India Development Initiative. In January 2002, India pledged to lend Afghanistan $100m for reconstruction over the next three years, matching Pakistan's pledge, at the International Conference on the Reconstruction of Afghanistan in Tokyo. India also contributed US$200,000 to the World Bank-managed Afghan Reconstruction Trust Fund. In July, $10m was transferred to the Afghan government as a budget subsidy and in October 2002 the full $100m was converted into a grant.[21]

Table Four: Non-plan grants and loans from the Ministry of External Affairs (Rs m)

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
Bangladesh	310	110	300	850	1,140	900	400	50
Bhutan	1,650	2,000	1,900	2,000	2,100	2,310	2,420	2,450
Nepal	750	700	650	650	1,090	1,070	920	590
Africa	100	110	110	70	50	50	90	1,050
Maldives	130	80	100	100	90	90	80	80
Myanmar	200	510	350	235	210	180	90	100
Sri Lanka	60	80	90	145	160	180	200	150
Other developing countries	450	500	600	550	560	1,170	1,710	2,490
Total (incl others)	**3,650**	**4,090**	**4,100**	**4,620**	**5,430**	**6,010**	**6,000**	**5,750**

Source: Ministry of Finance

Assistance to Afghanistan has been wide-ranging and has included training, humanitarian assistance in November-December 2001, the rehabilitation of the Indira Gandhi Institute of Child Health and the Habibia School; the provision of 274 buses for public transport; a gift of three aircraft for Afghanistan's national carrier, Afghan Ariana and the provision of 1m tonnes of wheat as food assistance. Subsequently, India agreed to supply 300 vehicles, including 120 multi-utility vehicles made by an Indian defence company, Mahindra Defence Systems, to the Afghan National Army and that it would establish telephone services in 11 provincial capitals, at a cost of $12.5m. This work is to be completed by the end of 2004.[22]

Indian assistance to Afghanistan appears to have irked Pakistan's government, which prevented the military vehicles from transiting through its territory.[23] One of the key means by which India has provided assistance to its neighbours has been through infrastructure projects. In particular, India has used the Border Roads Organisation to construct roads in Bhutan and Myanmar. In March 2003, India extended its commitment to Afghanistan by a further $70m to build a road between Delaram, near Herat, and the Iranian border. The project will ease the passage of Afghan trade through two Iranian ports.

[21] Rajya Sabha, Question 5,020, May 8th 2003.
[22] Kumar, Siddharta, "Schools to roads: India shining in Afghanistan", *The Asian Age*, April 20th 2004.
[23] Rajya Sabha, Question 1,402, December 10th 2003.

Part Five: Conclusions

As the budget speech made clear, the policy changes introduced by the NDA were primarily intended to bolster Indian economic and political interests. The main beneficiaries would be Indian companies and India's global standing. The NDA oversaw the expansion of India's role in the IMF, the rejection of assistance from smaller countries and the provision of debt relief to several African and Latin American countries.

Elements of the policy, such as the provision of funds to the IMF and the debt relief package were undoubtedly positive and a clear demonstration of India's growing economic strength. Questions however can be raised over other elements of the policy. Opposition parties have questioned the legitimacy of using public funds for the "India Shining" campaign in the run-up to the general election, and regardless of the criticisms, the domestic advertising campaign seems unrelated to the overall thrust of the new development policy. The official explanation for the decision to prevent future funding from certain bilateral sources was flimsy, and the manner of the announcement risked alienating several long-standing donors to India. And while it was justifiable for India to ban tied aid, to then introduce an aid policy that primarily involved the extension of credit lines, was muddled, if not hypocritical.

The key problem with the development package was the blurring of the distinction between the various new economic, political and developmental objectives. This was reinforced by a lack of transparency over what was actually being done and confusion over whether the India Development Initiative was intended to develop India, or as a means of channelling Indian assistance to other countries. Recent years have witnessed an expansion of overseas activity by Indian companies. In the future, India's diplomacy is likely to increasingly work to bolster commercial relations. This is entirely legitimate, and the expansion of Indian companies will itself bolster India's global position. Ideally, however, any future aid strategy should be more clearly distinguished from India's own economic objectives.

The irony is that India has provided assistance to other countries for decades, under a package of measures that drew on India's inherent strengths. India has provided training as well as substantial amounts of assistance to its neighbours. The latter expanded under the NDA following the ousting of the Taliban in Afghanistan. But whereas a focus of India's foreign policy in the mid-1990s was to improve relations with its neighbours, the NDA tried to downplay its regional standing, appearing to believe that this held back its global role. This seems to have resulted in an emphasis on the relatively small amount of assistance provided to countries in Africa, rather than on the much larger amounts provided to Nepal, Bhutan and Afghanistan. The direction of any future Indian assistance strategy will need to balance two factors: India's international standing will be enhanced by the global expansion of its commercial interests, but instability in India's neighbours will limit India's ability to play a greater global role.