



Indian LOC Footprint around the World

Blue dot shows India as LOC country of origin. Red dots show LOC recipient countries

(Source: EXIM Bank Data, Author's Interpretation)

## Knowledge Partnership Programme

Trade and Investment

### India's Development Cooperation through Lines of Credit: Achievements and the Road Ahead

#### Lines of Credit (LOC) Objectives

Lines of Credit (LOC) was launched in 2004 now known as Indian Development and Economic Assistance Scheme (IDEAS) with the objective of sharing India's expertise and development experience through (a) capacity building and skills transfer, (b) trade, and infrastructure development.

According to the latest estimates from Export Import Bank of India (Exim Bank), there are 188 operative LOC's that have been extended to 75 countries amounting to a total of \$11.45 billion. Out of 75 countries, 48 African countries were the beneficiaries amounting to a total of \$6.5 billion.

The substantially large share of LOCs to Africa indicates their importance in deepening India's diplomatic engagement and development partnership with the African countries.

#### Procedure and eligibility Criteria for LOC

LOC assistance follows a sequence of standard procedures:

- a) Project identification and preparation,
- b) Review and approval of the project proposal;
- c) Offer of the loan, acceptance and execution of loan agreement;
- d) Project implementation, monitoring and supervision,
- and e) Socio-economic impact assessment after project completion.

Foreign Governments or their nominated agencies such as central banks, state owned commercial banks and para-statal organizations; national or regional development banks; overseas financial institutions; commercial banks abroad; and other suitable overseas entities are eligible for LOC assistance. There are three groups eligible for LOC assistance: Heavily Indebted Poor Countries (HIPC); Low Income Countries and LDC Countries and Middle Income Countries.

The rate of interest and maturity period of loan varies for these groups. However, the borrowing countries must provide sovereign guarantee for repayment and servicing the loan in case the loan is taken by an agency. While there are processes followed for receiving requests, assessing, approving and disbursing funds under LOCs, there is less clarity on the decision points at various junctures.

#### LOC experience: A case study of Ethiopia

Ethiopia has been suffering from a chronic sugar shortage for many years and imported raw centrifugal sugar and refined sugar worth \$175.85 million during 2011. Ethiopia sought a \$640-million LOC from India -- to expand production at two existing facilities (WonjiShoa and Fincha) and to set up a green-field sugar manufacturing plant at Tendaho. The three units would be able to

#### Did you know?

**Line of Credit (LOC)** LOC is a financing mechanism through which India extends support for export of projects, equipment, goods and services from India. There are 188 operative LOC that have been extended to 75 countries amounting to a total of \$11.45 billion by the end of Feb 2015.

**Eligibility Criteria for LOC** There are three group of countries that are eligible for LOC assistance: Heavily Indebted Poor Countries (HIPC); Low Income Countries and LDC Countries and Middle Income Countries.

**LOC experience: A case study of Ethiopia** Ethiopia got \$640-million LOC from India to set up a green-field sugar manufacturing plant. It is estimated that the Ethiopian Exchequer will earn up to \$376 million annually in revenue from sugar exports from 2015.

**LOC experience: A case study of Mozambique** Like Ethiopia, Mozambique is another country that has also sought close to \$640 million from India spread over 12 projects.

Indian LOCs have also helped Mozambique build a new agro-processing industry and because of this Mozambique is today exporting many non-traditional food items.

produce close to 1.6 million tonnes of sugar annually, with 87,000 ha of captive sugarcane plantation providing the necessary raw material. It is estimated that the Ethiopian Exchequer will earn up to \$376 million annually in revenue from sugar exports from 2015. Ethiopia also plans to include manufacturing over 93,000 cu m of ethanol and generating 210 MW of power from these three plants. The three production units have all come on-stream for commercial production in 2014.

**Socio-Economic Impact:** From available data and field visits, LOCs disbursed to Ethiopia have led to multiple impacts. In macroeconomic terms, the gains from this alternate source of financing seem large - stemming Ethiopia's annual foreign exchange outflows; self-sufficiency in producing a product previously draining scarce foreign exchange; increased employment potential in the industry and its supply chain; added production capabilities; and potential generation of foreign exchange through exports. In the medium to long term, the collective impact might deliver increased productivity and profitability gains.

The expansion of sugar and power industries have together created an employment potential of 50,000 jobs. The local economy has been stimulated as witnessed by the increased sales (of up to three times the amount that was sold before the factory was set up) of local shop-keepers in the communities around the factory

Construction of the sugar factory has increased access to water for villages in the vicinity of the factory. An additional spillover effect of the investment in the sugar industry in Ethiopia is the positive impact on the pastoralists.

**LOC experience: Case Study Mozambique**

Like Ethiopia, Mozambique has also sought close to \$640 million from India spread over 12 projects. The two largest LOCs in terms of value -- a \$250-million project for improving quality of power supply in Maputo (Mozambique capital) and surrounding areas

through transmission and distribution projects, and, a \$149-million rehabilitation and construction of a road in Sofala.

An impact analysis on improving rural water supply project indicates that the LOC project enabled the creation of 640 mechanical borewells in phase-I and 1280 borewells in phase-II in the villages of the Nampula and Zambezi provinces. The impact of rural water project has been positive.

**Socio-Economic Impact:** The availability of new water sources is an added opportunity to empower women and reduce drudgery in the beneficiary provinces as a reduction in time required to collect water enabled women to work in the agricultural sector and increased food security. According Mozambique's Minister of Agriculture, Indian LOCs have also helped Mozambique build a new agro-processing industry and because of this Mozambique is today exporting many non-traditional food items. "We have also been able to increase our pulses export.

**Health Impact:** An increase in access to borewells has increased access to potable drinking water. Mainly, the switch to hand-pumps from the traditional sources (wells or river water) has substantially reduced "the burden of diseases that are water borne diseases especially, cholera, dysentery, and diarrhoea.

**Scale through Public Financing:** A key demonstration of the success from the results achieved is that the Mozambican government has commissioned a third phase to build on the first two phases and this is currently under implementation.

**Critical Issues with LOC:** Notwithstanding the success of LOC as tool of development cooperation, there are a few shortcomings that haven't been addressed in the conceptualisation and design of this work. These are: differences in Approach to Risk Management for different countries; inadequate support provided by the Indian Mission; and lack of clarity for funding for

project.

**Conclusions:** India's development cooperation conducted through Lines of Credit has come a long way ever since the instrument was first introduced in 2004. Over the last decade LOCs have shaped India's global image as an emerging non-DAC donor, taking its development footprint to countries across the Asian, African, and Latin American regions. Indian LOC assistance has enabled a number of African countries initiate critical development programmes, ranging from building heavy infrastructure to rural electrification and modernization of agriculture. While the achievements so far have been significant, a lot needs to be done to ensure that LOCs are targeted at right development objectives and standards of quality, transparency, and accountability are held high.

*KPP is a South-South cooperation programme promoting knowledge sharing in the areas of Food Security, Resource Scarcity and Climate Change; Health and Disease Control; Trade and Investment; and Women and Girls. KPP is funded by the Government of UK's Department for International Development (DFID) and managed by a consortium led by IPE Global Private Limited under its Knowledge Initiative. The main objective of KPP is 'Gathering and uptake of evidence on issues central to India's national development that have potential for replication in LICs and impact on global poverty'.*

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