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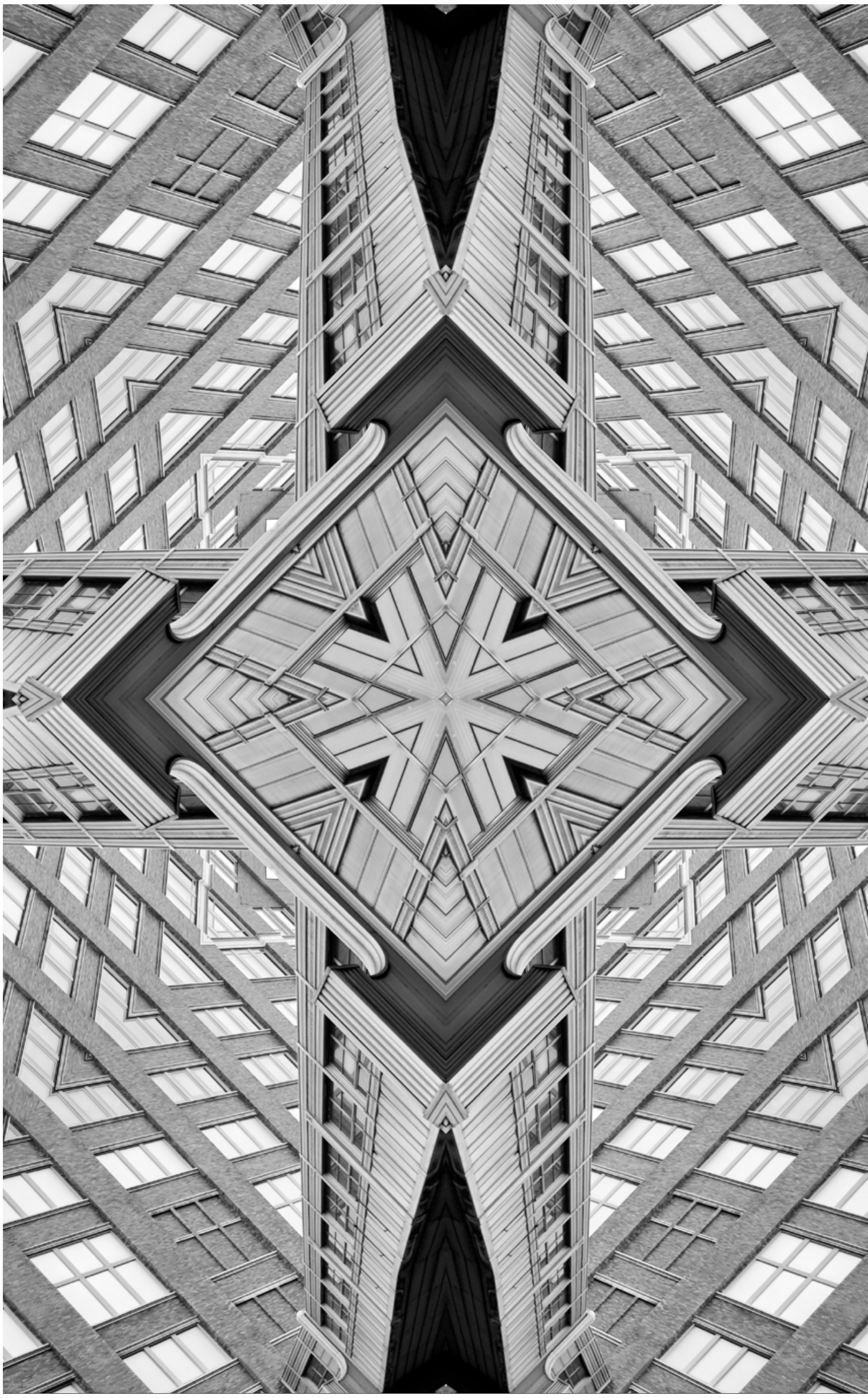

India's Lines of Credit, Development Cooperation, and G20 Presidency: A Primer

Abhijit Mukhopadhyay

Abstract

Lines of Credit (LOCs) are a widely used instrument in development cooperation, including for India. The projects funded by India's LOCs attempt to achieve a trinity of objectives: economic benefits; effective project management and completion; and nurturing and enhancing diplomatic relationship and strategic interests with the partner countries. This brief explains how India's LOCs function, and contextualises the performance of the LOCs within the country's broader quest to amplify the voice of emerging markets and developing economies—a role that it can particularly perform during its ongoing presidency of the G20.

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Introduction

India's efforts to engage in inclusive development cooperation with countries of the global South began in the 1960s. The objective was to create a participative structure that can stand in contrast to the dominant traditional Western foreign aid model at that time, such as that of the OECD's (Organisation for Economic Co-operation and Development) Development Assistance Committee (DAC). As India's economic heft grew over the decades, the country's template of development cooperation has also received greater recognition.

The Indian Development and Economic Assistance Scheme (IDEAS) was launched in 2003-04 and the country immediately started providing concessional financing for projects in developing countries. In the last two decades, India's development assistance flourished through this programme, particularly in the Asian and African continents.

As India sits at the helm of the G20, its development cooperation model, among its other strategies as a key player in global development, will come into sharp focus.[1] The presidency comes at a time when the world is facing threats of growth slowdown, inflation, and severe supply chain disruptions after the COVID-19 pandemic. India is the only large economy that is estimated to grow around 7.0 percent in the next financial year.[2]

Collectively, the G20 countries contribute 85 percent of the world's GDP and 75 percent of international trade, and are home to two-thirds of the world population. It could therefore prove to be the most important global platform for international cooperation. The current juncture is made more unique as for the first time in G20 history, the Troika (i.e., the current, previous, and succeeding presidencies) will be constituted by three developing and emerging economies.[a,3]

India has consistently sought "development partners" with the goal of a shared global prosperity, and its G20 presidency can help accelerate India's stride in that direction.

In this backdrop, this brief explains the financial working and economic benefits of India's lines of credit (LOCs). It underlines the multiple objectives of LOCs, including the building of political goodwill and sharing knowledge in project management skills. It explains the challenges in pursuing all three objectives together, and argues that the overall benefits to India are a summation of the gains made with respect to the three objectives—economic, political, and project experience.

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a Indonesia was past; India is current; and Brazil will take over next.

India's Development Cooperation: A History

India has been an active participant in various multilateral groupings over the years, including the Commonwealth, G-77, G-20, and an earlier non-aligned movement. It has been instrumental in shaping the World Trade Organization (WTO) negotiations and strengthening the United Nations.[4] Its consistent participation in G7 summits is part of this desire to provide active support to the creation of a multilateral world that is based on "rule of order".[5]

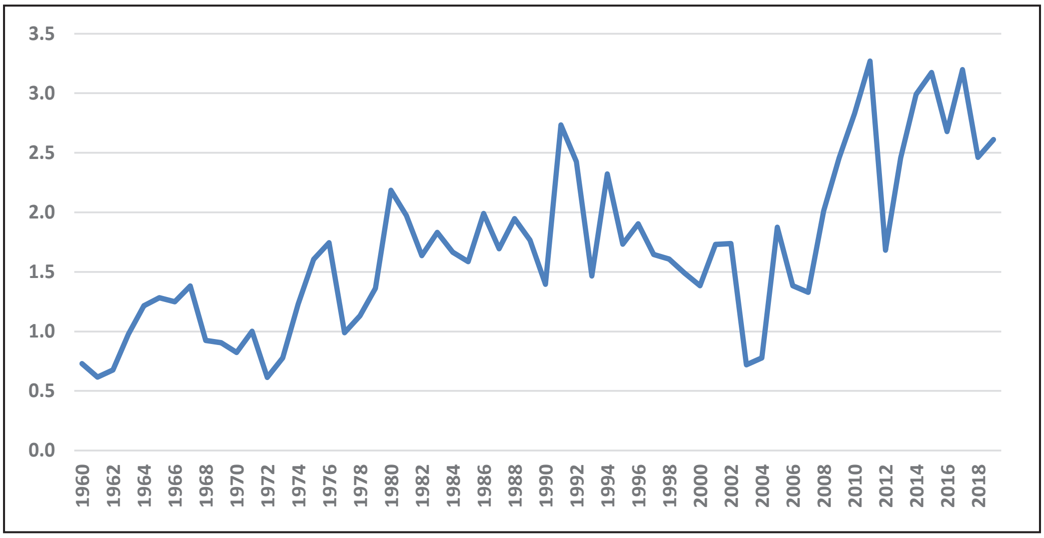
A shift in India's global status, from a recipient of aid to a contributor to development cooperation, was facilitated by its economic ascent. In the mid-1980s, India was the largest global recipient of foreign aid.[6] By 2019, the net official development assistance (ODA) received by India had come down to 0.09 percent of GDP from 2.76 percent in 1967 (see Figure 2). At the same time, the country's development cooperation interventions—in the form of concessional finance, technical assistance, humanitarian endeavours, trade, investment, and allied diplomatic activities—have substantially grown.[7]

While India in the past was a net borrower from organisations like the International Monetary Fund (IMF) and the World Food Programme, it had become a net creditor to both by 2003.[8] The Indian government made the shift official that year, when it decided not to accept tied aid from all bilateral donors. Exceptions were made for the traditional G7 lender countries – Japan, Germany, the US, the United Kingdom, the European Union, along with Russia. It also decided to repay all outstanding debt due to all bilateral donors ahead of schedule, except for those from Japan, Germany, the US, and France.[9]

To be sure, net official development assistance (ODA) and aid received by India increased from US$ 0.7 billion in 1960 to US$ 2.6 billion in 2019 (see Figure 1).

> "India's shift from a recipient of aid to a contributor to development cooperation, was facilitated by its economic ascent."

Figure 1
Net Official Development Assistance and Aid Received by India, 1960-2019 (in current US$ billion)[b]



Note: These figures are in current US dollar and not adjusted for corresponding annual inflation.

Source: World Bank Database

At the same time, the growth in India's gross domestic product (GDP) had been substantial over the same period. Therefore, net ODA and foreign aid, as percentage of GDP, declined drastically between 1960 and 2019 (see Figure 2).

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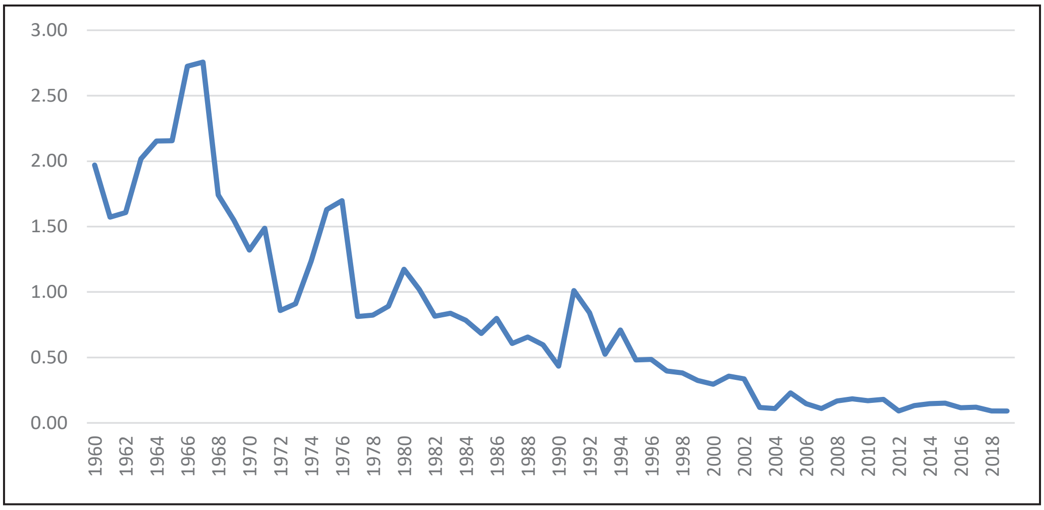
b Net official development assistance (ODA) consists of disbursements of loans made on concessional terms (net of repayments of principal) and grants by official agencies of the members of the Development Assistance Committee (DAC), by multilateral institutions, and by non-DAC countries to promote economic development and welfare in countries and territories in the DAC list of ODA recipients. It includes loans with a grant element of at least 25 percent (calculated at a rate of discount of 10 percent). Net official aid refers to aid flows (net of repayments) from official donors to countries and territories in part II of the DAC list of recipients: more advanced countries of Central and Eastern Europe, the countries of the former Soviet Union, and certain advanced developing countries and territories. Official aid is provided under terms and conditions similar to those for ODA. Part II of the DAC List was abolished in 2005. The collection of data on official aid and other resource flows to Part II countries ended with 2004 data.

Figure 2

Net Official Development Assistance and Aid Received by India, 1960-2019 (as % of GDP)



Source: World Bank Database

In 1967, net ODA and foreign aid as percentage of GDP was the highest at 2.76 percent of GDP. Thereafter, it came down, with the downward trend accelerating beginning in 1991. In 2019, net ODA and aid stood at 0.09 percent of GDP.

In the last two decades, the amount of Indian development assistance and foreign aid grew. Budget allocation for foreign aid went from around US$ 500 million in 2010 to US$ 1.5 billion in 2015, and further to US$ 1.32 billion in 2019-20—or 0.3 percent of the entire budget that fiscal year.[10] In all this development assistance, India avoids describing itself as 'donor'; rather, it characterises its work as a "partnership of mutual interest".[11]

This is in contrast to the normative framework that has historically guided the traditional donors, particularly the DAC member countries within the OECD. The development projects are largely decided by these donors, resulting in big gaps between initial premises on which the project is based and the final goal attained after implementation.[12]

In contrast, India's development cooperation is untied and based on the needs of the partner country. The cooperation is firmly based on six pillars: (1) sustainability and inclusivity; (2) India's own development experience; (3) the absence of conditionalities; (4) demand-driven; (5) the aim for mutual gains; and (6) its contribution to India's soft power.[13]

The model continuously confronts three principal challenges, namely— (a) emerging power challenge; (b) development challenge; and (c) partnership challenge. The manner in which these challenges are dealt with will decide the future path of Indian development cooperation.[14]

> India avoids describing itself as 'donor'; rather, it characterises its work as a 'partnership of mutual interest'.

Current Structure of India's Development Cooperation

The institutional framework of Indian development cooperation continues to be fragmented and needs consolidation. The Ministry of External Affairs and Ministry of Finance are nodal points of this structure; over the years, the Ministry of Commerce and the Exim Bank have assumed more significant roles.[15]

The Indian Development and Economic Assistance Scheme (IDEAS), the overarching framework for the country's development cooperation, was launched in 2003-04. Its aim to share India's development experience is threefold: capacity-building and skills transfer; trade; and infrastructure development. These objectives are achieved by, among others, extending concessional lines of credit (LOC) to developing partner countries. LOCs are originated and implemented through the Exim Bank, with the broader goal of creating socio-economic benefits in the partner countries.[16]

In 2012, the MEA created the Development Partnership Administration (DPA) to ensure coordinated measures and improve bilateral relationships. The different divisions of DPA are tasked to manage the LOC approval process, allotment of grants, and implementation of training-related, cultural and heritage and commercial projects.

"India's development cooperation rests on capacity-building and skills transfer; trade; and infrastructure development."

Lines of Credit: Overview

The Exim Bank provides LOCs, subject to prior approval, to overseas financial institutions, regional development banks, sovereign governments, and other overseas entities. These LOCs enable buyers in partner countries to import developmental and infrastructure projects, equipment, goods, and services from India, on deferred credit terms.[17]

More than 306 LOCs, cumulatively amounting to more than US$ 31 billion, have been extended to 65 different countries, since the inception of the programme till April 2022. At the time of writing this brief, more than 322 projects have been completed and 277 more are under implementation.[18] The projects include those in areas of critical infrastructure sectors like railways, roads and ports, power generation and distribution, agriculture and irrigation, manufacturing, healthcare, education, and various types of capacity-building.

The LOC projects include commercial projects, although not all of them are trade and investment related. The aims are multifaceted: (1) economic benefits; (2) effective project management and completion; and (3) nurturing and enhancing diplomatic relationship with the partner countries.

The demand for specific projects to be funded with LOCs originate from the partner country. For India, the LOCs ensure greater visibility of Indian project export capability and help Indian exporters enter new geographies and expand their business without any payment risk from overseas importers.[19]

While enhancing economic benefits by growing a trade and investment portfolio with the active participation of private sector is part of the threefold aim of LOCs, diplomatic relationships based on specific strategic interests provide the second part. For example, a key pillar of Indian engagement in the African continent is maritime security. Countries along the coasts of East Africa, like Kenya, South Africa and Mozambique, are important to India for this reason.[20] For example, Mozambique, which is strategically relevant to India, is one of the largest recipients of the country's LOCs in the continent (see Figure 4).

Project management completes the trinity of guiding principles behind the LOCs. Poor project management can potentially jeopardise the other two objectives of LOCs, and therefore sound project management practices are required. India has enough experience in the past to illustrate this imperative. In 2012, India offered LOCs worth US$250 million to Mozambique to improve electricity supply in its capital Maputo. When even after five years the project remained in limbo, India urged the Mozambique government to remove the existing Indian contractor and float a new tender.[21]

Requirements for LOC approval

In the approval process, India has specific requirements for LOC-funded projects.[22]

- The loans are exclusively for project exports, and imports of goods and services from India.

- Goods and services (including consultancy services), worth the value of minimum 75 percent of the contracts under the loans, must be sourced from India. A 10-percent relaxation may be considered on a case-to-case basis.

- These LOCs may provide finance up to 100 percent value of the contract on FOB/CFR/CIF/CIP basis.[c]

- Soft loans under the scheme will be free from all forms of taxes and duties—whatsoever is levied in the recipient country (including all corporate/personal/value added taxes, import/custom duties, special levies and social security contributions). Exemptions will be extended to temporary employees deputed by Indian exporters in project execution in the recipient countries.

The terms of credit under LOC are described in Table 1. The Government of India holds the right to occasionally revise these terms and the classification of L&LMI countries.

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c FOB is "Free on Board" – the buyer bears the risk once the seller ships the product. CFR is Cost and Freight – the seller needs to arrange for the carriage of goods by sea to a port of destination and provide the buyer with necessary documents for collection from the carrier. CIF is Cost, Insurance and Freight – the seller has to cover the costs, insurance and freight of the buyer's order while the cargo is in transit. CIP is Carriage and Insurance Paid To – the seller pays for freight and insurance to deliver to a seller-appointed party at an agreed-upon location.

Table 1
Terms of Credit Under LOC

Country classification	L&LMI countries with minimum binding concessional requirement (*Category I*)	L&LMI countries with no minimum binding concessional requirement (*Category II*)	Other developing countries (*Category III*)
Rate of interest	1.5%	1.75%	Libor + 1.5%
Maturity	25 years	20 years	15 years
Moratorium	5 years	5 years	5 years
Grant element	37.48%	31.37%	24.31%

** Low and Lower Middle Income (L&LMI) countries in different categories are as per IMF (International Monetary Fund) classification.*

** Grant element is calculated as per IMF prescribed formula. The grant element is defined as the difference between NPV (net present value) of the loan repayments and the actual amount of loan.*

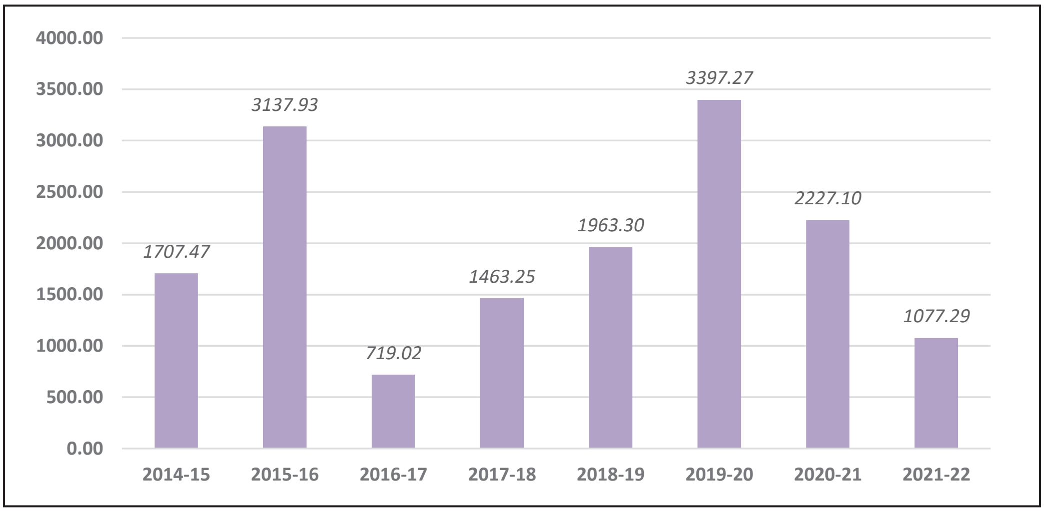
** London Interbank Offer Rate (Libor) is the global benchmark interest rate – used for pricing of various international rates of interest.*

Source: Ministry of Finance, Department of Economic Affairs, Bilateral Cooperation Division[23]

An additional five years and a moratorium of two years under all categories of countries may be granted for either infrastructure projects costing US$ 200 million and more, or projects of strategic importance costing at least US$ 100 million.[24] If the borrower country is keen to take an LOC to finance the equity of government in any special purpose vehicle (SPV)/joint venture/subsidiary for project execution, the proposal can be considered by India, provided the contractor/partner selected through competitive bidding is an Indian entity.[25]

These India-specific advantages of the contracts create a mutually beneficial partnership scenario for both India and the partner country.

Figure 3
Annual Volume of Lines of Credit (2014-15 to 2021-22, in US$ million)



Source: Ministry of External Affairs Dashboard for LOC

Before the COVID-19 pandemic, the annual disbursal amount under LOCs was around US$ 3.4 billion in 2019-20. In the subsequent two years, disbursal came down due to lockdowns and restrictions; it is expected to rise once again (see Figure 3).

Of the total cumulative LOCs (2001-2022) amounting to more than US$ 31 billion, US$ 16.9 billion have been extended to countries in Asia. The largest commitments and implementation are in India's immediate neighbourhood. The other region with a huge Indian LOC footprint is the African continent, where the cumulative volume of Indian LOCs amounted to US$ 11.4 billion between 2001 and 2022 (see Table 2).

Table 2
Cumulative Amounts of LOCs, by Region (2001-2022, in US$ million)

	Africa	Asia	CIS[d]	Latin America	Oceania	Total
Amount of LOC	11,367.80	16,865.69	1,743.60	875.82	155.78	**31,008.69**
Percentage of total	36.66%	54.39%	5.62%	2.82%	0.50%	**100%**

* *Amounts as of May 2022.*

Source: Ministry of External Affairs Dashboard for LOC[26]

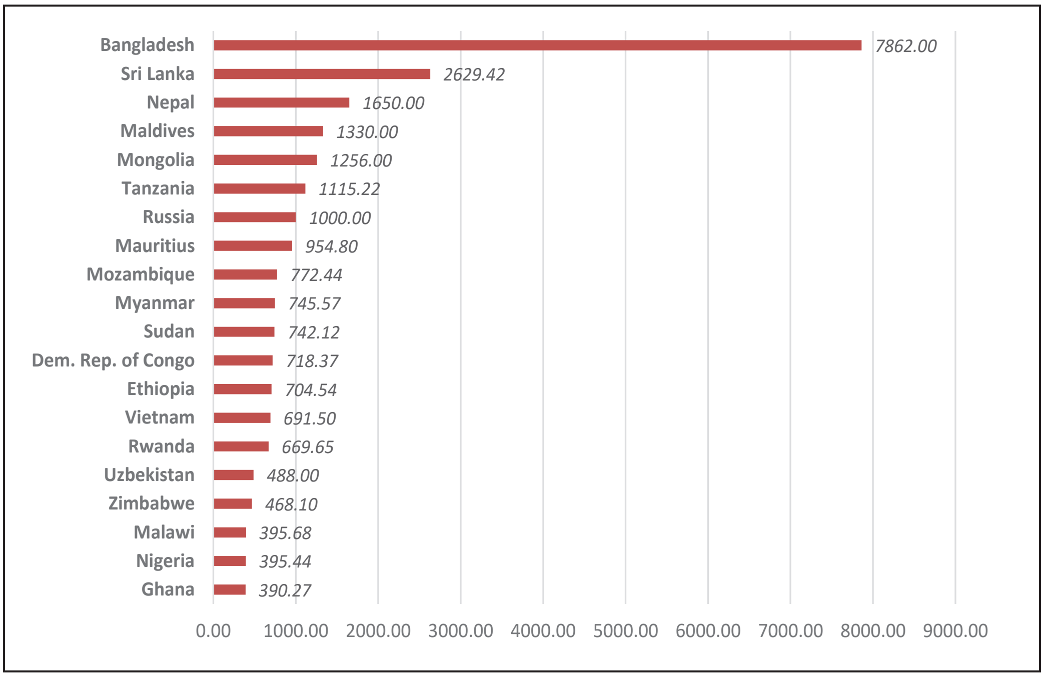
Through its LOC programme, India provides greater flexibility to the partner countries in identifying sectors and choosing the projects according to respective national priorities.[27] Thus, the composition of Indian LOCs is widespread.

In the immediate neighbourhood during 2001-2022, LOCs worth US$ 7.9 billion were extended to Bangladesh, US$ 2.6 billion to Sri Lanka, US$ 1.7 billion to Nepal, US$ 1.3 billion to Maldives, and US$ 745.6 million worth LOCs were extended to Myanmar. In Africa, US$ 1.1 billion worth of LOCs were extended to Tanzania in the same period, US$ 954.8 million to Mauritius, US$ 772.4 million to Mozambique, US$ 742.1 million to Sudan, US$ 718.4 million to Democratic Republic of Congo, US$ 704.5 million to Ethiopia, and US$ 669.7 million worth LOCs were extended to Rwanda (see Figure 4).

d Commonwealth of Independent States (CIS) is a platform for the countries that were part of erstwhile USSR and situated in Eastern Europe and Asia. There are nine member countries, including Russia.

Lines of Credit: Overview

Figure 4
Top 20 Beneficiary Countries of Indian Lines of Credit, 2001-2022 (in US$ million)



** Amounts are till May 2022.*

Source: Ministry of External Affairs Dashboard for LOC

Breaking Misconceptions

There are lingering misconceptions about India's LOCs, and they will be discussed in turn in the following paragraphs.[28]

Misconception 1: India needs money for its own development; why should it offer loans to others?

When the MEA launched the DPA in January 2012, the press coverage and public engagements were limited. However, critical questions were asked about the rationale for extending high volumes of loans overseas while domestic social spending continued to be one of the lowest globally.[29] This criticism is not justified.

First, LOCs are loans borrowed by other partner countries that are liable to pay them back. Let us assume that country X approaches India for a loan about a particular development project. Let us further assume that going rate of interest for borrowing globally is 7 percent. India directs country X to the Exim Bank (subject to the approval of the project proposal), which is mandated to provide the LOCs. The Indian government offers to pay 3 percent of the interest payment, as the development partner of the country X.

If the project value is US$ 100 million, country X is liable to annually pay US$ 4 million for interest payments, along with principal repayment tranches after the moratorium period of five years. The Indian government will pay US$ 3 million of the interest payment annually, and that is the only commitment of government. But, with an annual pledge of US$ 3 million the Indian government is able to create financial leverage of US$ 100 million for other partner countries in its development cooperation. Moreover, the Indian government starts paying its pledged interest payment subsidy to the Exim Bank only when country X is satisfied with the project completion and starts repaying the loan amount. Till then, it is a sovereign guarantee provided by the Government of India only on the subsidised interest payments part. No money is paid before the project implementation.

Misconception 2: Even then, the Indian government is still paying (as interest payments subsidy) for another country's development; why should the country pay for the development of others?

LOCs contain a clause that goods and services (including consultancy services) worth 75 percent value of the contract have to be sourced from India; therefore, these LOC-funded projects bring benefits to the domestic economy. Country X will benefit as the development project is of its choice. Once the project is completed through efficient project management (recall the third of the trinity of objectives), India gains tremendous goodwill in country X, which helps improve the diplomatic relationship and gives India some degree of geopolitical advantage.

Misconception 3: Exim Bank is wholly owned by the Indian government. Therefore, Exim Bank funds are public money. Is spending public money and putting it at risk for another country's development project economically wise?

One of Exim Bank's primary tasks is to raise money from domestic and international financial markets. The bank's domestic resource base includes rupee bonds, certificates of deposit, commercial papers, and term deposits. It also raises money internationally via foreign currency bonds, foreign currency loans, and long-term swaps, apart from bilateral loans from other banks and financial institutions. Its foreign currency resources in diverse currencies include assets based on Australian dollar, Euro, Great Britain pound, Japanese yen, Mexican peso, Offshore Renminbi, Singapore dollar, South African rand, Swiss franc, Turkish lira, and the US dollar.[30]

The Exim Bank creates its own fund from domestic and global financial markets for extending loans. In a way, the bank brings in a form of foreign direct investment (FDI) while raising financial resources. A part of that fund portfolio is employed gainfully in the LOC projects. These are not public money coming directly from the coffers of the Indian Government.

Breaking Misconceptions

Misconception 4: Is 75 percent value of the project in fact utilised to source goods and services originated in India?

According to MEA estimates, the clause that requires a partner country to source Indian goods and services worth 75 percent of the project cost, is satisfied for almost 94 percent of the completed projects under the LOCs.[31] This is actively monitored by the nodal ministries and departments. Exceptions can be made, however.

Suppose a road project under the LOC is sanctioned in a Caribbean country. It will be impractical to suggest that raw materials like cement is sourced from Indian manufacturers, simply for the reason that it will entail high economic costs. In these exceptional cases, the 10-percent relaxation clause sets in automatically. The LOCs provided by the Exim Bank for different development projects in other countries can be classified in two categories: (a) construction loans; and (b) supply loans. For construction loans, the 10-percent relaxation will set in wherever it is justified and applicable. For the supply loans, however, 100 percent Indian products are used—for example, if 100 electric buses are to be shipped to country Y under a particular project, all those buses will be made in India.

LOCs, SDGs, and India's G20 Presidency

LOCs are an important driver of India's development cooperation model based on a framework that is participative, response-based and demand-driven. Since the UN General Assembly adopted the Sustainable Development Goals (SDGs) in 2015, many countries started to align their development cooperation strategies with the SDG Agenda.

While India has not explicitly done so, ORF's research has found that its sectoral development initiatives in partner countries have historically been closely aligned with the SDGs.[32] For example, in Africa, as well as in neighbouring countries like Nepal, Bangladesh, Afghanistan, and Bhutan, India has actively facilitated capacity-building and technical training (SDG 17) under the ITEC (Indian Technical and Economic Cooperation) programme. LOC projects in other partner countries cover sectors like education (SDG 4), health (SDG 3), and infrastructural support (SDG 9).[33]

ORF research that examined India's development partnerships from 1947, discovered that the country's development partnerships have been "naturally" aligned with what would later come to be known as the global sustainability agenda.[34] Such interconnected nature of the SDGS in India's development cooperation strategies evolved in an organic way rather than pushed through explicit policy-driven initiatives.[35]

As SDG alignment emerges organically in India's development cooperation, the link between SDGs and the G20 agenda has become more explicit and definitive in recent times.

The G20 Action Plan on the 2030 Agenda for Sustainable Development was adopted under the Chinese Presidency in 2016. Member countries committed to contribute to implementation through "collective and individual efforts, at home and abroad" with a "focus on sector and themes of the Agenda where the G20 has comparative advantage and can add value as a global forum for economic cooperation".[36]

Another UNDP-OECD report, "G20 contribution to the 2030 Agenda: Progress and Way Forward", found that actions—mandated by the forum in supporting the sustainability Agenda—increased in quantitative terms since the adoption.

G20 would continue to play an important and unique role towards fulfilling the Agenda for Sustainable Development.[37] The G20 Bali Leaders' Declaration (2022) clearly stated: "(G20) recommit to accelerate achievement of the SDGs, achieving prosperity for all through sustainable development."[38]

An organic chain has therefore evolved, connecting India's development cooperation and the SDGs. Officially, sustainability is now seamlessly woven into the G20 framework. India's presidency can make it a more meaningful and focused endeavour, and LOCs are likely to play a pivotal role in ensuring this transition.

> "The link between SDGs and the G20 agenda has become more explicit and definitive in recent times."

Conclusion

As India's economy flourished, the country's stakes in global geopolitics and geoeconomics also grew. Today, India's role in actively influencing global rules-of-the-road have become amplified. This includes its framework for development cooperation. India's model is unique and stands apart from the model that guides the traditional OECD-DAC countries. Based on a demand-driven and participative structure, India works at being an equal, effective and long-lasting development partner.

Diplomatic relationships and strategic interests have their own role to play in this development dynamics. Continuing the South-South cooperation legacy, India has performed fairly well in effectively using the LOCs.

India's G20 presidency ushers in an important opportunity. With all three countries in the current G20 Troika being developing and emerging economies, the Indian presidency can initiate the process of firm alignment of development cooperation strategies with the SDGs. Lines of credit can serve both as an example and an important instrument in this endeavour.

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