

# KNOWLEDGE PARTNERSHIP PROGRAMME

## **New challenges and opportunities for India's development cooperation**

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## **Preface**

As India's economy has grown in recent decades, the range and volume of its development assistance has increased significantly. While the definition of India's development assistance is debated, annual foreign spending on aid is estimated to be in the region of \$500 million and it has a growing presence in developing countries from Afghanistan to Zambia. India's rising stature as a global development actor has prompted debate about how its development cooperation policy will evolve in response to new challenges and opportunities.

On 5<sup>th</sup> March, 2013 the Observer Research Foundation (ORF) and Saferworld held a round-table meeting in New Delhi focusing on 'India's development cooperation in a changing global environment' with a special focus on conflict affected states. The aim was to stimulate debate about approaches to development cooperation among India's policy community and to inform the development of India's own development policy. The meeting explored challenges and opportunities in development cooperation in the light of India's own experience as well as the experiences of other international actors.

The round-table was a high-level event, with the keynote address delivered by Mr. P.S. Raghavan, Additional Secretary, Development Partnership Administration (DPA), the Ministry of External Affairs. Other speakers included ORF's Director, Mr. Sunjoy Joshi and a number of India's pre-eminent foreign policy analysts. In addition, there were presentations by the Head of the UK Department for International Development in India, as well as by experts from South Africa, Brazil and Myanmar (a full list of participants can be found in Annex). The meeting was chaired by Dr. C. Raja Mohan, Head of ORF's Strategic Affairs Programme, and Ivan Campbell, Saferworld's Senior Advisor on Conflict and Security.

## **1 India's history of international development cooperation**

Multiple factors have worked to obscure India's long experience with development cooperation. First, for the balance of its post-independence history, India has been a net recipient of development assistance—although it is set to shortly transition from net borrower to creditor. Second, India has an illustrious history of providing troops for widely supported UN peace keeping operations in war-torn nations. Third, the emergence of BRICS and recent financial crises gives the illusion that emerging nation assistance has sprung up from nowhere. However, India's experience with aid and development cooperation stretches back almost to its 1947 independence.

India's desire for the DPA to promote a South-South development cooperation paradigm is not new to Indian assistance. From its inception, Indian development cooperation was seen as a tool to develop and create solidarity among of cadre of newly independent, post-colonial nations seeking to quickly modernise.<sup>1</sup>

In its early years, India's NAM participation, along with developing nations of many differing political systems, meant sovereignty and non-interference dictated aid methodology. In the 1950s and 1960s, economic underdevelopment was fought, from India's end, with economic tools, specifically grants and loans primarily administered through the Ministry of External Affairs (MEA).<sup>2</sup>

However, in 1964 New Delhi established the Indian Technical and Economic Cooperation (ITEC) programme, whose primary architect was Prime Minister Jawaharlal Nehru. ITEC has been offering demand-driven, mutually beneficial development assistance to Southern partners ever since. Over the years, India has provided training to many thousands of civil servants from developing countries and deployed Indian technical experts. By training over 8,500 civilians from 161 countries, India has not just contributed to strengthening capacities in developing countries but has also accrued tremendous soft power in and generated enduring links with ITEC beneficiaries.

India's long-standing development cooperation policy underwent significant policy changes in the early 2000s, as strong economic growth transformed the existing balance between India's dual role as a recipient and provider. The past ten years have seen the emergence of various new tools for Indian development cooperation. The India Development Initiative (IDI) was established in 2003 both to manage India's own debts and to cancel those of heavily indebted poor countries. While providing a new source of grants and project assistance to developing countries in Africa, it was also explicitly designed to leverage and promote India's strategic economic interests abroad.

In 2004 India introduced the current Lines of Credit (LoCs) scheme, whereby money is raised through international debt markets, rather than traditional yearly budget mechanisms. This innovation made possible more expansive Indian development cooperation, more in line with India's global aspirations. LoCs provided by India since the programme's inception amount to over US \$9 billion. According the P.S.

Raghavan, roughly 60% of LoCs have been provided to Africa. In contrast, the majority of India's development assistance in the form of grants is provided to neighbours in South Asia, such as Afghanistan and Bhutan.

These developments bear witness to the significant evolution of India's development cooperation over the past fifty years. While India has a long tradition of providing assistance to developing nations, the volume of assistance has grown rapidly in recent years, more than doubling since the turn of the century. Meanwhile, the aid modalities and instruments deployed by India have diversified. Four main modalities have emerged over time: capacity-building and training, as provided by ITEC; Lines of Credit or concessional loans; grant-assistance; and bilateral trade and investment. However, as the range and volume of India's aid has grown, so too have the institutional, policy and programming challenges. This has prompted debate about how to manage India's growing programme of development assistance, aimed at making it both effective and responsible.

## **2 The establishment of the Development Partnership Administration**

The expansion and diversification of India's development cooperation described above has raised questions about the effectiveness of Indian aid *vis-à-vis* its objectives. Meanwhile, the changing nature of India's development assistance and institutional fragmentation led to the recognition of a need to rationalise aid delivery. In order to address these challenges, the Development Partnership Administration (DPA) was established in 2012 as India's official agency for international development cooperation. The DPA was created under the Economic Relations Division of the Ministry of External Affairs with the aim of integrating Indian development assistance within the broader ambit of foreign policy-making.

P.S. Raghavan, the top official in the DPA, explained that the agency's role is to consolidate and streamline all aspects of India's development assistance. The DPA is charged with managing more efficiently the formulation, implementation and evaluation of India's aid projects. It will, for the first time, bring under one umbrella and coordinate a range of activities related to trade and investment, technology transfer, financing through credit and capacity building (technical and economic cooperation). The agency currently has three divisions: one to appraise projects and lines of credit; one focusing on capacity-building, disaster relief, and the Indian Technical and Economic Cooperation programme; and one responsible for project implementation.

P.S. Raghavan described how the DPA is currently in the process of strengthening its technical capacities in order to fulfil its mandate. Emphasis is being placed on ensuring that development programmes respond effectively to the development priorities of partner countries and on the sustainability of project impact. The DPA also seeks to introduce more transparent processes, creating a level playing field for public and private sector business to participate in projects, both under lines of credit and under grant assistance.

At the same time, the DPA is trying to raise public awareness regarding the nature of India's overseas development cooperation. Mr. Raghavan highlighted the need to learn lessons from India's own development experience and for more coherence with Indian companies operating overseas. Thus, the agency is exploring models of partnership with the private sector in, for example, the infrastructure sector and connectivity projects in Africa. The DPA will also seek to engage with NGOs and academia involved in the conceptualisation and delivery of development programmes within India, so that it can replicate the success of such programmes in other developing countries.

Placing the DPA under MEA control represents a tacit acknowledgement by India's government that development cooperation will not and should not be divorced from broader foreign policy strategy and national interests. Round-table participants also expressed the hope that the DPA would help bolster the capacities and resources needed for more effective management of overseas aid from India. There was additional discussion about the ways in which the vested interests of donor nations

can distort development assistance, hence support for India's approach of 'demand-driven aid' that responds to the priorities of developing countries. This in turn prompted debate about *whose* demands development aid should respond to—those of the central government or those of local communities.

### **3 India and the global development architecture**

Although the focus of Indian development cooperation has primarily been bilateral, New Delhi has taken part in the OECD-led international dialogue on development. This process seeks to enhance agreement on norms governing development assistance, promote information exchange between providers of assistance, and create a global regime under which there would be better coordination of delivery, more sensitivity to the needs of recipient countries and objective yardsticks for impact assessment. This dialogue has strengthened mutual understanding regarding perceptions of aid and development cooperation, both among 'Southern' actors and between North and South.

However, India has also articulated its reservations about certain premises underlying the OECD-led dialogue. A number of speakers reiterated the key principles and modalities of India's approach to development - such as South-South cooperation and mutual benefit - which are informed by India's own experience as a still developing country. They also outlined a vision of development aid - including trade, investment and technology transfer - that offers an alternative to the OECD definition of aid. It was argued that India's approach is more transparent than that of Western states, whose aid policies may be perceived to reflect hidden agendas relating to economic and geo-strategic interests.

A comparison was also drawn between Western states, which are increasingly focused on addressing 'governance gaps' through their development interventions. Meanwhile, India has traditionally focused on filling 'capacity gaps'. Participants acknowledged the concerns of some traditional donors that assistance from 'emerging powers' such as India, China and Brazil underplays the importance of good governance, human rights and related values that have traditionally underpinned North-South development cooperation. However, the Head of the DPA expressed caution about the more "expansive proposals" put forward for the post-2015 global development agenda.

In line with its emphasis on South-South cooperation, India is also an active participant in a number of multi-lateral fora outside the OECD-led processes, notably the BRICS (Brazil, Russia, India, China, South Africa) and IBSA groupings. These fora provide an opportunity for key rising powers, which share the characteristic of being both developing countries and growing providers of overseas assistance, to develop alternative modalities for development cooperation. For instance, an IBSA Fund has been used to develop programmes that support the improvement of medical clinics in Africa drawing upon the experiences of IBSA countries. This approach to South-South cooperation also uses economic partnerships to create a counterbalance to the North and calls into question some aspects of the approach taken by traditional donors.

## 4 Engaging in conflict-affected states

### *Risks*

As the range of India's development cooperation extends around the world, India increasingly finds itself operating in countries affected by conflict. Engagement in these environments carries particular risks, and lessons can be drawn from the experience of other international actors. Although India's development cooperation has been shaped by the principle of non-interference, it is impossible to avoid political ramifications, as development is an inherently political process. Even if conceived as a purely technical intervention, development assistance will affect the balance of power and resources, either at a macro or micro level. As a consequence, when international actors engage in conflict-affected states they are inevitably involved in local conflict dynamics.

There is growing recognition among Western donors that aid and other development interventions may worsen conflict situations. This stems from increasing evidence of the potentially harmful impacts of aid in conflict-affected states. The case was described of how the provision of humanitarian aid in Rwandan refugee camps in eastern DRC following the 1994 genocide had the effect of entrenching the power and strengthening the capacity of the very groups that had perpetrated the genocide. In this case, the international community relied on existing structures within the refugee community to deliver aid; structures dominated by the *génocidaires*. These groups were able to capture and control the humanitarian aid, using it to re-provision their forces so that they were able to continue their ethnically targeted violence – contributing to the chronic insecurity in eastern DRC that continues to this day.

The Rwandan example illustrates how the resources provided by international actors can end up reinforcing the very groups causing a humanitarian crisis. The Rwandan genocide and its aftermath is regarded by many in the Western aid community as a water-shed moment, bringing home the risk of aid-fuelled conflict. Because development aid is never neutral in its impact, it represents a transfer of resources that inevitably creates winners as well as losers. The winners may exploit their power over other groups, while the losers may feel aggrieved at missing out on the benefits.

A number of other risks arise when international actors - whether development agencies or private companies - engage in countries affected by conflict. One obvious risk is to the safety and security of citizens employed overseas. This risk was vividly illustrated by the kidnapping in January 2013 of a group of Western employees at a gas facility in Algeria, leading to the deaths of 39 foreign hostages. There is also the risk to investments when private companies engage in conflict-affected states. When war broke out in Libya in 2011, many Western companies involved in contracts worth billions of dollars had to pull out. The energy sector is especially vulnerable since many of the main sources of oil and natural gas are located in conflict-affected states, such as Nigeria or South Sudan. However, this risk can also affect other sorts of commercial operation. Infrastructure projects, such as hydro-power dams, or land acquisition for agricultural development have led to community protests and violent attacks in a number of cases. As a result, companies have suffered major financial losses when operating in conflict-affected states. These stem from damage to plant

and equipment, disruption to production, extra payment for security services, higher insurance premiums, and the difficulty of raising capital for further investment.

These risks do not just apply to Western development agencies and companies. The case-study of Myanmar high-lighted how Chinese investments in infrastructure projects and extractive industries have been held up, or in some cases cancelled, due to insecurity arising from local protests and the threat of violence. Similarly in Sudan and South Sudan, conflict has led to serious challenges for Chinese companies involved in the oil sector. Elsewhere in Africa, Chinese citizens have been caught up in violence. For example, they have been kidnapped by Somali pirates and targeted by rebels in Ethiopia.

India is not immune from these risks. As its global trade, investment and development assistance has grown, India has a growing presence in developing countries that are affected by conflict. Thus India, whether through its development cooperation or private investment, is vulnerable to these threats from conflict. Additionally, Indian development decision-makers must grapple with the risk of making existing conflict situations worse.

### ***Responses***

Recognising that aid can exacerbate conflict has been an important lesson from Western development experiences, and donors and other development actors have taken steps to mitigate this risk. For instance, a 2002 UK government review of the relationship between UK aid and the conflict in Nepal found that it risked fuelling conflict in a number of ways. Aid for capacity-building was found primarily to benefit elites rather than excluded groups; while aid was also allocated to more accessible areas of the country, limiting benefits to the poorest and most conflict-affected regions. As a consequence, it was clear that UK aid risked consolidating the very divisions and patterns of exclusion – both socio-economic and geographic – that first gave rise to Nepal's conflict. In light of this review, the UK re-oriented its development programming to mitigate the risk of fuelling further Nepalese conflict.

This study can be viewed as part of a broader trend among Western development actors to adopt a 'conflict-sensitive approach'. This approach is founded on first ensuring that development authorities understand local context, especially issues that cause or fuel conflict. Next, it is important to identify if and how intervention may affect the local conflict dynamics. Based upon this analysis, policymakers should take the necessary steps to minimise harmful effects arising from intervention, while also seeking opportunities to support peace. While these basic principles of a conflict-sensitive approach are now understood by many Western development actors and are increasingly reflected in donor policies, putting that learning into practice remains more complex.

Based on the experiences of conflict-affected states, as well as lessons learnt by Western actors, three practical steps have been put forward to avoid the risks described and ensure a conflict-sensitive approach. First, local stakeholders must be consulted. The speaker from Myanmar described how international companies often justify interventions on the basis of contracts signed with the central government in Naypyitaw. However, companies must seek to know whether project approval from the central government also means approval of the local community, who may be

thousands of miles away and disconnected from the seat of national power or even in armed opposition. Therefore, it is imperative to consult with local stakeholders, such as community chiefs, local administration, religious leaders and CBOs. Such consultation provides an opportunity to explain the project, understand local conflict risks and consider mitigation strategies. Ideally, local stakeholders will be involved in all stages of the project cycle, from initial risk-analysis through evaluation.

A specific example was given of a Western oil company in South-east Asia facing a conflict with the local community over the impact of its operations. This conflict threatened to cause delays and financial losses. The company undertook a consultation process, which included listening to local opinion leaders, conducting perception surveys, and involving the community in formulating some plans and procedures. This process was estimated to cost \$6 million for a \$4.5 billion project. The company concluded that the consultations enabled it to avoid delays and complete project activities on schedule, creating savings of approximately \$60 million.

Second, development cooperation programmes must be designed in ways that, wherever possible, help to reduce the underlying causes of conflict. This particularly applies to conflicts caused by grievances between communities that feel economically and politically disadvantaged or excluded. By redressing inequalities between groups, development programmes can actually help to strengthen peace and stability. Thus, returning to Nepal, the UK recognised that its development programmes risked reinforcing divisions and grievances between socio-economic groups and regions of the country. Therefore, development programmes were redesigned with the express aim of helping to reduce these divisions.

Third, as emphasized by a panellist from South Sudan, land ownership is important. Every effort should be made to avoid displacing local communities, whether as a result of development projects, infrastructure development or land acquisition. If displacement and resettlement is unavoidable, measures should be taken to minimise resettlement impacts. Understanding informal land use practices and engaging with informal land users, who may otherwise be excluded or marginalised from compensation schemes, should also be included within this framework. Furthermore, outside actors must understand and respect the non-monetary value of land. Consulting thoroughly with local communities during resettlement planning, in order to understand any concerns and allow sufficient time for the resettlement process, will prove essential.

Notwithstanding the unique development experience and context in India, lessons learnt by other international actors and the experiences drawn from conflict-affected states were viewed as highly relevant by round-table participants. Conversely, it was noted that the international community may be able to draw useful lessons from India's experience in countries such as Afghanistan. Given India's growing and diversifying development cooperation, the country is increasingly engaged in conflict-affected states through trade, investment and development assistance. Going forward, Indian actors will inevitably be involved in local conflict dynamics, and how they engage and operate will affect these dynamics. Therefore it will be in India's interests, and those of the local communities they are attempting to positively impact, to understand conflict risks and adopt a conflict-sensitive approach.

## **5 The role of the private sector in development cooperation**

The previous discussions regarding the nature of India's development cooperation underline the role of bilateral trade and investment by Indian companies, which often constitutes the most visible aspect of India's in-country presence. How to integrate the private sector into India's current development cooperation strategy remains a key question. The DPA is exploring innovative public-private partnership (PPP) models with Indian business and industry, so that it can combine development assistance with commercial perspectives to create assets that have an enhanced developmental impact. In the round-table discussions, it was acknowledged that private sector comparative advantages in job training and technical expertise could be effectively allied with public sector experience in effective development cooperation. However, some questioned whether donor government grants channelled through private companies lead to optimal development outcomes.

The African continent provides an example of the growing opportunities for Indian private sector engagement in development cooperation. Indian investments in Africa – which total roughly US\$35 billion – align with Africa's inherent strengths. The African labour force is already agriculturally-concentrated and the continent represents the world's second fastest growing telecomm market.<sup>3</sup> Both are sectors in which Indian companies are global leaders. Therefore, Indian companies could have a major development impact. Despite China's investment lead in Africa (by late 2012 China had investments totalling roughly US\$70 billion), it was also suggested that African states may be predisposed to look favourably on Indian companies, given a perception of China's sometimes heavy-handed investment approach and its preference for Chinese over African workers.

However, it was noted that if Indian development cooperation is to include a significant private sector component, it should be structured in a way that makes economic sense for firms. India already has tools at its disposal that could be deployed to promote private sector-instigated development cooperation in targeted nations. For example, some ITEC funding could be earmarked to Indian companies best positioned to provide in-country skills training, particularly in areas such as infrastructure and telecom. Likewise, new LoCs could be allocated to private investments that would stimulate emerging nation development.

## 6 The role of civil society in development cooperation

India has a strong tradition of social activism and a wide array of civil society organisations (CSOs), which have great potential to enhance India's development cooperation. Furthermore, Indian CSOs are increasingly active in developing countries, including those affected by conflict, and some are developing an impressive record. One example cited was an Indian trade union, the Self Employment Women's Association (SEWA), in Afghanistan. Since 2009, SEWA has been running vocational training programmes for Afghan war widows. To date, approximately 3,000 women have been trained, and a cadre of local trainers have now created their own organisation in Afghanistan with SEWA-India providing support. Important lessons for the wider international development community could be learnt from these and similar good practices developed by Indian CSOs operating overseas.

However, participants remarked that the vast majority of Indian CSOs focus on domestic mobilisation and advocacy around issues such as service delivery. Few engage in policy debates about international affairs or India's development cooperation. Given the immense challenges of domestic development confronting India, this is to be expected. Furthermore, opportunities for public dialogue on Indian development assistance have been relatively limited. This begs the question of how to harness the capacities and energies of Indian CSOs to contribute to debates about international development. In particular, how can these CSOs constructively engage with India's development officials and contribute to the formulation of development cooperation policy?

Participants noted some opening up of the development debate in India. National networks are beginning to engage with international issues. One recent notable development was the early 2013 establishment of the Forum for International Development Cooperation. This is an informal grouping of academics, civil society representatives and NGOs aiming to provide a platform to discuss programmes and policies regarding India's development cooperation, including with the Development Partnership Administration and other relevant government agencies. Meanwhile, it was suggested that another avenue worth pursuing may be the parallel civil society structures that are evolving to shadow the formal BRICS process.

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<sup>1</sup> "India Development Cooperation Research (IDRC): Indian Development Cooperation," Centre for Policy Research, <http://idcr.cprindia.org/p/indias-development-partnerships.html> (accessed April 4, 2013).

<sup>2</sup> Ibid.

<sup>3</sup> Sarah Baynton-Glen, "Africa-India trade and investment—Playing to strengths," Standard Chartered: On the Ground, [www.standardchartered.com/en/resources/global-en/pdf/Research/Africa-India\\_trade\\_and\\_investment\\_Playing\\_to\\_strengths.pdf](http://www.standardchartered.com/en/resources/global-en/pdf/Research/Africa-India_trade_and_investment_Playing_to_strengths.pdf) (accessed April 9, 2013).