Emerging trends in financing for development

Donor resources for financing development in most countries are closely linked to progress on commitments agreed by national governments. This fails to include the concept of citizen participation and stresses the role of the private sector. Civil society in India has been demanding greater attention to social considerations in implementing national development plans and the matching budgetary allocations. The People's Mid Term Appraisal of the 11th Five Year Plan demonstrates that there is urgent need for a greater involvement by civil society in formulating and designing public policies.

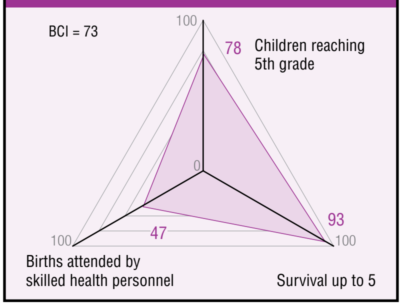
Social Watch India
Himanshu Jha

Speaking to the UN General Assembly in September 2008, Indian Prime Minister Manmohan Singh stated that developed countries should honour their commitments to global development. However, the Government's own commitments are still not met, as shown by the latest poverty figures. The Planning Commission Expert Group report on poverty in November 2009 calculates that 37% of the Indian population currently lives below the poverty line, far above the official poverty estimate of 27.5%. The situation in rural areas is even worse, with 42% of the population living below the poverty line.[1]

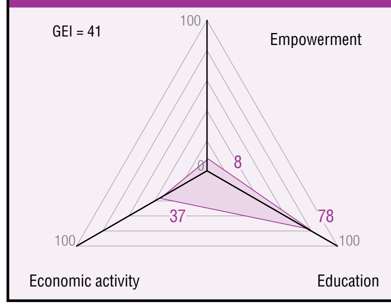
India accounts for 1.95 million deaths of under-five children every year, one of the highest rates in the world,[2] which is up to 60% higher in rural areas.[3] There is also a substantial gender gap, with 70 deaths per 1,000 males and 79 deaths per 1,000 females.[4] According to UNICEF less than 25% of the rural population use toilets and only 4 out of 10 girls complete eight years of schooling.

These trends are alarming in view of the global commitment to the Millennium Development Goals (MDGs) and the Government's own national commitments as articulated in the National Development Goals. In this context it is pertinent to look at how India intends to finance the achievement of its development goals, particularly with regard to foreign direct investment (FDI), Official Development Assistance (ODA) and public expenditure on the social sector.

Basic Capabilities Index (BCI) 2010



Gender Equity Index (GEI) 2009



FfD through FDI: a mechanism for growth and equity?

In recent years there has been a renewed emphasis on attracting FDI as a way to finance development, especially by the least developed, developing and transitional economies. India has shown a similar interest in attracting FDI through market liberalization of various kinds, opening markets on finance and trade and relaxing labour and environmental standards. Policies include allowing 100% foreign enterprise ownership through what is known as the "automatic route," which includes increasing caps on foreign equity, removing restrictions on specific kinds of investment and extending these FDI offers to retailing and agriculture.[5] As a result, India has seen a constant increase in foreign equity flows in recent years; in 2009-2010 investment inflows totaled USD 22.96 billion, compared to USD 4.34 billion in 2005-2006.[6]

Whether this increased inflow is resulting in the desired "spill over" effect is a different story. In the 2009 UNCTAD Investment Climate Report, India is categorized as an "under performing" country. While the importance of regional trade blocs is growing as a means of enhancing intra-regional trade relations, it is clear from the list of major investing countries (Mauritius, Singapore, USA, UK, Netherlands, Cyprus, Japan, Germany, United Arab Emirates and France) that India has been slow to enter into regional trade dynamics, in spite of forging alliances with the Association of Southeast Asian Nations (ASEAN). At the regional level, the South Asian Free Trade Agreement (SAFTA) has completely failed. On the other hand, it is precisely because its economy –particularly its financial sector–is not completely open that India has been able to withstand the global and regional economic crises.

Part of the logic behind efforts to attract FDI is to develop regions of the country that have been left out of socio-economic development. However, the emerging pattern is not very encouraging, since regions which are already developed (mainly Mumbai and Delhi) continue to attract more FDI than do less developed regions such as states in the northeast. Indeed, the latter continue to be outside the mainstream, in spite of the fact that the Government has offered concessions to both domestic and foreign investors in the form of excise exemptions, income tax exemptions and investment subsidies for promoting industrial activities in these regions.

As a part of its move towards market liberalization, the Government has eagerly pursued the establishment of Special Economic Zones (SEZs) across the country, which has negatively impacted millions of farmers and marginalized communities. Estimates show that close to 114,000 farming households and another 82,000 families dependent on farming would be displaced by SEZs. This amounts to a complete collapse of rural economies in these areas, motivating large-scale protests in West Bengal, Orissa, Maharashtra, Andhra Pradesh and other regions.

A substantial proportion of FDI goes to the services sector, knowledge based industry and the manufacture of relatively low tech consumer goods. FDI is also adding to the "jobless growth" phenomenon as most of it is providing jobs in the organized sector which accounts for mere 7% of the total workforce.

The recent move towards attracting FDI in the retail sector has generated much debate and discus-

1 Indian Planning Commission, Report of the Expert Group to Review the Methodology for the Estimation of Poverty, November 2009. Their methodology is expanded to include health and education along with income. Available from: <planningcommission.nic.in/reports/genrep/rep_pov.pdf> (accesed 27 May 2010).

2 Save the Children-India, "Child Survival 2009," 2009. Available from: <www.savethechildren.in/resources/position-papers.html>.

3 Government of India, National Family Health Survey-3, 2007. Available from: <www.nfhsindia.org/nfhs3.html>

4 Missing females are discriminated against either before birth so that they are never born, or thereafter in such a way that does not allow them to survive. See: "India: the accumulated effects of inequality," Social Watch Report 2005, Roars and Whispers. Available from: <www.socialwatchindia.net/commit_5.htm>.

5 Ministry of Finance, Union Budget and Economic Survey 2007-2008. Available from: <indiabudget.nic.in/es2007-08/esmain.htm> (accessed 27 May 2010).

6 Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, FDI Fact Sheet 2010.

sion. The move is posing a serious threat to small retailers – small time traders who are 15 million in all and constitute 98% of the total retail trade in the country, contributing 10% of the GDP.[7] This will have serious implication considering the fact that this section of the retail trade also employs 10% of the total labour force (the second largest after agriculture). From the consumers' point of view this also means serious implications for accessibility and affordability since poor and low income households might find it comparatively easier to approach the local retailer.

Even though FDI inflows have increased over the years, its ability to deliver genuine (and inclusive) financing for development remains in doubt. In order to make sure it benefits the country as a whole, including domestic businesses and local communities, the country's economic structures must facilitate the creation of the enabling environment needed to promote greater FDI spillover effects, both to domestic business and to local communities.

Trends in external aid: India as a recipient and a donor

India is one of the top recipients of Official Development Assistance (ODA), with 2% of the total disbursed worldwide.[8] External assistance, which includes both loans and grants, has increased exponentially from the early 1990s which was also the period when India adopted a Structural Adjustment Policy promoted by the International Financial Institutions (IFIs). The bulk of external assistance is still in the form of loans, which contradicts an earlier commitment by donors to keep loans to 35% of external aid, while the rest – 65% – was to be in grants.

The reduction of bilateral grants has adversely affected development work at the grassroots level, where the majority of NGOs are active. An estimated 1.2 million NGOs are currently working across the country with a total annual income of 17,922 Crores (USD 16 million).[9] The financing for these NGO "partners in development" (viewed as such by the Government and increasingly by the groups themselves) has been shrinking over time, and is likely to be further reduced in the future.

The utilization of external assistance has been a constant problem in India, especially in the light of its Federal governance system. Estimates of external aid received by the Government for 2010-2011 show that the Ministry of Health and Family Welfare and the Ministry of Urban Development received the largest amounts of external aid, while the Ministry of Women and Child Development received a mere 0.95% of the total.[10] There are considerable regional variations as well; for instance, in 2007-2008 some relatively better off states, such as Andhra Pradesh, Tamil Nadu and West Bengal received the largest amounts of centrally disbursed assistance for externally aided projects. Other regions, especially in the Northeast, received little or no funds from this budget.

From aid recipient to aid donor

India's position as an aid recipient country shifted in late 2003 when the government then in power decided to limit the receipt of bilateral grants to five countries (US, UK, Japan, Germany and the Russian Federation) and the European Union. Other countries could route funds through the multilateral agencies directly to civil society organizations, which involved the latter in more rules, including permits to operate and receive foreign funds. Many also find their freedom to operate curtailed, delays in sanctions and execution at various levels and considerable increase in their administrative costs.

Recent trends confirm India's orientation as a donor country. Its 2010-2011 total in grants and loans to foreign governments was INR 23.83 billion (USD 509 million). Among the recipients, Bhutan received the largest amount with USD 149 million, Afghanistan received USD 53 million and Africa USD 32 million.[11]

India also provides training to scholars, bureaucrats and officials from other developing countries under the Indian Technical and Economic Cooperation (ITEC), a foreign aid program established in 1964.[12] Allocations for this program have increased over the years, reaching USD 21 million in 2010-2011.[13] Contrary to popular belief, this trend is not new; India helped countries such as Nepal and Myanmar long before ITEC was established. The criticism of India as a donor, however, is that it attaches the same conditions to its external aid that it refuses to accept as a recipient country, typically linking assistance to the purchase of Indian goods and services.[14]

The mantra of public-private partnerships

The model promoted under the mantra of public-private partnership (PPP) aims to increase national ownership of development through more inclusive participation by civil society organizations, local and grassroots representatives, public agencies and private players. As it has evolved, the model has dropped most of the public part of the partnership and focused primarily on the private aspect. The examination of "management contracts" shows that "the risks are borne by the Government while the companies do not invest a penny… the companies simply provide 'super managers,' with complete control over the management, finances and assets of the utility and get a fat annual fee."[15]

Jawaharlal Nehru Urban Renewal Mission, a flagship government program for urban infrastructure and basic services for the urban poor reflects this model, as almost all of its funds have attached conditionalities. The reforms are linked by the states and the urban local government to funding grants and loans which violates the "subsidiarity principle" (by which reforms, loans and grants should run their own separate course) and is highly coercive. The City Development Plans, which are meant to be formulated in partnership with various actors, including civil society, are developed without any citizen interface.

A case in point is the privatization of certain activities of the Delhi Water Board, which proceeded solely on the blueprint provided by the World Bank, ADB and USAID. As a result, most of the costs are borne by the Government including the difficult task of cost recovery; the process of privatization has resulted in a decline in the Board's assets and the overall value of its services, resulting in the takeover of Board assets and functions by multinationals. Another problem was that the World Bank intervened at every stage of the implementation of the project, such as, for example, deciding the eligibility and selection criteria for bidders and awarding consultancy contracts.[16]

Similar trends can be seen in the health and education sector, despite the failure of this model in Punjab, one of the first states to initiate reforms. In its first five year review of the program in Punjab, the State public disinvestment commission recommended that it be closed down, citing the inept administration and favouritism in the health department.[17] Yet it is evident in 2010 that the PPP model remains dominant.

Conclusion

Financing for development in different countries is inextricably linked to progress governments have made on its commitments. Civil society in India has been demanding greater attention to program implementation and matching budgetary allocations. There is great need for civil society to become more engaged in the FfD process, not only at the implementation or the outcome level but also in formulating and designing public policies, as shown by the People's Mid Term Appraisal of the 11th Five Year Plan. The Appraisal, organized by CSOs and supported by the Planning Commission, is an example of greater involvement at the policy level and of how and in which direction the CSOs should move. ■

7 E A S Sarma, "Need for Caution in Retail FDI," *Economic and Political Weekly*, New Delhi, November 2005.

8 OECD, "ODA to the Developing World: Summary, Development Aid at a Glance 2007," 2007.

9 Society for Participatory Research in Asia, *Invisible, Yet Widespread: The Non-Profit Sector in India,* December 2002.

10 Government of India, Estimates of Provision for Externally Aided Projects in Central Plan Included in Budget Estimates 2010-11, Expenditure Budget Vol-I, 2010-11. Available from: <indiabudget.nic.in/ub2009-10/eb/stat19.pdf> (accessed 28 May 2010).

11 Government of India, Expenditure Budget -2010-11, Grants and Loans to Foreign Governments, 2010.

12 Dweep Chanana, "India as an Emerging Donor," *Economic and Political Weekly*, New Delhi, 21 March 2009. See also: <www.itec.mea.gov.in>.

13 Government of India, Grants and Loans to Foreign Governments, *Op. cit.*, various years.

14 Sonia Cahturbedi, "India's double standard on international aid as donor and receiver," *India Daily.* Available from: <www.indiadaily.com/editorial/09-27b-04.asp> (accessed 28 May 2010).

15 Bhaduri Amit and Arvind Kejriwal "Urban Water Supply: Reforming the Reformers," *Economic and Political Weekly,* New Delhi, 31 December 2005.

16 Social Watch India, "Citizens Report on Governance and Development 2007," New Delhi 2007.

17 *Ibid.* The People's Mid Term Appraisal of the 11th Five Year Plan, held in New Delhi on 4-5 February 2010, was organized by the Centre for Budget and Governance Accountability, the National Social Watch Coalition and Wada Na Todo Abhiyan, among others.