

External Assistance:

Indian Experience

Alok Sheel

Counsellor (Economic)

Embassy of India

Washington DC

OVERVIEW

- Raw figures

Large country-insignificant as % of GDP (except 1955-70)

Preponderance of multilateral assistance

Declining over time: negative in nineties.

Linkage to growth and poverty reduction doubtful

Mainly recipient of Aid

Rupees Crores	Value of Agreements	Receipts	Amortisation	Interest	GDP at mkt prices	Av. Ann. Real GDP GR	Net EA/GDP	GDS/GDP	EA/GDS	% below p
First Five year Plan 1951-56	381.75	191.75	10.5	13.3	54042	3.60%	0.31%	9.9%	3.1%	
Govt. Loan	243.79	121.57	10.5	13.3			0.18%			
Non-Govt loan	0	0	0	0			0.00%			
Grant	137.96	70.18	0	0			0.13%			
Second Five year Plan 1956-1961	2531.14	1430.2	55.2	64	74025	4.20%	1.77%	11.7%	15.1%	
Govt. Loan	2409.68	1186.32	55.2	64			1.44%			
Non-Govt loan	0	83.24	0	0			0.11%			
Grant	121.46	160.64	0	0			0.22%			
Third Five Year Plan 1961-1966	2798.71	2879.75	305.6	294.54	114146	2.80%	2.00%	13.0%	15.4%	
Govt. Loan	2666.13	2772.6	305.6	294.54			1.90%			
Non-Govt loan	0	0	0	0			0.00%			
Grant	132.58	107.15	0	0			0.09%			
Annual Plans 1966-69	3172.1	3229.5	606.6	399.7	106789	3.80%	2.08%	13.7%	15.2%	
Govt. Loan	3007.2	2835.87	504.74	399.7			1.81%			
Non-Govt loan	0	170.63	101.86	0			0.06%			
Grant	164.9	223	0	0			0.21%			
Fourth Five Year Plan 1969-1974	4172.2	4183.7	1584.2	880.48	256947	3.30%	0.67%	16.1%	4.1%	54.88%
Govt. Loan	3976	3139.94	1006.66	880.48			0.49%			
Non-Govt loan	0	890.96	577.54	0			0.12%			
Grant	196.2	152.8	0	0			0.06%			
Fifth Five Year Plan 1974-1978	7508.1	5725.03	1653.19	866.82	352123	4.70%	0.91%	19.7%	4.6%	51.32
Govt. Loan	6153.9	4615.03	1431.59	776.58			0.68%			
Non-Govt loan	0	226.25	221.6	90.24			-0.02%			
Grant	1354.2	883.75	0	0			0.25%			
Annual Plans 1978-1980	4195.2	2530.66	1028.51	568.23	231001	0%	0.40%	22.4%	1.8%	
Govt. Loan	3189.7	1795.82	922.85	513.63			0.16%			
Non-Govt loan	0	156.95	105.66	54.6			0.00%			
Grant	1005.5	577.89	0	0			0.25%			
Sixth Five year Plan 1980-1985	16761.3	10902.7	2905.85	1893.25	965768	5.70%	0.63%	19.4%	3.3%	44.48
Govt. Loan	15197.2	8713.43	2592.27	1686.97			0.46%			
Non-Govt loan	0	409.12	313.58	206.28			-0.01%			
Grant	1564.1	1780.14	0	0			0.18%			
Seventh Five year Plan 1985-1990	44064.7	22695.1	7164.85	5486.83	1851570	5.80%	0.54%	20.8%	2.6%	38.86
Govt. Loan	41325.2	18998.9	6409.98	5158.98			0.40%			
Non-Govt loan	0	1123.49	754.87	327.85			0.00%			
Grant	2739.5	2572.74	0	0			0.14%			
Annual Plans 1990-1992	21684.72	18319.1	5978.99	4959.48	1222113	3.40%	0.60%	23.5%	2.6%	
Govt. Loan	16580.29	14754.8	5728.89	4625.88			0.36%			
Non-Govt loan	3463.27	2111.02	250.1	333.6			0.12%			
Grant	1641.16	1453.23	0	0			0.12%			
Eigth Five year Plan 1992-1997	70996.12	56703.5	30627.72	22748.4	5052102	6.50%	0.07%	23.5%	0.3%	35.97
Govt. Loan	49157.59	43451.6	28097.08	20000.1			-0.09%			
Non-Govt loan	13016.97	8421.44	2530.64	2748.27			0.06%			
Grant	8821.56	4830.44	0	0			0.10%			
Ninth Five year Plan 1997-2002	63248.78	53596.2	37778.38	20895.4	6639706		-0.08%	22.8%	-0.3%	26.01%
Govt. Loan	46874.03	38319.7	33399.18	17390.1			-0.19%			
Non-Govt loan	11319.8	11663	4379.2	3505.29			0.06%			
Grant	5054.95	3613.5	0	0			0.05%			
Grand Total up to Mar. 2001	241514.82	182387	89699.59	59070	16920332		0.20%			
Govt. Loan	190780.71	140706	80464.54	51804			0.05%			
Non-Govt loan	27800.04	25256	9235.05	7266.1			0.05%			
Grant	22934.07	16425	0	0			0.10%			

Types of Assistance

- **Bilateral**
 - Trade-linked (tied)
 - Political
 - Physical infrastructure
 - Social infrastructure and anti-poverty
 - Usually mix of grant and loan
- **Multilateral**
 - Political undertones (Sanctions)
 - Project linked
 - Market development
 - IDA: Social infrastructure and anti-poverty

Policy Issues

- **Concessionality**
 - OECD definition of ODA: minimum grant level of 25%, and excludes military assistance.
 - Frequently difficult to evaluate: sensitive to discount rate applied
 - Trade off between access and cost:Hobson's choice
 - Trade-linked (tied) aid usually inefficient.
- **Sovereign Guarantees**
 - Donor comfort versus white elephants?
- **External Debt**
 - FC borrowing for local currency expenditure
 - All-in-cost needs constant monitoring for pre-payment like all other debt.
- **Flow structure**
 - Project linked or budgetary support (Increasing linkage to PRSP)
 - Focal co-efficients

Calculating Aid Concessionality

- Formally, the grant element can be defined as follows:
 $GE = (FV - PV) / FV$, where
 - GE = Grant Element
 - FV = Face Value of the loan i.e. its nominal value
 - PV = Present Value of future debt service repayments
- The grant element is thus a function of the following parameters:
 - a) The interest rate (and thus the currency of the loan)
 - b) The grace period
 - c) The repayment period.
 - d) The number of repayments per annum
 - e) The discount rate applied

Aid Management

- Disbursement
 - Lag between approvals and disbursement
- Project management and monitoring
 - Higher standards than budget financed projects?
- Project selection
 - Donor priorities versus national priorities?
 - Moral hazard arising out of federal-State fund flows

Evaluation

- Positives
 - Two gap model
 - Cheap funds for social sector
 - Externalities: Technical support and global best management practices
- Negatives
 - Hidden costs (capital costs, depreciation, EC premium and commitment charges) and external debt
 - Political leverage
 - Aid fungibility
 - Link to growth and poverty reduction not automatic. (Governance, private investment, economic freedom, human development raises productivity and economic efficiency leading to growth and poverty reduction)