INDIA’S DEVELOPMENT COOPERATION: ANALYSIS OF THE UNION BUDGET 2016-17

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ABSTRACT

Over the past few years, India has been actively engaged in development cooperation across various regions, including South Asia, Africa, and Latin America. This brief on the 2016-17 Indian Budget highlights India’s continually rising development cooperation commitments, despite a budget aimed at narrowing the deficit, as well as the increasing role played by the Ministry of Finance in allocating these commitments. It also highlights how India’s diplomacy, including the soft power tool of foreign aid, continues to be constrained due to low budgetary allocations towards the Ministry of External Affairs. Despite Prime Minister Modi’s significant personal engagement in regional and global diplomacy and the government’s policy pronouncements of a Neighborhood First Policy and an Act East Policy, decreased development assistance to most countries in the region will do little to shore up these policies. India’s ambition of securing influence both in its neighborhood and globally, as well as gaining a larger say in international financial institutions, makes it imperative to better understand the budgetary commitments India has made in 2016-17 in order to fulfill its foreign policy objectives.

The Government of India released its Union Budget for the fiscal year 2016-2017 on February 29, 2016. In the budget, India’s development cooperation has increased in absolute terms from INR 90.09 billion (Revised 2015-16) to INR 90.5 billion (i.e. from around US$ 1.308 billion in revised 2015/16 estimates to US$ 1.314 billion in the 2016/17 Union Budget). Though as a percentage of the overall budget, this represents a decline of 0.04 percent. There has also been a decline (both in proportion and absolute terms) in the total amount of development funds allocated through the Ministry of External Affairs (MEA). This comes as a major blow to India’s foreign policy objectives especially considering India’s substantial development commitments towards South Asia as well as various developing economies across the globe through both bilateral visits and at various multilateral fora and institutions.
India’s Ministry of External Affairs (MEA) is infamously smaller than that of Singapore and yet the 2016-17 Union Budget has committed less towards the Ministry than in the previous year, raising questions about the Government’s commitment to increasing its engagement in its neighborhood and beyond. The Government of India 2016-17 Union Budget committed INR 146.63 billion (approximately US$2.13 billion) directed towards the MEA, which implies a decrease of around 2.5 percent (INR 3.78 billion) compared to the revised sum of INR 150.41 billion directed towards the MEA in 2015-16. It is also significantly less than the INR 229.67 billion (approximately US$3.34 billion) requested by the Ministry. The level of budgetary allocation towards the MEA has been criticized by several sources, including a 31-member parliamentary panel headed by MP Shashi Tharoor. This panel noted that the low allocation of funding for the MEA, especially in light of the substantial commitments made by PM Modi during his foreign tours, would produce an acute shortage of budgetary funds. More importantly, the tenth report of the Standing Committee on External Affairs (2015-2016) scrutinized the 2015-16 budgetary allocation towards the MEA, deeming it to fall short of the amount required by the Indian government to fulfill its commitments abroad and thus, being detrimental to India’s global image.
The Committee expressed particular disappointment with the scarcity of funds allotted to the MEA:

“The Committee strongly feel that due to such an unreasonable attitude of the Ministry of Finance, the MEA will once again be forced to cut short the execution of international commitments for aid/assistance and the functions of Mission/posts will also repetitively affected. The Committee, therefore, wish to reiterate their earlier recommendation to the Government to impress upon the Ministry of Finance the need to suitably enhance allocations at the Supplementary Demands and Revised Estimates stage of 2015-16 and at BE during the year 2016-17^4

Decrease in Development Assistance allocated through Ministry of External Affairs

In addition to a decrease in the overall amount committed towards the MEA in the 2016-17 Union budget, there has also been a reduction in the MEA’s budgetary allocation towards India’s development cooperation with foreign governments in the form of grants and loans. In comparison to the commitment of INR 91.07 billion made in the Union Budget 2015-16 (later revised to INR 84.44 billion), the new budgetary allocation of INR 79.08 billion for foreign development cooperation represents a reduction of around 13 percent over previous year’s budgetary commitment. Furthermore, though senior officials from the Ministry as well as India’s foreign secretary Dr. Jaishankar have expressed hope and shown keenness to bring forward the issue of additional fund allotment for the MEA during the year, however, up till now there hasn’t been any concrete indication from the government supporting such an increase in the near future. Thus, the MEA is currently is therefore currently contemplating various cost-cutting strategies, including the rationalization of costs of various missions especially in smaller countries. ^6

India’s commitments through the MEA towards international as well as regional organizations such as the United Nations and the South Asian Association for Regional Cooperation (SAARC) have also decreased as a result of the reduced development assistance funds allocated towards MEA. For example, funds committed through the MEA towards SAARC have decreased from INR 4.60 billion in the revised estimate for 2015-16 to INR 3.28 billion in 2016-17, representing a decline of approximately 29 percent.

Figure 3. Summary of the budgetary allocation towards the Ministry of External Affairs (MEA) and the amount extended by the MEA towards foreign governments (loans and grants)

Source: Indian Development Cooperation Research (IDCR) at the Centre for Policy Research
THE GROWING IMPORTANCE OF THE MINISTRY OF FINANCE IN ALLOCATING INDIA’S DEVELOPMENT ASSISTANCE

The biggest change in the 2016-17 Union budget with regards to India’s development cooperation is the doubling of aid channeled through the Department of Economic Affairs (DEA) in the Ministry of Finance. Historically, India’s development cooperation has been committed primarily through the MEA, with the Ministry of Finance and several other ministries contributing a small percentage of the total amount. The DEA has also been providing counter guarantees and interest subsidies to the EXIM Bank of India under 2003-04 initiated Indian Development and Economic Assistance Scheme (IDEAS), to enable the EXIM Bank to lend to developing countries on concessional terms. The amount of budget set aside for providing this interest rate equalization support to the EXIM Bank has increased steadily since 2011-12 budget as seen in figure 5. Moreover, further budgetary allocation under the Department of Economic Affairs for EXIM Bank interest equalization support has also been committed by the Indian government during the second extension of IDEAS from 2015/16 to 2019/20. Furthermore, new 2015 guidelines for Line of Credits extended by the government under IDEAS now also enable any other public sector bank or lending agency approved by MOF to provide such credits as long as they adhere to the government’s guidelines, including that a minimum of 75 percent of the credit contracts for goods and services be sourced from India. Yet even if one excludes DEA’s interest equalization support to the EXIM Bank, the 2016-17 budgetary allocation under development assistance...
towards foreign governments channeled through the Ministry of Finance has increased tenfold from INR 0.51 billion in the revised budgetary estimate for 2015-16 to INR 5.6 billion in the Union Budget 2016-17, as seen in figure 6. This significant increase in development assistance channeled through the Ministry of Finance indicates a policy shift by the government led by Prime Minister Modi. India is now channeling an increased percentage of its development assistance through the Ministry of Finance.

Figure 6. Loan and grants extended by the Ministry of Finance towards foreign governments (exclusive of the interest equalization support)

Source: Indian Development Cooperation Research (IDCR) program at the Centre for Policy Research.

Notes on Demand for Grants, 2016-17, Department of Economic Affairs, Ministry of Finance

In addition to funding Indian development cooperation through interest rate equalization support for credits through the EXIM Bank and other public sector banks, the DEA also allocates resources for various international funds, institutions, and development banks. The 2016-17 Demands for Grants by the DEA also show that India’s contributions to international financial institutions has increased substantially. The separate budgetary heads under which such allocations have been categorized in the Union Budget 2016-17 are as follows.

1. International/ National Contributions

Under this budgetary head, the Ministry of Finance disburses resources towards regional and international funds. The total commitments in the Union Budget of 2016-17 under this head is INR 5.26 billion. These include contributions towards the Asian Development Fund (INR 3.31 billion), International Fund for Agricultural Development (INR .84 billion), other General Economic Services (INR .62 billion), and technical and economic cooperation with other countries (INR 0.5 billion).

2. Investment in International Financial Institutions

For 2016-17, the Ministry of Finance has committed INR 40.82 billion to international financial institutions. These include provisions for subscription to the International Bank for Reconstruction and Development (IBRD), the Asian Development Bank (ADB), the Asia Pacific Infrastructure Fund (APIF), the African Development Bank, and other contributions towards the SAARC Development Fund. It also includes allocations towards India’s subscription at the International Monetary Fund (IMF), as well as commitments to new institutions such as the Asian Infrastructure Development Bank (AIIB) and the New Development Bank (NDB), the bank created by the BRIC countries of Brazil, Russia, India, China and South Africa, which came into effect on July 15, 2015.

Importantly, India has made substantial commitment of US$ 8 billion to AIIB, where it is the second largest shareholder after China with a stake of 7.5 percent and a total commitment of US$8 billion. India will pay the total remaining commitment of US$ 6.4 billion in five annual installments. In the financial year 2016-17, India has committed to pay US$ 334.7 million (INR 22.97 billion) towards its share at the AIIB.

The remaining commitment of US$ 6.4 billion will be paying in five annual installments. Interestingly, India’s 2016-17 commitment to AIIB in the financial year 2016-17 is less than the US$500 million loan India is seeking from the AIIB to fund the expansion of its solar power generation capacity. Crucially, in January 2016, following the implementation of IMF’s long pending quota reforms, India along with China, Brazil, and Russia experienced an increase in their voting rights at the IMF. India’s IMF quota and voting rights rose from 2.44 percent to 2.7 percent and 2.36 percent to 2.6 percent respectively. This was accompanied by an increase in India’s capital contributions to the IMF in the current financial year.

3. Loan and Grants committed towards foreign governments

The total budgetary provision of INR 10.82 billion committed under this budget head includes India’s commitments to the ADB and the NDB, as well as its interest equalization support
to the EXIM Bank of India and other Indian public banks and companies undertaking infrastructure based projects abroad i.e. as part of its recently introduced ‘Concession Financing Scheme’.

Overall, the study of as above budgetary heads is crucial for understanding the stronger role carved out by the Indian government for the Ministry of Finance in the context of India’s international commitments in the FY 2016-17. Furthermore, in the 2016-17 Union budget the Indian government, India has essentially decreased its bilateral development commitments under the MEA, while increasing commitments to international financial institutions through the Ministry of Finance.

**IN 2016-17, INDIA INCREASES ITS OVERALL BILATERAL COMMITMENTS TOWARDS FOREIGN GOVERNMENTS, WHILE DECREASING ITS BILATERAL COMMITMENTS TOWARDS SOUTH ASIAN COUNTRIES**

The 2016-17 Union Budget shows an increase in overall grants and loans committed by India towards foreign governments. Yet under the Modi administration India’s development assistance to countries in its neighborhood has decreased for the third year in a row, in contradiction to the government’s stated policies of Neighborhood First and Act East. In 2016-17, India committed INR 90.50 billion overall for bilateral development assistance, compared to the revised amount of INR 90.09 billion for the previous year. India also committed an amount of INR 3.37 billion under the budgetary head of support to India’s international training and programs. Yet the overall slight increase in bilateral development assistance contrasts with India’s bilateral commitments to countries in its immediate neighborhood. The top five recipients of bilateral loan and grants committed by Government of India in the 2016-17 Union Budget are the South Asian nations of Bhutan (INR 54.9 billion), Afghanistan (INR 5.2 billion), Myanmar (INR 4 billion), Nepal (INR 3 billion) and Sri Lanka (INR 2.3 billion). However, despite all the top five recipient countries of India’s bilateral financial assistance being from South Asia, there has been a decline in the proportion of total bilateral budgetary assistance committed by the Indian government to its neighborhood compared to the previous year’s revised budgetary estimate, as seen in figures 7 and 8.

**Figure 7. Bilateral grants and loans extended by India towards South Asia (Bhutan, Afghanistan, Myanmar, Nepal, Sri Lanka, Bangladesh, and Maldives) versus total amount extended towards foreign governments, FY 2011-12 to FY 2016-17**

Source: Indian Development Cooperation Research (IDCR) program at the Centre for Policy Research.
Figure 8. Indian bilateral development assistance towards South Asia countries, as a proportion of the total amount of loans and grants extended by India towards foreign countries.

Source: Indian Development Cooperation Research (IDCR) program at the Centre for Policy Research.

Figure 9. Bilateral loans and grants extended by India towards Bhutan, 2011-12 to 2016-17.

Source: Indian Development Cooperation Research (IDCR) program at the Centre for Policy Research.

Figure 10. Bilateral loans and grants extended by India towards Sri Lanka, 2011-12 to 2016-17.

Source: Indian Development Cooperation Research (IDCR) program at the Centre for Policy Research.
The overall decline in India’s bilateral budgetary development assistance in 2016-17 comes as a blow to the countries of Sri Lanka, Bangladesh, Maldives and Afghanistan. Loans and grants committed to the island nations of Sri Lanka and Maldives saw a cut of around 54 percent and 81 percent respectively compared to previous year’s revised budgetary allocation. Afghanistan, where India has worked extensively to establish a soft power presence, witnessed a second year of decreased development assistance commitments from India of approximately 24 percent. In the case of Bangladesh, commitments in the forms of grants and loans also declined, though LOCs, which due to their structural set-up are essentially tied aid, have replaced direct development assistance. As of June 2016 India had operative LOCs worth $862-million\(^{16}\) (INR 59.15 billion)\(^{17}\) extended towards Bangladesh, while another $2 billion (INR 137.23 billion)\(^{18}\) are in the pipeline.\(^{19}\)
India’s decreased allocation for grants and loans towards South Asian countries also carries significant strategic implications. For instance, with respect to Afghanistan, a decrease in budgetary allocation will negatively impact India’s work in maintaining regional security and stability. Moreover, Nepal, which over the past few years has developed a closer political relationship with China and also holds a pivotal strategic position in terms of India’s regional influence, also saw a further decline in India’s bilateral development assistance of around 29 percent from around INR 4.2 billion in 2015-16 to INR 3 billion in 2016-17. This decline comes despite the required reconstruction efforts after the devastating earthquake that hit Nepal in 2015. The weakening in India-Nepal ties is also evident in the more than 50 percent decline in India’s actual aid disbursement towards Nepal between 2010-11 and 2014-15.

A partial explanation for India’s decreased development assistance allocations to some of its neighbors can be that the development assistance projects started by the Indian government in South Asian countries have been completed or are nearing completion and thus require less assistance. Examples include large-scale projects undertaken by the Indian government in Afghanistan such as the around INR 9.69 billion construction of the Afghan Parliament Building and the Salma Dam power project (renamed the Afghan-Indian Friendship Bridge), inaugurated in December 2015 and June 2016 respectively. Yet Prime Minister Modi’s government has also not made any new large-scale commitments to these countries despite Sri Lanka being essential to India’s strategy in the Indian Ocean, Afghanistan being essential to India’s policy in West Asia, and Bangladesh being essential not only to India increasing its connectivity to its northeastern states, but also to its ‘Act East’ Policy. The only country in South Asia where India has made new commitments to large-scale projects is Bhutan, where it has committed development assistance for the new Punatsangchhu I and II hydropower dam projects.

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**Figure 13. Bilateral loans and grants extended by India towards Nepal**

Source: Indian Development Cooperation Research (IDCR) program at the Centre for Policy Research.

**Figure 14. Bilateral loans and grants extended by India towards Myanmar**

Source: Indian Development Cooperation Research (IDCR) program at the Centre for Policy Research.
Only Myanmar Sees an Increase in Indian Aid In 2016-17

The only exception to the trend of decreased bilateral assistance commitments towards India’s neighborhood is Myanmar, where India has increased its development assistance commitments for the second year in a row. In 2016-17, MEA budget commitments to Myanmar jumped from the revised estimate of INR 1.54 billion in 2015-16 to INR 4 billion in 2016-17. This increase in commitments can be attributed to several infrastructure projects being carried out by India in Myanmar, such as the Kaladan Multi-Mode Transport Corridor Project, which links Kolkata in India with Sittwe seaport in Myanmar by sea, Sittwe to Paletwa via the Kaladan river, and Paletwa to the Indian state of Mizoram by road transport. India is also working on expediting the building of the Asian trilateral highway, which will connect India, Myanmar and Thailand, allowing travel from India’s border crossing to Myanmar at Moreh in the Indian state of Manipur all the way to Bangkok, Thailand. However, political tensions within Manipur and at the border town of Moreh, as well as significant non-trade barriers to trade crossing the border between India and Myanmar remain stumbling blocks to the success of this development project.

Indian grants towards the African continent have also increased in the 2016-17 Union Budget. Following the third India-Africa Summit hosted by India in October 2015, India increased its development assistance commitments in the form of grants and loans towards Africa by 45 percent from INR 2 billion in 2015-16 to INR 2.9 billion in 2016-17. Line of Credits towards African countries also increased, with six African countries featuring in the list of top ten countries receiving Indian LOCs as of June 2016.

CONCLUSION

The 2016-17 Union Budget continued trends witnessed in previous year budgets, with inadequate funds being committed once again to the MEA. Moreover, budgetary allocation towards foreign governments witnessed a modest increase, with the main focus of the outlay once again being on projects carried in India’s neighborhood i.e. with Bhutan, Afghanistan, Myanmar, Nepal and Sri Lanka constituting top five recipients of bilateral development assistance. A notable new policy is the increase in funds committed towards the Ministry of Finance for India’s development cooperation abroad, including interest equalization support to the EXIM Bank, witnessed an increase. Substantial amount of funds were also committed for India’s contribution towards International Financial Institutions such as the Asian Infrastructure Investment Bank and the International Monetary Fund. The Union Budget 2016-17 also registered an increase in India’s development cooperation with Myanmar and countries in Africa. Yet India’s development assistance commitments to other countries in its neighborhood decreased in 2016-17, raising the question of how committed the Indian government is to its ‘Neighborhood First’ and overall ‘Act East’ Policies.
NOTES

1. The INR to USD currency conversion has been carried out using the Oanda software (www.oanda.com) and is based on the Indian Rupee to Dollar Exchange Rate as on February 29, 2016 (date on which the 2016-17 Union Budget of India was presented).


11. Ibid.


13. The USD to INR currency conversion has been carried out using the Oanda software (www.oanda.com) and is based on the Indian Rupee to Dollar Exchange Rate as on February 29, 2016 (date on which the 2016-17 Union Budget of India was presented).


17. The INR to USD currency conversion has been carried out using the Oanda software (www.oanda.com) and is based on the Indian Rupee to Dollar Exchange Rate as on February 29, 2016 (date on which the 2016-17 Union Budget of India was presented).

18. The INR to USD currency conversion has been carried out using the Oanda software (www.oanda.com) and is
based on the Indian Rupee to Dollar Exchange Rate as on February 29, 2016 (date on which the 2016-17 Union Budget of India was presented).

