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The Development Compact: A Theoretical Construct for South-South Cooperation

Sachin Chaturvedi*

'... [W]hen Northern economies were booming, the South could reap some advantages in linking itself with Northern markets. If the North is now entering a period of structural readjustment to much lower levels of growth, the developing countries must increasingly look to themselves and to each other to sustain their momentum of development.'

Prof. Arthur Lewis (1979)

Abstract: India's development cooperation efforts began soon after the country gained its independence in 1947. Indeed there are some incidences that date back to even pre-independence days. India is strong believer of the fact that developing countries should not be entirely dependent upon assistance from the developed world; they must pool their own resources and capabilities to help each other. This discussion paper examines the larger framework of Indian external assistance through the concept of 'development compact'. The new development compact is between actors of the South, rather than the North-South exchange that characterised earlier arrangements; it is no longer about the imposition of conditionalities for recipient countries but more on the principles that govern SSC such as mutual gain, non-interference, collective growth opportunities and indeed an absence of conditionalities. The modern concept of a development compact provides for development assistance that works at five different levels, namely, trade and investment; technology; skills upgrade; LoCs and finally, grants. The engagement of emerging economies with other Southern countries has provided a major pull factor for wider engagement across these five elements, which emphasises the comprehensive support for economic development. These factors are discussed in this discussion paper to provide an analytical taxonomy with some illustrative evidence from Indian experience.

Keywords: South-South Cooperation, NSC, DAC, development compact, Indian engagement

Evolution of the Concept

Since the early 1980s the slowing growth of OECD economies has been a major concern for development economists. The leading World Bank

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economist and author of the Human Development Index, Mahbub-ul-Haq, enumerated the advantages of SSC in its various facets in *Beyond the Slogan of SSC,* a paper published in 1980.[1] Quoting Prof. Arthur Lewis he articulated the need for the South to organise its countervailing power on political, economic and intellectual fronts in order to maximise domestic agricultural development, enhance import substitution and explore South-South trade opportunities. The tenor of his argument seems close to the Singer-Prebisch theory of unequal exchange, echoed in the work of the US sociologist Immanuel Wallerstein; Mahbub-ul-Haq stressed that all the diplomatic skills and rhetorical eloquence, taken together, offered no substitute for tough decisions needed within the South.

According to him such decisions were essential because developed countries were expected to adopt protectionist trade policies to safeguard their domestic employment and therefore developing countries needed to think beyond their previous reliance on those countries[2] so as to ensure their own economic growth. For that, the South had to overcome weaknesses in its negotiating stance. Within a year another paper with the same title appeared, this time by Arturo Goetz (1981), an economist who at one point had been with the UN Food and Agricultural Organisation (FAO). In his paper Goetz pointed out that weaknesses in the proposals from the South were largely because the idea of SSC was based on the myth of an aggregate 'South', which no longer held water and should have matured out of the sloganeering stage.

The question now presents itself of whether or not in 2016, SSC has overcome the fears and apprehensions of the 1980s or moved beyond them. How has the South responded at political, economic and intellectual levels? In what ways has high economic growth in emerging economies[3] of the South influenced patterns of SSC? Is there a lexicon that captures the full nuances of SSC? There may be no definite answers to these questions and the jury will remain out until efforts are made to collect and present substantive evidence on SSC – for which there seems to be very little appetite, not only among governments of the South but also among Southern academics.

What is very clear, however, is that several developing countries are keen to tap into possible synergies with their fellow developing countries and in the process acquire economic independence and self-reliance. These countries may not be especially keen on any specific development model, but certainly their expectations are for trickle-down growth to the base of the societal pyramid. Their expectation is to gain access to more technology and material goods for advancement.

This discussion paper articulates the role of various policy responses that may support macro-economic stability, including capital and financial flows, with an adequate focus on sectors such as investments in raising agricultural productivity and food security, investment in skills and infrastructure and human development and finally, in institutions and governance. As will emerge, SSC has cut a large swathe in this context; this in a way opens up all-round development opportunities for partner countries; a process that may be captured in what is called a 'development compact.'

Evolution of the Concept

The complex balance between internal policies and external assistance posed several challenges when the larger South underwent major economic crises, typically resulting in inflation and an adverse balance of payments and culminating in running down reserves and heavy borrowings. The South's vulnerability to temporary disequilibrium that turned into major economic crises was well documented particularly in the decades of the 1970s and 1980s. In most cases the crises were triggered by current account deficits and adverse terms of trade. According to Sutton (1984), during 1972-1982 the terms of trade of non-oil less developed countries (LDCs) deteriorated by 15 per cent and their current account deficits averaged 20 per cent of exports.[4] The total external debt of the developing world ratcheted from USD 650 billion in 1980 to USD 1280 billion in 1989.[5] Exporters in the developing world also faced a sharp decline in the value of primary commodities which further reduced their ability to absorb external shocks. Persistent and continued challenges of this magnitude compelled several Southern economies to turn to the International Monetary Fund (IMF) to salvage their economies.[6]

There is no dearth of literature explaining how prescriptions from the IMF under the Structural Adjustment Programme (SAP) often proved to have more adverse consequences than the initial problem itself, as the suggested remedies led to redistributive crises and extended periods of readjustments.[7] In fact the origin of the SAP harks back to the long-standing debate on inter-linkages between growth, inflation and macro-economic stability. As may be recalled, the monetarist argument on macro-economic fundamentals emphasises stability in order to achieve sustained institutional growth. Earlier, the Liberal International Economic Order (LIEO), led by the Bretton Woods parties, had been a major instrument for international governance while in the 1990s the so-called Washington Consensus, wedded to the idea of conditionalities for maintaining macro-economic stability, offered scope for the genesis of the concept of 'aid effectiveness' in contemporary times. In the general context of such thinking the focus of assistance providers fell on the economic policy of the recipient country. As a result, an elaborate framework on macro-economic performance and other conditionalities, which went far beyond what was needed to reset the 'macro' balance, emerged as a part of aid and assistance programmes.

Development Agreement

On its 25th anniversary in 1989, the OECD Development Centre published a work showing the severity of development challenges that the developing world was facing. In this volume, Norway's Foreign Minister Thorvald Stoltenberg made a novel suggestion for development contracts. He put forward the idea in the context of supporting SAPs but reconciling them with broad development priorities, including readjusting ODA policies to better access to trade and finance. The relevant paragraph reads:

> The 1980s has been the decade of structural adjustment programmes in developing countries. These programmes were initially short term in nature focusing on stabilisation measures to improve the balance of payments situation. The burden of responsibility for programme success was put on the adjusting governments, even though the likelihood of adjustment success in many cases depends fundamentally on the trade and economic policies adopted in other countries. For this reason, adjustment programmes be replaced with more comprehensive "Development Contracts", which could be defined as a comprehensive instrument for the financing of a medium – and long-term development plan prepared by a developing country itself (with outside technical support where appropriate).

It is clear that the suggested modus operandi was to acknowledge that developing countries require a domestic rate of investment higher than their rate of savings and they could bridge the gap through supply of foreign savings, or transfer of resources. In the case of Latin America and the Caribbean and sub-Saharan Africa, aid was viewed as an important component of capital inflows (see Chenery and Bruno 1962). Stoltenberg also suggested a modality for his development contracts as follows:

> One possibility is to prepare a financing package composed of IMF loans for balance of payment support, Development Bank loans for sectoral adjustments support, bilateral grant elements for basic needs components, co-financing from a bilateral donor and export credits for imports of special foreign products and capital goods and services required. Some of the financing should be quick disbursing, whereas others should require conventional project cycle reviews. Burden-sharing should be arranged on the basis of explicit assumptions about the roles to be played by the participating parties.

Right to Development

This idea was further taken up by Prof. Arjun Sengupta (1993) who articulated the concept of a development compact against the background of a 'right to development'. On the lines of Stoltenberg's idea of 'development agreements' he suggested that compacts (or agreements) be established between industrialised and developing countries to ensure that the latter received sufficient resources for development as they tried to reform their economies though programmes such as SAP, and in that way minimise the social costs of reform. SSC was not a major force at that time, hence Stoltenberg did not refer to it; in fact his idea of a development compact was linked to DAC conditionalities. The focus of the 'development compact' was on mutual commitment for development between developed and developing countries. It was couched in the framework of a commitment to development.

The UNDP Human Development Report of 2003 further explained the proposition, defining the development compact as an arrangement based on a system of shared responsibility, where all countries could orientate their efforts towards helping poor countries achieve their development goals. The compact allows poor countries to pitch for higher assistance and improved market access, while provider countries can demand better governance and accountability in return.

According to Sengupta the development compact must be based on the principles of 'mutuality of obligation' and 'reciprocity of conditionality'. Under the compact developed countries and international organisations will provide assistance necessary for the successful implementation of development plans in poor countries, while in return developing countries will cooperate in the process through bold reform programmes. In the absence of appropriate capacity within a developing country, the developed countries will be obligated to provide whatever assistance is necessary for developing countries to achieve their targets. The development compact envisages a reciprocal obligation between developing countries and bilateral donors, international organisations and the UN system; hence it will be a country-specific arrangement, instead of a traditional one-size-fits all' solution applied across the board to take care of all problems of developing countries.[8]

New Context of Development Compact: Idea and Framework

The global economy and the role of participants in it have moved far ahead of the times when the idea of a development contract as suggested by Stoltenberg, or of a development compact *á la* Sengupta, was mooted for those developing countries that decided to implement SAPs. That commitment came from the developed countries by way of their assistance programmes. In the past decade however several developing countries have themselves emerged as major providers of development assistance, giving a new thrust to the development compact idea, on the face of simultaneous shrinkage of flow of funds in development assistance from the developed world.

The new development compact is between actors from the South, rather than the North-South exchange that characterised earlier arrangements; it is no longer about the imposition of conditionalities for recipient countries but more on the principles that govern SSC such as mutual gain, non-interference, collective growth opportunities and indeed an absence of conditionalities. In this new context, the development partnership should offer opportunities for growth and economic expansion through human capacity building and strengthening of institutions. It should lead to the expansion of per capita income and improve the quality of growth. The idea of the development compact is thus rooted in the soil of cohesive and comprehensive development policies adopted by developing countries.

Development compact modalities need to be policy-coherent so that they do not adversely affect any sectors such as health, nutrition, education or even macro-economic variables such as income and employment. Civil Society Organisations (CSOs) need to play an important role in advancing the process, particularly from the viewpoint of monitoring programmes and delivering cost-effective services, and shortening bureaucratic delivery channels. CSOs may also help ground development efforts within the partner countries (the part that CSOs can play in the SDP programme is discussed in the specific case of Nepal). In certain circumstances CSOs may also help in overcoming political vulnerabilities and possible non-engagements at the Track I diplomatic level.

As already noted, the earlier idea of a development compact arose in a different context. It was seen as a contract between developing and industrial countries for ensuring development of the former provided they fully implement SAPs. SSC modalities and principles, as evident from the literature, appear out of sync with the theory and assumptions behind SAP. The new development compact context, in its stress on policy coherence, is aimed at supporting all-round development of the partner country, not through meeting any specific undertaking nor any commitment to conditionalities. With its greater emphasis on self-reliance, SSC has overwhelmingly contributed towards a framework of policy coherence for development ('coherence' essentially being a term originating from the DAC).[9] As will emerge later, the Indian approach in fact enshrines various SSC modalities within the new approach to the development compact.

The comparison between the old approach governing 'aid flows' and the new, associated with SSC, is best captured in Yanagihara (1998), where an attempt is made to distinguish two philosophical perspectives (see Table 1). Though Yanagihara presents the argument more from the point of view of articulating differences between Japanese and Western models of assistance it is quite appropriate to discuss it in the current context as well. Table 1 brings out the key elements of these differences on the basis of key focus, objectives, responsibilities of stakeholders, orientation and outcome. Lim (2008) has also referred to the Anglo-American model, features of which are closely associated with the ‘framework approach’ as explained below. The linkage comes back to the Washington Consensus which presses for macroeconomic stability by controlling inflation and reducing the fiscal deficit (Gore, 2000; Mohanty, 2016).

Table 1: Comparing Framework and Ingredient Approaches

	Framework Approach	**Ingredient Approach**
Key Focus	Focusses on framework of an economic system and its management.	Focusses on various components or ingredients of an economy.
Objectives	Represents rules according to which economic agents make decisions and take actions.	Refers to tangible organisational units and their vision about quantitative expansion and qualitative upgrading of components.
Stakeholders and responsibilities	Central task of policy and institutional reforms is correcting distortions in the system.	Policies and institutions viewed as tangible inputs that shape the processes of economic change.
Orientation	Principle orientated – setting the framework right is the necessity.	Selection of sectors depending upon ultimate goal is the key.
Outcome	Impact of framework on real sector economy to be determined by ‘market’.	Flexible and uncommitted.

Source: Based on Yanagihara (1998).

North-South development assistance is mainly explained in the development literature as a two-gap model, largely an aggregate perspective in a continuation of the early post-Keynesian Harrod-Domar model.[10] The idea of SSC, however, initially focussed on scaling up trade integration and investment cooperation; but gradually it was realised that additional complementary measures were required to strengthen SSC. Some of these measures have been under discussion for quite some time. For instance, a compensatory finance mechanism to help vulnerable countries and primary exporters, which might find the shift to new markets difficult, may leverage the option. Initially, the idea of SSC was highly localised, which is why India, China, Brazil and South Africa developed extensive linkages in their respective regions. It was only much later that any significant cross-continental connections emerged. South-South trade as a share of world trade has grown from 8.1 per cent in 1980 to 26.7 per cent in 2010, contrasting with a sharp drop in North-South trade from 46 per cent to less than 30 per cent for the same period. The evolution of South-South trade to current levels is largely due to the trade liberalisation measures adopted by several developing countries over the past two decades. Within the South, Asia has clearly led South-South exports (Table 2).

Table 2: Asia-Intra-regional Exports (%)

Year	1995	2000	2005	2010	2014
Total merchandise exports	52.87	51.54	55.80	59.88	61.54
Primary commodities	69.96	68.21	67.67	72.54	74.22
Manufacturing Exports	49.11	47.69	52.36	55.50	56.64

Source: UNCTADstat.

The modern concept of a development compact provides for development assistance that works at five different levels: trade and investment; technology exchange; skills upgradation; lines of credit (LoCs); and finally, grants. LoCs and grants may be pooled under an overall financing mechanism. The engagement of emerging economies with other Southern countries has provided a major pull factor for wider engagement across these five elements, which emphasises the comprehensive support for economic development. Some of these factors are discussed below, to provide an analytical taxonomy with some illustrative evidence from Indian experience.

Naturally, in the real world several caveats attach to the following features; for instance if there are complementarities in the trade and investment category there are also possibilities for competition. Some

Southern economies may pose major challenges for trade due to weak economic structures, a limited capacity for import and export or (in the terminology of the British economist Sir John Hicks) highly constrained 'tradeables'; and in some cases similarities in production patterns and the technological base. Such a situation might call for trade liberalisation linked with foreign direct investment (FDI) to overcome supply-side constraints, leading to industrial cooperation followed by market access and regional trade arrangements. The demand side perspectives of international trade – the role of both intra-country and inter-country inequalities are also necessary to be looked into while looking at the challenges involved in South-South trade. This has been touched upon in the next section. A general commitment among partner countries is also an important factor for the success of the development compact. Partner countries should have public policies for promoting innovation in particular, and science and technology and enabling elements such as education, R&D and a commitment to nurture other institutions.

India has traditionally been collaborating very strongly with developing country partners on S&T under bilateral and regional cooperation arrangements. India has played a leadership role in many such initiatives with LDC partner countries and strongly believes in knowledge sharing for mutual benefit. We highlight some key projects in the CLMV countries and enumerate some ongoing initiatives that fall under India's partnerships in Africa.

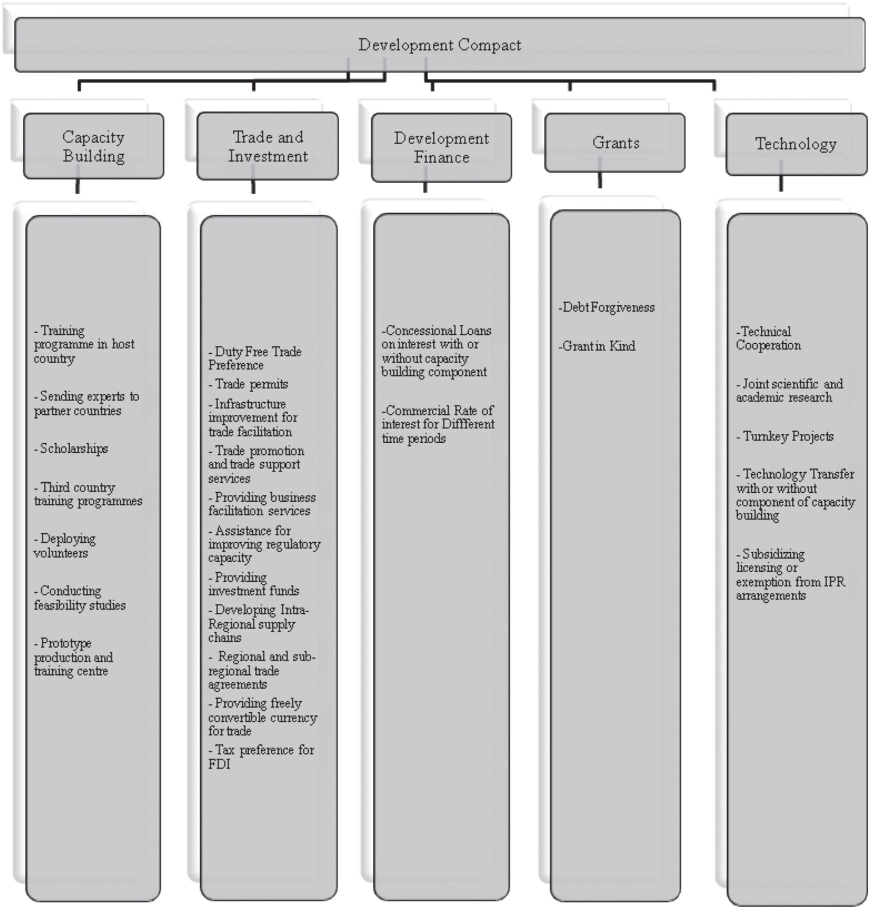
The Angkor Wat conservation project (in Cambodia), financed by the Ministry of External Affairs, Government of India was the single largest project ever undertaken by India under its ITEC programme in any country. India has ongoing joint research projects with Vietnam in the areas of smart antennas for 3G/4G mobile communications; power source converter for AC photovoltaic, etc. India has assisted establishment of Lao-India Entrepreneurship Development Centre (in 2004), Cambodia-India Entrepreneurship Development Centre (in 2006) and Myanmar-India Entrepreneurship Development Centre (MIEDC). Other such initiatives include: Minimally Invasive Education (MIE) IT kiosks for

Cambodia, pilot Rural Tele Centres (RTC) in Lao PDR, the Myanmar Institute of Information Technology (MIIT) at Mandalay, Myanmar, India-Myanmar Centre for Enhancement of IT Skills (IMCEITS), Vietnam-India Advanced Resource Centre in ICT in Hanoi, Vietnam.

India-Cambodia Cooperation in the Field of Agriculture and Allied Sectors envisages cooperation in a number of areas including integrated pest management, use of pesticides, livestock production and management, disease diagnostics and vaccines, integrated watershed management, aquaculture production management, exchange of information and reports, exchange of germplasm, training and exchange of visits by scientists, agricultural extension services, cooperation in food processing industries and development and improvement of horticulture technology for fruits. India is helping Lao PDR in establishing an agriculture college in Champassak province in southern Lao. India is supporting establishment of Advanced Centre for Agricultural Research and Education (ACARE) in Myanmar and a Rice Bio Park at Yezin Agricultural University Nay Pyi Taw.

India is helping Vietnam in establishing a satellite tracking, data reception and processing centre in Ho Chi Minh city under India-ASEAN Cooperation. India shall also consider launching of Vietnamese satellites using Indian launch vehicles and provide assistance in setting up of earth observation centre in Vietnam. The First Myanmar-India Friendship Centre for Remote Sensing and Data Processing (MIFCRSDP) was established in 2001, with help from the Indian Space Research Organisation (ISRO). The Decision Support Centre (DSC), India under the aegis of ISRO is a single window information provider on major natural disasters like floods, agricultural drought, and forest fires, cyclones, earthquakes and landslides. The DSC also supports International Charter on Space and Major Disasters and Sentinel Asia. Under this, critical support was extended to Myanmar during Nargis (2008) Cyclone; Indonesian floods (2008) and China earthquake (2008).

Key projects under India's cooperation with Africa in S&T include: Centre for Demonstration and Promotion of Technologies (CDT), Cote D'Ivoire; Supply of Fuel Briquette Plant to Ondo State, Nigeria; S&T Entrepreneurship Park (STEP), Egypt; Pilot Research Project for Tomato Production, Ghana; Pan African e-Network Project; and Solar Power Project in Mozambique and training for Solar Power in African villages (AIC-RIS, 2015 and FIDC-RIS, 2015).



The Development Compact and Its Modalities

Capacity Building

Capacity building is an area that has engaged the attention of policy makers across the South from very early on. Almost all participants in SSC have involved themselves to some extent as provider of, or partner in training programmes. There are various modalities within this category. Most of countries have relied on dedicated programmes in different areas of work in their own territories, while inviting partners to nominate participants for courses they can offer. In several cases, these programmes have continued for years.

A further modality is that of delegating experts or volunteers to projects in partner countries.

Sometimes such arrangements are at the request of partner countries, to meet specific projects or tasks; sometimes they are needed to meet systemic deficiency due to a lack of skilled personnel. This modality is mainly used for skill-intensive areas, especially when technical assistance in installing plant or machinery is involved. Capacity building efforts also consist of training programmes for building administration, managerial and decision making skills.

Providing concessional access to professional educational institutions under partially or completely self-financed programmes has also emerged as a preferred option. Several programmes arose out of the experience of developing countries themselves; for example in 1970 with German technical assistance India established the Prototype Production and Training Centre at Okhla, designed to improve the quality of tertiary vocational training.

Trade and Investment

Over the years the engagement of the South in trade and investment has undergone a shift in the way it is managed within the South, and also vis-a-vis Northern partners. Stewart (1992) identified two theoretical factors for explaining the emphasis on Southern trade linkages. First, such trade permits countries to exploit inter- and intra-industry economies of scale while providing their industries with a degree of protection against Northern competition. Secondly, the similarity in demand patterns among Southern countries should lead to more intra-South trade in appropriate products and technology, which might make for avenues for technological change more appropriate to Southern requirements than those from the North. The South, however, by now has overcome to a large extent several limitations in this respect, which in turn suggests new interpretations, some of which are summarised below.

As major providers of primary commodities in their respective trade baskets, countries of the South have constantly struggled against the 'terms of trade' argument. Briefly put, if any one member of an exporting group pursues an active policy of export promotion while the others remain passive, then individually it may be better placed; but if all the members follow the same course, a possible situation arises in which they are collectively worse off. In the absence of collusive equilibrium and of inelastic world demand, the South pays dearly (Marjit and Beladi 2001).

The South has benefited from measures taken specifically for promoting market access by leveraging trade tools to its collective advantage. Balassa (1965) and Little, Scitovsky and Scott (1970) showed that from a theoretical point of view free trade policies promise higher welfare but in practice it is promotion of exports that offers much greater economic returns.

Some trading arrangements between Southern economies have proved far more rewarding than those with the North. Their advantage lies in the circumstance that South-South trade differs in the sense much of it is found to be investment-promotional trade, with implications for technology transfer and capacity building. According to Lu and Li (2011) complementarities and competitiveness lead to expansion in supply capabilities, diversification of production, and trade that builds a strong foundation for FDI.

Market access for LDCs through duty-and quota-free schemes, however, is one important demand that is yet to be addressed generally, although within the South, China and India have each applied themselves to the issue.

Sharing of Technology and Knowledge Base

Building a technology and knowledge base is an important emerging area of engagement for the South. The similarity between them in stages of development and context of adaptation makes diffusion and adaption a relatively successful exercise. Southern partners have engaged in these exchanges for several years, largely as a means of achieving self-reliance. The management of partnerships varies depending on the nature of the problems, the level of common concern and of expertise, and the resources available. The arrangements may, of course, take different forms; some are narrowly bilateral, others more broad bilateral, multilateral and broad multilateral, and yet others are elements within regional cooperation programmes.[11] The modalities may include training, technology transfer, cooperation for joint R&D and –most prevalent – capacity building in key areas of science and technology. Such programmes may help Southern economies overcome the high costs of development. TCDC has played an important role in this context because human resource-based absorptive capacity is viewed as a major tool for the acquisition of technological skills and the ability to turn market access into growth.

Late-comers in the technology race are struggling against a narrowly defined intellectual property regime, Southern partnerships have evolved across various sectors to at least absorb the implications of technological change, if not collectively to explore ways of accessing it. The WTO trade-related intellectual property rights (TRIPS) agreement came into force at the end of the Uruguay Round of the GATT in 1994, but was collectively challenged by a large grouping of the South after the

Singapore WTO ministerial meeting in 1997. The group consolidated around the issue of access to medicines, an expression of solidarity that was a major factor in the adoption of the WTO Doha Development Agenda in 2001.[12] Similar expressions of cohesive resistance also came up at other forums, for instance, the Convention on Biodiversity (CBD) and the World Intellectual Property Organisation (WIPO), both of them key global platforms.

Given the rate of expansion in project-based investments, loans and trade, South-South technological cooperation is likely to find new avenues for growth. Increasing fragmentation of production across the South and a deepening of the value chain has not only enhanced absorptive capacities across the South but has also given opportunities for easy assimilation of tacit knowledge.

Development Finance

As an instrument for supporting partner countries, development finance has existed since the late 1940s and has found general acceptance in the South. Goods, services (including consultancy services), machinery and equipment are exported to partner countries under an agreement generally supported by the respective Exim banks. The value of goods and services rendered under such schemes differ from country to country and from 100 per cent to zero. Interest rates on such advances also vary depending on the quantum, the nature of the projects concerned, and the time over which advances are approved.

The criteria that are normally applied to such credits are the creditworthiness of the partner country; whether or not it can repay in hard currency; and the likelihood that the project concerned will generate sufficient resources for repayment. The provider also explores the project's domestic supply capacity and its ability to create future trade through LOCs.

Grants

Grants are an old-established practice at both bilateral and multilateral levels. Initially the amounts were quite small but have increased over time. At some point grants were extended totally in kind, but provider countries have now arrived at a point where even cash is being extended. There are also instances of LOCs being turned into grants, a process under which minimal cost is borne by the partner country (Table 3).

Table 3: India's Development Cooperation: Grants

(US$ billions)

Year	Grants	% Change
2014-15	1.78	-
2015-16	2.30	28.93
2016-17	2.35	2.50

Source: RIS database on Indian development cooperation

Development Compact and Indian Engagement

Capacity Building

India established scholarships to foster cultural and educational relations with Africa and its neighbouring countries in Asia. There is an increasing focus on three main components: providing training in India, sending teams of experts to partner countries, and providing equipment for project sites. One of Prime Minister Nehru's main aims was to build a sound base of trained manpower across all the developing countries and it was with this in mind that immediately after his becoming prime minister in 1946 he launched the training programmes for China and Indonesia; the programme involved imparting industrial training. Later, in 1949, India established 70 scholarships, and after a revision of the scheme in 1953 the total reached 100. Nearly 340 scholarships were awarded between 1949 and 1954.

At this point, the possible role of state governments, rather than the national authority, in development cooperation-related initiatives came to be realised. In a circular issued in 1953 the central government suggested to state governments that each supported at least two students from East and Central Africa. In the same year another scheme was launched giving 25 scholarships for African countries to provide training in cottage industries. The government also hosted a conference of African students in New Delhi in December 1953, when All India Radio began broadcasting in Swahili to Africa. At this time Delhi University announced the establishment of a School of African Studies to enable Indians to study African history and culture.

India also helped create capacity among other developing countries in their negotiations with advanced economies. In 1956, Delhi loaned out the services of key financial officials to the Gold Coast (now Ghana) for its negotiations with the UK in connection with the massive Volta River hydro project. Support for capacity building in Africa has continued; India recently has acted as mediator between groups and factions across different regions in Africa and has also taken up larger issues at various multilateral forums including WTO and WIPO.

ITEC: The Flagship Programme

The multiplicity of fellowships and training programmes in turn led to the launch of India's most important civilian training programmes, ITEC and SCAAP to offer help to developing countries in Asia, Africa, Latin America, Eastern Europe, Central Asia, the Gulf and small islands in the Pacific and Caribbean. The programme was aimed at developing mutual cooperation in technical and economic fields. Under its aegis all expenses, including air travel, tuition fees, living allowances, study tours, medical assistance and book allowances are borne by MEA. As of now 47 institutions have covered more than 200 programmes across sectors that include audit, banking, finance and accounts, education, entrepreneurship, English language, food technology, IT, small business development and various other areas related to global governance. The programme takes into account regional groupings such as the Association of South East Asian Nations (ASEAN), the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) and the African Union (AU) for which additional slots have been made available. When ITEC was conceived the work plan was designed around the following categories:

- the provision of training facilities in India to foreign nationals;
- delegation of Indian experts abroad;
- provisions for capital goods equipment, drugs and medicines;
- financial assistance for feasibility studies and economic surveys; and
- undertaking projects in countries under economic cooperation agreements.

India had also evolved specific training programmes for addressing sectoral challenges across newly independent countries, particularly in Africa.

There were three main drivers behind ITEC. First, in neighbouring countries India would maintain political goodwill along with basic economic and commercial interdependence. Second was the idea of supporting countries with a sizeable indigenous or immigrant Indian population; and lastly, that India should develop ties with countries with which it already had significant relations, or which had considerable scope for development. Indian experts are sent abroad under the ITEC programme in accordance with requests from partner countries. They usually work in health, agriculture, engineering, teaching, accounts, small-scale industry and legislative drafting. Over the years such expertise has greatly contributed to an observable incremental improvement in vital developmental sectors in the partner economies. The programme has expanded steadily; in 1991 China, the former Soviet republics (particularly central Asian republics), and Eastern European countries such as the Czech and Slovak federal republics and Hungary were included. In 1991 the ITEC Alumni Association was formed by Indian missions abroad and the decision was taken to celebrate 15 September as 'ITEC Day'.

The budget allocation for ITEC was INR 440,000 in 1964-1965 but had reached INR 10 million in fiscal 1972. Thereafter it increased steadily, to INR 10.3 million in 1974, INR 20.2 million in 1975, INR 40 million in 1976 and INR 50 million in 1977, at which point the programme was already covering 50 countries. In 2014, the budget for ITEC had reached INR 1.4 billion and for SCAAP, INR 250 million, and covered almost 142 countries.[13]

By 1973, India was providing educational programmes for almost 120 trainees and in the same year some 150 experts from a variety of disciplines were sent abroad to assist in development programmes. A training programme for mining technicians from Zambia had been launched in 1972; in the same year Tanzania was supported with a credit line of INR 50 million to conduct feasibility studies and exploratory work in the petroleum, coal mining and small-scale industries, for which the capacity building component was again added. Support was extended to the Central Public Health Engineering Research Institute in Nagpur for the establishment of a defluoridisation plant to assist rural communities in Tanzania, and experts from the Rail India Technical and Economic Service were sent to train Tanzanian Railways personnel and advise on maintaining locomotives and setting up repair and workshop facilities.

The role of the private sector in operating LoCs was demarcated in the 1970s. For example the 1971 state-owned Kinyara Sugar programme in Uganda was a turnkey project carried out by Mumbai-based Walchandnagar Industries on behalf of the Indian government; while India assisted Nigeria's shipping industry through training pilots and marine engineers and helped train Nigeria Airways staff. Similar support was extended to Tanzania.

ITEC's Role in Promoting Industrialisation

As a result of India's greater involvement in project funding and technical support ITEC very often supported feasibility studies and techno-economic surveys, but of late this area of engagement seems to be missing. Several reasons may account for this. In the first place larger economic scale and the global need for scaling up have emerged as priority areas; as a result support for SMEs has fallen off the international development cooperation agenda. This may be why partner countries do not seek assistance. Secondly, the trend within India itself is towards larger enterprises and the struggle for survival of SMEs is a widely debated policy challenge.[14] It is important that ITEC is encouraged to help recapture the dynamism of this aspect of industrialisation across partner countries, in which SMEs may still play an important role.

Since 1960s ITEC has been involved in several feasibility study tours and eventually, the resultant projects. Although sponsored by ITEC, most of these studies were undertaken by public sector enterprises such as the National Industrial Development Corporation (NIDC). The programmes have largely focused on delivering projects relevant to SMEs. Indian experts have carried out several feasibility studies in different countries for the establishment of industrial estates. In Vientiane, Laos a feasibility study, financed from ITEC funds, was undertaken for the establishment of various enterprises and in Libya a study conducted by NIDC in 2013 resulted in its being awarded a contract for consultancy and supervision over the construction of a steel scrap melting plant.

As early as 1972 a delegation under the leadership of Dr BD Kalelkar, a former director general of technical development, was sent to Nigeria to identify specific sectors and projects through which industrial and technical cooperation between India and Nigeria could be promoted.[15] Throughout the 1970s several such studies were conducted. Important among them was a one for setting up a small-scale industrial estate in Afghanistan; one in Iran for laying out railways and small-scale industrial units; in Iraq a preliminary costing and feasibility survey for the Baghdad-Hsaibah Railway project; in Mauritius a study to identify projects in animal husbandry, fisheries, forestry, mining and miscellaneous industries; in the then Yemen Arab Republic (now Republic of Yemen) it was a techno-economic survey for industrial planning; while in Trinidad and Tobago, Surinam, and Guyana support was given for surveys of small-scale industrial development. The following table illustrates the diversity of support for such enterprises in countries creating industrial capacity (Table 4).As noted earlier, one objective of ITEC was to send Indian personnel overseas to create local capacity and support infrastructure development. In the period 1964-1982 India deputed 729 experts under this programme alone. As is clear from Table 2.3 the profile of staff that are required has varied, illustrating the range of diversity in the developmental commitments India has undertaken.

Table 4: Early ITEC support for industrial capacity

1972	Afghanistan	Small Scale Industries estate
1972	Iran	• Railways and small scale industries • Feasibility of transit traffic to Europe via Persian Gulf ports and the overland route
1972	Iraq	Preliminary cost and feasibility study for Baghdad-Hsaibah Railway project
1972	Mauritius	Identification of projects in animal husbandry, fisheries, forestry, mining and miscellaneous industries
1972	Yemen Arab Republic	Techno-economic survey for industrial planning
1972	Trinidad and Tobago Surinam, and Guyana	Survey of small scale industries

***Source**:* RIS database based on MEA Annual Reports.

Under the ITEC programme Delhi also provided project-linked consultancy for building certain capacities. In 1983, India extended funding of INR 600 000 to Tanzania for starting up village workshops. ITEC also undertook feasibility studies for modernisation of airports and establishing small-scale industrial centres in Tanzania, Mauritius and Botswana. In several cases ITEC's engagement also led to studies and specific reports on areas offering important avenues for capacity building. In Mauritius an Indian techno-economic survey team carried out several comprehensive surveys covering fisheries, livestock, forestry and mining and manufacturing industries, together with an independent survey of a reclamation project near Port Louis harbour (the reports of such hydrographic surveys are shared with the government concerned). Indian personnel also assisted in the preparation of several feasibility reports for industrial plants. A techno-economic survey team was sent to Surinam and Trinidad and Tobago to conduct surveys in the small-scale industrial sector while steps were also taken for a feasibility study for a new cement plant at Oman.[16]

Colombo Plan

India joined the Commonwealth-initiated Colombo Plan, aimed at boosting development in member countries of the Asia-Pacific region, on its launch in July 1951. The programme, which came out of a conference held in Colombo in 1950, was largely the creation of Sir Percy Spencer of Australia and JR Jayawardene, later to become prime minister of Sri Lanka. India was represented at the conference by Prime Minister Nehru, who also held India's foreign affairs portfolio. The Colombo Plan[17] technical cooperation scheme was initiated to provide technical assistance to member countries to encourage them to stay out of the Communist bloc. The Plan was promoted as a cooperation arrangement with equality in partnership as a central feature.[18] India played a dual role; it received economic and technical aid from advanced economics such as Australia, Canada, New Zealand and UK while also extending assistance to other member countries from South and South-East Asia, in particularly offering scholarships for technical training. India committed USD 3.9 million to a six-year technical cooperation development programme and a further GBP 750000 spread over three years for a GBP 8 million fund established by the Commonwealth Consultative Committee.

India started the Colombo training programme with 74 slots in 1951 and by 1961 had provided 369 places to trainees from 10 countries. The programme continues; facilities have been offered for general education, civil, mechanical and electrical engineering, statistics, forestry, fisheries, community development and cooperation, social services, medicine, and banking. In 2013-2014 training slots under the Colombo Plan stood at

500 for 18 member countries. In addition India sponsors specific training programmes at the Colombo Plan Staff College in Manila.

Country Specific Initiatives

Apart from such programmes India has supported several national initiatives across partner countries (see Figure 1). Most of these have been based on specific requests or are part of specific projects installed or delivered by India. In the last few years the focus has been on capacity building, conducting feasibility studies and commissioning projects. In Djibouti, India supported a programme for human resources training through Educational Consultants India Ltd, a public sector company administered by the Ministry of Human Resource Development. Similar programmes were undertaken in Laos and Mozambique. Some countries, one of which was China, benefited in the early years but the programmes gradually fell away. Outside the ambit of the Colombo Plan India initiated a China-India mutual support programme to meet various developmental challenges in 1954. Delhi sent the chairman of its central water and power commission to China for two months to study Chinese flood control measures. China in turn sent students to learn Indian languages. In 1956 the Indian planning commission sent a delegation to study Chinese economic and agricultural planning and techniques.

Pursuant to its long tradition of engagement in Afghanistan India has provided major training support for Afghan citizens in public administration, communication and meteorological facilities; and has consistently helped meet the need for English teachers in Afghan schools. The first teachers were sent in 1949 after which the programme gradually expanded and diversified. In 1961 some of the English teachers, along with line operators and stenographers loaned to the Afghan government press department, launched a four-page English daily newspaper, the first of its kind in Afghanistan. In 1955 India provided training in library sciences, milk production and other spheres, such as sugar production in Jalalabad and cottage industries in Kabul at the request of the Afghan government a planning expert was made available to advise on development and organisation of cottage and small industries. In 1958 the Afghan Bank sent key officials to train at the Reserve Bank of India.

In 1953-1954 the Indian government undertook training of 79 Afghan Air Force personnel in addition to a cadre of 64 approved in the previous year. India also helped create capacity for organising air traffic in Afghanistan and in 1953 a weekly flight was introduced on the Delhi-Amritsar-Lahore-Kabul-Kandahar route, which proved to be seriously hampered by deficient communications in Afghanistan's meteorological facilities; for this reason Delhi provided the necessary equipment and posted Indian personnel to operate communications system sat meteorological stations in Kabul and Kandahar for two years, on the understanding that Afghan personnel eventually would take control. This handover did not take place due to limited skills capacity so support was extended till August 1959 with enhanced training. Collaboration in the civil aviation sector was further expanded in 1960 when India provided two fellowships for training radio technicians at the Civil Aviation Training Centre in Allahabad. Linked with this was support for Kabul Radio by way of training courses for its executives at All India Radio.

In Africa, Sudan has been an important partner. In 1954, India provided training for judicial and other officials and also advised the Sudanese administration on a compensation scheme for expatriate officials. India donated INR 1.5 million to set up the residential Royal Technical College in Nairobi, Kenya, which opened in 1956, to provide higher technical, commercial and arts education. The idea was to promote access to education for Kenyans irrespective of race, to foster the evolution of a multiracial and integrated society. In July 1956 Vice President Radhakrishnan visited Kenya to perform the opening ceremony for the Gandhi Memorial Academy, which is incorporated in the College. Three years later India set up scholarships for West Asian and North African students and extended facilities to private students to study in India or undertake tours to agricultural and scientific centres.

This programme was extended to include Iran from where a group of 20 academics from Tehran University visited India in July 1958.

Indian engineers have played a key role in development projects not only in terms of implementation but also in creating capacity. For instance, in Ethiopia, 12 engineers provided support and training in areas such as irrigation, electrical power and railway management. In some mineral-rich countries Indian engineers have had a key role in setting up the knowledge base for the extractive industries. As they did in Afghanistan, Indian teachers of English among other subjects also played their part in Ethiopia. In 1962 India sent 69 teachers to Addis Ababa and various parts of Ethiopia. They remained until Ethiopia's domestic political situation forced them to leave in 1991. At present Indian engagement in Ethiopia is directed more to providing teachers in higher education than to primary or secondary schools.

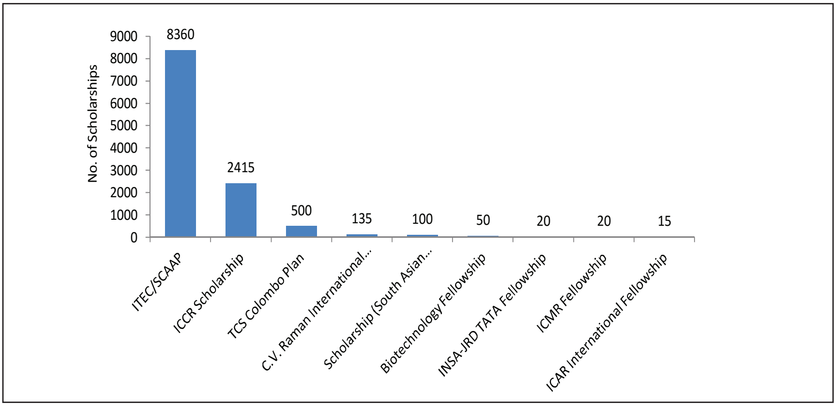
India's strengths in planning and implementing community-specific programmes and preparatory work at the level of planning commission have attracted several developing countries. In 1961, the government of Ethiopia requested assistance in providing facilities for its officials to study programmes related to community development and three such officials went to India for training. Similarly, India's engagement in Bhutan dates from that country's first Five Year Plan: India provided support for scholarships for degree and diploma courses along with higher school students at a cost of INR 298,000. Another delegation from Bhutan made an extensive study of infrastructural policies and facilities. This partnership continues. Every year government scholarships to Indian institutions of higher learning are granted Bhutanese students at undergraduate and post-graduate level and in 2013 there more than 800 students were studying under the scheme. In 2012-2013, 220 slots were provided through the ITEC programme and 60 slots were made available in 2012-2013 through the technical cooperation scheme of the Colombo Plan, for upgrading the administrative and technical skills of

Bhutan's government officials. Apart from these programmes there are other scholarships on offer, such as the Ambassador's Scholarship and the Nehru-Wangchuck Scholarship for tertiary education. Ten Bhutanese students are admitted annually to India's Sainik military academies, all expenses being borne by the Indian government. Delhi University is now affiliated with Bhutan's Sherubtse College, a Jesuit institution that was Bhutan's first accredited college, where India sponsors about 10 faculty members for periods ranging from three to five years.

Over time many countries have benefited from India's bilateral national programmes. Under Delhi's cultural scholarship scheme three fellowships were awarded to Fiji in 1953, while the director of the Indonesian National Planning Bureau and a senior member of the Indonesian Ministry of Economic Affairs visited India in June 1954 to study the progress of its Five Year Plan. In 1954, a group of Iranian experts studied the technical and administrative workings of the Indian railways and in 1971 India sent several engineers and professional personnel to work in various administrative sectors in Kuwait.

In Burma the capacity building programme took various forms. India invited academicians for training at veterinary institutes in India, for which a three-week training course was organised in 1952. In the same year India conducted three other training programmes for Burma, all of them in various areas of civil administration. India hosted a Burmese survey party to study rehabilitation centres at Faridabad, Nilokheri, Bombay, Gandhidham, Madras and Calcutta; and a group from the Ministry of National Planning arrived in India to study small industries and hydroelectric projects at Mumbai, Pune, Bangalore and Mysore. Also in 1952, following an accommodation reached between the Burmese government and insurrectionists in the Shan states, a team of judges went to India to study the integration of Indian states and the financial arrangements between them, in the process visiting the states of Jaipur, Baroda, Bombay and Gwalior. In 1954-1955 Burma sent delegations to study construction and development schemes along with

Figure 1: Distribution of Indian Scholarship Programme



Source: Annual reports MEA and other ministries (2015).

community projects, shipyards, defence installations, research institutions and laboratories and some important educational, cultural and health institutions.

For other countries of the South, India offers various educational schemes. Under 21 different scholarship schemes the Indian Council for Cultural Relations (ICCR) annually offers nearly 3535 scholarships, of which 675 are exclusively for Afghanistan and 500 for African countries. The ICMR, a premier national agency for the formulation, promotion and conduct of biomedical research, offers 20 fellowships each year for research in the biomedical sector, of which 12 are for young scientists and six for senior scientists. The Indian Council of Agricultural Research (ICAR) provides three-year scholarships to 15 overseas nationals for a master's degree in agriculture and allied sciences under the ICAR International Fellowships (ICAR-IFs) programme. The Department of Science and Technology (DST) and the MEA, through the Federation of Indian Chambers of Commerce and Industry, in 2010 launched the CV Raman International Fellowship programme to provide African researchers with opportunities to conduct collaborative research with leading groups in Indian universities and R&D institutions in areas of science and technology. There were 135 slots on offer in 2012.

The Department of Biotechnology and the Third World Academy of Sciences have instituted 50 Biotechnology Fellowships for students from developing countries– divided equally between research for a doctorate and for post-doctoral studies –in newly emerging areas in biotechnology for which facilities are available at laboratories and research institutes in India. In 2006 the Indian National Science Academy (INSA) in honour of the late JRD Tata, a leading industrialist, instituted the INSA-JRD Tata Fellowship, run by the Centre for International Cooperation in Science and promoted by INSA in association with various scientific agencies and departments. The fellowship aims to extend India's scientific infrastructure and expertise to scientists and researchers from other developing countries. It was established through an endowment received from the Sir Dorabji Tata Trust, to foster advanced research training for scientists from the developing world and promote SSC. Some 20 fellowships are awarded annually. In addition to these programmes it is estimated that some 40000 foreign nationals from about 100 countries study in Indian universities each year, of whom nearly 2000 study under government of India scholarships.

During 2015-2016, 8360 civilian training slots under ITEC/SCAAP were allocated to 161 developing countries. As part of the Colombo Plan South-South Technical Cooperation Scheme the Indian government started its own Technical Cooperation Scheme (TCS), with a view to providing technical assistance to 18 countries signatory to the Plan. TCS was transferred to the MEA from the Department of Economic Affairs within MoF with effect from April 2010. During 2015-2016, 500 training places were allocated for scholars of Colombo Plan member countries. India also offers 100 scholarships to the South Asian University in New Delhi, aninstitution established under the auspices of the eight members of the South Asian Association for Regional Co-operation. Recently, FIDC introduced a new capacity building programme on SSC under

ITEC. Twenty-eight delegates from 21 different countries attended the programme first held in November 2014.

Trade and Indian Engagement

In several instances, India's SSC trade policies have carried implications for development cooperation. In expanding trade with Bangladesh, for example, India faced sundry impediments including supply constraints and factors such as arrangements for payment in rupees. To avoid a payments crisis a new protocol was signed with Bangladesh in December 1974, as part of which India and Bangladesh agreed to trade in freely convertible currencies from January 1975.

Similarly, in 1978 separate treaties for transit and trade were concluded with Nepal to bring under control the misuse of trade links, and to put Indo-Nepalese economic relations on a firm and stable footing. It was understood that Nepal was facing a serious shortage of rupees due to imbalances in its trade with India and it was decided that India would invest in Nepal not only to generate employment and support development but also, albeit marginally, to help overcome the shortage of rupees. India also consistently provided assistance for improving trade infrastructure across the Nepal-India border. In 1990 it supported a turnkey and grant aid project to build a new road and railway bridge worth INR 30 million at Raxaul, one of the most important border points for transit and cargo movement between India and Nepal. In 1996 the two governments renewed the India-Nepal Trade Treaty, which allows Nepalese manufactures into the Indian market free from customs duties or quantitative restrictions. It was also agreed to accord parity to Nepalese products in the levy of countervailing duties at par with India products.

It was realised however that the balance of payments challenge for Nepal is largely due to the supply side constraints it faces. In this context India provides support for the development of enterprises and industries, the evolution of related infrastructure through the development of industrial estates and the establishment of new units for expanding the frontiers of industrial production. In 1964, India for the first time extended a loan of INR 10 million to Nepal for industrial enterprises at 3 per cent interest, repayable in 15 equal annual instalments.

Industrial production demands both initial and continuing manpower training. With this in mind Hindustan Machine Tools Ltd (HMT), a state-controlled company, established three institutions in Nepal in 1980. They were respectively the Regional Training Institute at Nepalganj, a production-orientated Polytechnic institution at Hetauda and a common facility centre at Butwal. In the same year India also supported the establishment of a paper and pulp mill in Nepal and in 1983the development of joint-venture industrial projects between the two countries. The first project under this scheme was a cement production unit near Udaipur in Nepal with a capacity of 1200 tonnes a day, at a total cost of INR1 billion. In 1987 India funded a new small-scale industrial estate at Rajbiraj, inaugurated during a visit to Nepal by the Minister of External Affairs in January 1987. The project was completed and handed over to the Nepalese government in 1994.

India's trade with the South has seen impressive growth in the past two decades. The degree to which it has forged trade relations with Southern countries is evident from Tables 5 and 6. In geographical terms Asian countries so far have dominated India's trade with the South although Africa seems to be gaining momentum.

Table 5: India's Merchandise Exports to the South, 1995-2014

(% share of total exports)

	1995	2000	2005	2010	2014
Developing economies	38.32	38.93	53.33	62.45	63.24
Developing economies: Asia	31.95	31.59	43.76	50.08	47.41
Developing economies: Africa	5.23	5.17	6.70	8.12	10.91
Developing economies: America	1.14	2.12	2.82	4.23	4.88

Source: RIS database.

Table 6: India's Merchandise Imports from the South, 1995-2014 (% share of total imports)

	1995	2000	2005	2010	2014
Developing economies	38.94	47.34	49.74	67.27	72.74
Developing economies: Asia	31.77	34.56	42.86	55.21	56.75
Developing economies: Africa	5.41	10.53	4.00	8.34	8.78
Developing economies: America	1.73	2.18	2.77	3.67	7.16

Source: RIS database.

Financing Mechanisms

LoCs

India has been providing LoCs to other countries since the late 1940s when the first such support was extended for Burma. The programme evolved as an important tool for relatively large projects, particularly those for which government wanted to avoid extending massive grants when in some cases returns were uncertain. Burma was the first beneficiary of an Indian LoC in 1950; it was for GBP6 million as a short-term loan from a blocked sterling account[19] (Table 7).

Table 7: Indian LoC to developing countries (Fiscal year 2006 to April 2015)

Region	USD million	Percentage of Share
Africa	6739.30	57.93
South Asia	3256.16	27.99
Middle East and Central Asia	-	-
South-East Asia and Pacific	1157.69	9.95
Latin America	199.84	1.72
Eurasia	155.60	1.34
Other	125.00	1.07
Total	11633.59	100.00

Source: RIS database on Indian development cooperation.

In those early years Burma was a significant beneficiary of Indian development loans. During 1956 a delegation headed by Burma's minister for trade and development visited India and concluded a INR 200 million loan agreement, signed in 1957.[20] Bhutan was another beneficiary of LoCs through a loan of INR 220000, extended in 1958-1959 to build an orange-crushing factory.[21] Table 6 above gives a recent snapshot of LOC provided by India to developing countries from 2006 till date.

The system for granting a LoC is designed with several inbuilt checks and balances to monitor money transfer. With the increasing speed and sophistication of money transfers the steps listed below are completed faster than they once were. The process is governed by internationally agreed rules to which International Chambers of Commerce are subject. Known as Uniform Customs and Practice for Documentary Credits, the system sets out rules for the issue and use of letters of credit. It is utilised by several countries and their banks. The key steps in the process are:

- Exim Bank signs an LoC agreement with the foreign borrower, effective on receipt of the necessary documentation.
- A contract is signed under the LoC between an Indian exporter and the overseas buyer. The foreign borrower requests coverage of funds for the contract under the LoC;
- Exim Bank, after scrutiny of the required information, conveys its approval to the borrower and the exporter;
- Thereafter, a letter of credit maybe opened by the buyer in favour of the seller;
- On shipment, Exim Bank negotiates the documents and disburses to the seller;
- On disbursement, Exim Bank advises a repayment schedule to the borrower in accordance with the provisions of the LoC agreement; and finally
- The borrower repays principal and interest to Exim Bank on due date as advised in the repayment schedule.

According to its current credit policy Exim Bank credits as a rule are denominated in US dollars and the term as well as the interest rate varies in line with the country classification under the protocols of the World Bank and the UN Office of the High Representative for LDCs, Landlocked Developing Countries and Small Island Developing States. Identification of priority sectors for contracts under the credits may be carried out jointly in the light of India's bilateral or global export strategy, the promotion of joint ventures, the resource base of the recipient country and the enhancement of its export capability.

A major change to the LoC programme was introduced in fiscal 2004, when the Ideas scheme was introduced. Under this system provision was made to authorise Exim Bank to operate IDEAS on behalf of the government, a change made necessary by the need for larger volumes of assistance. Deploying Exim Bank's obvious capacity to raise money on the international market, under the new scheme government had to compensate Exim Bank for low-interest lending by meeting the differential between the putative rate of interest that Exim Bank would charge the partner country, and the rate at which it raised funds from the international market. The volume of such funding through the Exim Bank soon grew. In fiscal 2004 Exim Bank loaned USD168 million through 12 credit lines to countries in Asia, Central Europe and Africa (see Table 6).[22] In fiscal 2005, the first year after IDEAS was implemented, LoCs aggregating USD 373.23 million were extended to countries in Africa, Asia and Latin America. The portfolio thereafter climbed rapidly. By 2013 signed LOCs amounted to USD 8.4 billion, which grew to USD 10.21 billion by 2014. In 2001-2004, prior to the introduction of IDEAS, Exim Bank had extended LoCs to Africa and Asia amounting only to USD 285 million.

As per the scheme of IDEAS, the difference between the interest rate at which EXIM Bank borrows from the global market and the rate of interest it charges from the partner country is borne by GOI as Interest Equalisation Support (IES). Such EXIM Bank LOCs carry double guarantees a sovereign one from the borrowing government and a counter-guarantee provided by GOI (Table 8).

Table 7: Interest Equalisation Support (IES) to EXIM Bank of India

Year	US$ million
2005-06*	22.68
2006-07*	47.27
2007-08	55.14
2008-09	53.33
2009-10	57.43
2010-11	28.43
2011-12	29.93
2012-13	41.58
2013-14	69.37
2014-15	33.25
2015-16	88.94
2016-17	86.24

Source: RIS database on Indian Development Cooperation

Note: '*' Interest Equalisation Supports to EXIM bank includes in Development Assistance (Major Head 3605, Ministry of Finance)

As table 8 shows Interest Equalisation Support liability of the Government has seen a substantial raise in the last couple of years conforming to the burgeoning portfolio. It is interesting to note that Government of India will provide US$ 589.34 million as interest equalisation support for the time period 2015-16 to 2019-2020.

Steps have been taken by the government periodically to enhance the capacity of Exim Bank to advance funds to partner countries.[23] In fiscal 2014 government provided a capital fund of USD1288 billion to increase loan capacity by at least 14 per cent. Exports financed under the aegis of Exim Bank through LoCs are those transactions eligible for export under government trade policy as agreed by the Exim Bank under the IDEAS plan.

Buyers' credit

Buyers' credit, another instrument pioneered by MoCI, has assumed growing significance. Earlier, part of this function was carried out by the MEA through the ITEC programme. The MoCI in conjunction with the

Exim Bank and India's Export Credit Guarantee Corporation (ECGC) has been supporting 'project exports' from India under a new scheme: the so-called buyers' credit under the government's National Export Insurance Account (BC-NEIA) programme.

This mechanism provides a safe mode of non-recourse project financing to Indian exporters and serves as an effective market entry tool, as the exporter is backed by a tailored financing package that meets the particular funding needs of the project. BC-NEIA is extended by the Bank to governments of recipient countries or to parastatal project authorities backed by sovereign guarantee. BC-NEIA, through ECGC, provides up to 100 per cent cover for the facility and also covers exchange rate fluctuations over the life of the credit.[24] The insurance premium is borne either by the project exporter or the overseas borrower. The loan amount is generally not more than 85 per cent of contract value, with up to 100 per centconsidered on a case-by-case basis. The interest rate is linked to the Bank's cost of funds, plus a spread. The credit period is normally eight to 12 years but can be longer depending on the merits of the case. The department of commerce has approved a scheme for providing interest equalisation support of 2 per cent a year to Exim Bank for eligible projects supported under BC-NEIA.[25]

At present, ECGC has compiled a list of 48 countries for which Indian exporters can utilise buyers' credit under NEIA; these include member countries of SAARC, ASEAN and the Commonwealth of Independent States (CIS), with other countries in Africa and Central Asia. Up to now the Bank has approved an aggregate amount of USD 444 million to finance five projects with a total value of USD 520 million while projects worth another USD 6 billion are in the pipeline. Exim Bank, in association with AfDB, the State Bank of India (SBI) and a broad-based infrastructure and development finance enterprise, Mumbai-based Infrastructure Leasing and Financial (IL&FS), is also jointly forming a project development company for developing the capacity for handling and promoting projects of differing scale in Africa; a process that is expected to further boost India's project exports.

New ways to manage financial mechanisms

Over the years, the LoC programme has provided finance across Africa, Latin America and South-East Asia and LoCs have constantly evolved as a tool. In 1995 LoCs were extended to cover consumer goods, the thinking being that consumer durables offered an opportunity to introduce Indian branded products, including white goods and passenger vehicles, to potential markets. Major change came in fiscal 2004 with the inauguration of the Ideas programme. As noted earlier, this authorised Exim Bank to operate the LoC scheme on behalf of government. In another, more recent change, goods and services including consultancy services may be supplied by local entities up to at least 25 per cent of contract price, rather than the previous limit of 15 per cent. All in all, few doubt the utility of LoCs in contributing to the development efforts of partner countries. Nevertheless, several steps are needed to improve this modality of engagement And the LoC instrument will have to be further explored if it is to bring deeper, sustainable changes in the economic capacity of partner countries. At the moment the idea of mutual gain is very well served as long as development projects are implemented in partner countries and material is supplied by Indian companies. Given that Africa generally is differently placed on the growth path there is need to go beyond the current ceiling of 25 per cent for sourcing local raw materials.[26] There may also be a requirement to expand intra-African trade and investment as a means of sourcing local materials. In this respect steps may be taken to support tried and tested private enterprises capable of managing LoCs, to encourage more players into the LoC ambit.

One discernible general trend is slow administration in the Ideas scheme, irrespective of the location of recipient countries. Delays are generally due to one of three counts. First is at the stage of the proposal itself, because partner countries often do not submit their proposals in the desired format and as a result necessary details are missing; this leads to long delays. Second come delays arising from long drawn out scrutiny and a series of required approvals. The third and most important problem is the nature of the companies that are awarded LoCs; Frequently the quality of beneficiary firms is gravely at issue. From field work this appears to be a serious problem, at least in some cases in Africa where companies with little or no core competence have been awarded LoC projects. As a result there is indefinite delay in either initiating or completing the products, which leads to extremely tardy project delivery.

Options may also be explored for taking the best of the LoCs, buyers' credits and other financial instruments so that even small firms can participate, and partner countries have fewer constraints in their access to credit. Changes in that direction would promote mutual growth opportunities through enhanced trade and investment linkages. To this end Indian missions abroad need to be given a greater role not only for making recommendations but also to ensure that quality projects are delivered. Money should be released only when the relevant mission is satisfied with the process and its delivery.

Conclusion

In the evolving narrative on South-South Cooperation different modalities and divergent ideas are emerging. The new context of development compact, as discussed, is between actors from the South, rather than the North-South exchange that characterised earlier arrangements. It works more on the principles of mutual gain, non-interference, collective growth opportunities and without imposition of conditionalities.

It is based on a sound theoretical construct for promoting South-South Cooperation and opens up vast opportunities for growth and economic expansion through different modalities. In the fifties and sixties human capacity building was the sole focus of SSC engagement. Later more modalities like concessional finance, sharing of preliminary technologies, trade financing, etc., got added. In the last decade, concessional access to markets through duty-free, quota-free (DFQF) trade and investment linkages also got added. Since the launch of the India-Africa Forum Summit more focus on strengthening institutions in developing countries has emerged as a priority. India had in fact adopted the broad framework of the new development in its engagements with the developing countries even before its independence in 1947. Thus, India and the other emerging economies from the South are poised to play an important role in deepening South-South Cooperation and thereby strengthening the framework of the new development compact for the benefit of global South.

However, one would have to realise that development compact is not a static process. The set of established modalities may keep on changing. In the recent past, for instance, China and some other countries have explored financial sector cooperation like currency swap arrangements, helping partner countries. Moreover, the new and emerging dimensions of development compact can also lead to strengthening of economic integration at the bilateral and regional levels in the broader context of promoting South-South Cooperation.

Endnotes

1 See Haq (1980).

2 Singh (1994) also mentions that the golden period of growth for the OECD countries was during 1950-73, when most of the members grew at the rate of five per cent per annum. According to him, fall in the Golden Age came in with the oil shock and many other factors.

3 Incidentally, some emerging countries like Brazil and Russia have recorded slowing down of growth recently. China has also slowed down, even though it is one of the fastest growing economies in the world today.

4 ibid 2. See page 2.

5 Stoltenberg (1989).

6 However, as Bacha (1987) observed, the IMF conditionalities simply tried to favour the short-term interests of the creditors rather than the long-term interests of the debtors.

7 See Killick (1984), Bacha (1987), Adams (1991), Lal (1989).

8 See Sengupta (1993). This also comes quite close to the idea of Comprehensive Development Framework (CDF) which was evolved at some stage by the World Bank. Here the approach was for holistic development so as to overcome

fragmentation of services including institutions, participation, financing, economic and social integration, environmental considerations and long-term growth strategies.

[9] According to the OECD definition, policy coherence for development means working to ensure that the objectives and results of a government's development policies are not undermined by other policies of that government which impact on developing countries, and that these other policies support development objectives, where feasible.

[10] The two-gap model extended the Harrod-Domar growth model. The second gap, in addition to the savings gap, is found by introducing external inflows.

[11] Sagasti (1976).

[12] Please see RIS (2007) for details

[13] MEA (2014). Outcome Budget MEA, Page 50.

[14] Das (2008); Abe *et al.* (2012) and Bhavani (2002).

[15] MEA (1972). Annual Report 1971-72, Ministry of External Affairs, GOI, Page 107.

[16] MEA (1971) Annual Report 1970-71, Ministry of External Affairs, GOI Page 69.

[17] The founder members of the Colombo Plan included Australia, Britain, Canada, India, New Zealand, Pakistan and Sri Lanka.

[18] Adeleke (2004).

[19] MEA (1951).

[20] MEA (1956) and MEA (1957).

[21] MEA (1959).

[22] ET (2004).

[23] The Bank's aggregate resource raising by means of borrowings is subject to RBI prescribed ceiling of 10 times of the Bank's net-owned funds (NOF viz. capital and free reserves). As a result, the Bank's ability to extend financial support to Indian exporters for securing and executing large-sized projects overseas is constrained.

[24] The eligibility of the project for covering under Buyer's credit, inter-alia, focusses on (i) country risk perception, (ii) track record and sound financials of

Indian project exporter, and (iii) conformity with the Reserve Bank of India's Memorandum of Instructions on Project and Service Exports.

[25] The interest rates payable by the overseas borrower for the loan in USD are as follows [a] LIBOR + 2.25 per cent p.a. for tenor ≤ 8 years; [b] LIBOR + 2.50 per cent p.a. for tenor of 9 - 12 years; and [c] LIBOR + 3 per cent p.a. for tenor of 13-15 years.

[26] According to Mr. Randson Mwadiwa, Principle Secretary, Ministry of Industry and Trade, Government of Malawi, the IMF conditionalties do not allow Malawi to undertake any sovereign guarantee for less than 30 per cent.

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