

assessment of LoC projects. Participation of civil society organisations in development cooperation should be project specific and is likely to ensure greater transparency, accountability and public participation. Indian CSOs can be engaged during the project monitoring and evaluation stage, as well as in the impact assessment stage.

There prevails a mixed opinion among civil society organisations and citizens of Bangladesh about the socio-economic benefits derived from the projects funded by the Indian LOCs. Noting the growing scepticism around the mutual benefit derived by Bangladesh, there is a need to capture the benefits and good practices of India's development cooperation with Bangladesh. CSOs can be engaged to collate the socio-economic benefits accruing to the community. This can be a powerful advocacy tool in strengthening ties both at

the bilateral level and between the people of both countries. It is relevant to study the impact of India's development cooperation given the development compact and closely examine in future the benefits accrued through the following modalities:

- capacity building and skills transfer
- concessional finance (further divided into grants and lines of credit)
- preferential trade
- investment
- technical cooperation

At an international level, the documentation of good practices of India's development cooperation will further India's diplomacy.

#### End Notes:

- 1 Balaji, M.S (2016) 'India- Bangladesh Relations: An Enduring Economic Partnership', Occasional Paper, Delhi: Vivekananda International Foundation.
- 2 Chand, C. (2014) 'Delhi-Dhaka Connect: Crafting a narrative of opportunity', Ministry of External Affairs: Government of India, 25 June 2014, <http://mea.gov.in/in-focus-article.htm?23472/DelhiDhaka+Connect+Crafting+a+narrative+of+opportunity> (Last accessed June 8 2016)
- 3 Mullen, D (2014), 'The State of Indian Development Cooperation', IDCR Report, India: Centre for Policy Research.
- 4 Kumar, S. & Sharma, S. (2015), 'India's neighbourhood aid policy: Opportunities and challenges'. Discussion Paper. Jaipur: CUTS CITEE.
- 5 Ministry of External Affairs (2017) 'Annual Report 2016-17', Delhi: Ministry of External Affairs.
- 6 Mullen. 2014.
- 7 Chand. 2014.
- 8 Chand. 2014.
- 9 'Ministry of External Affairs (2015) 'Joint declaration between Bangladesh and India during visit of prime minister of India to Bangladesh "Notun Projonmo – Nayi Disha"', [http://www.mea.gov.in/bilateral-documents.htm?dtl/25346/Joint\\_Declaration\\_between\\_Bangladesh\\_and\\_India\\_during\\_Visit\\_of\\_Prime\\_Minister\\_of\\_India\\_to\\_Bangladesh\\_quot\\_Notun\\_Projonmo\\_\\_Nayi\\_Dishaquot](http://www.mea.gov.in/bilateral-documents.htm?dtl/25346/Joint_Declaration_between_Bangladesh_and_India_during_Visit_of_Prime_Minister_of_India_to_Bangladesh_quot_Notun_Projonmo__Nayi_Dishaquot) (Last accessed 8 June 2017).
- 10 'Ministry of External Affairs (2015) 'Joint declaration between Bangladesh and India during visit of prime minister of India to Bangladesh "Notun Projonmo – Nayi Disha"', [http://www.mea.gov.in/bilateral-documents.htm?dtl/25346/Joint\\_Declaration\\_between\\_Bangladesh\\_and\\_India\\_during\\_Visit\\_of\\_Prime\\_Minister\\_of\\_India\\_to\\_Bangladesh\\_quot\\_Notun\\_Projonmo\\_\\_Nayi\\_Dishaquot](http://www.mea.gov.in/bilateral-documents.htm?dtl/25346/Joint_Declaration_between_Bangladesh_and_India_during_Visit_of_Prime_Minister_of_India_to_Bangladesh_quot_Notun_Projonmo__Nayi_Dishaquot) (Last accessed 8 June 2017).
- 11 Chaturvedi, S, Chenoy, A, Chopra, Joshi, A & Lagdhyan, K.H. (2014) "Indian development cooperation: the state of the debate", IDS Report 94, Institute of Development Studies, Brighton: Institute of Development Studies. The relationship between India and Bangladesh has its underpinnings in a long history of enduring economic partnership and bilateral development. This relationship has been one based on mutual trust and cooperation.<sup>1</sup> India was the first country to recognise Bangladesh as a separate and independent State and established diplomatic relations with the country immediately after its independence in December 1971.<sup>2</sup>



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# POLICY BRIEF

## July 2017



### INDIA'S DEVELOPMENT COOPERATION WITH BANGLADESH

Line of Credit (LoCs) on concessional terms through the EXIM Bank has become one of the main instruments of India's development cooperation with Bangladesh. As of March 31st 2016, the Indian government has approved 234 LoCs aggregating US\$ 17.94 billion (US\$ 70.08 billion in PPP); of these, 202 LoCs aggregating US\$ 14.47 billion (US\$ 56.52 billion in PPP) have been signed. More than 64 per cent credit among the top 10 borrowers is extended in Bangladesh, Nepal, Sri Lanka and Myanmar, keeping in tune with India's Neighbourhood First policy. Such has been the impact of the first LoC, that a second LoC of US\$ 2 billion was announced during the Prime Minister's visit to Bangladesh in June 2015. This is by far the single largest credit line offered by India to any country. Keeping in tune with the joint declaration, the new LoC will cover projects in areas of Roads, Railways, Power, Shipping, SEZs, Health and Medical Care and Technical Education. A third LoC worth US\$ 4.5 billion was announced in April 2017 when Prime Minister Sheikh Hasina visited India.

#### Background:

The relationship between India and Bangladesh has its underpinnings in a long history of enduring economic partnership and bilateral development. This relationship has been one based on mutual trust and cooperation.<sup>1</sup> India was the first country to recognise Bangladesh as a separate and independent State and established diplomatic relations with the country immediately after its independence in December 1971.<sup>2</sup>

In the last four decades, the two countries have continued to consolidate their political, economic, trade and cultural relations and have built a comprehensive institutional framework to promote bilateral cooperation. Bilateral ties between the two countries in the past have been uneven, but since the early 1990s, India has focused on creating strong economic and commercial ties, exploring investment opportunities, building strategic alliances, and strengthening cultural and historic ties with Bangladesh.<sup>3</sup> India-Bangladesh relations have been on an upswing since 2009, in terms of security and economic cooperation, when Prime Minister Sheikh Hasina took office.

India's history of engaging with Bangladesh as a development partner started as soon as Bangladesh gained independence. According to the MEA, in 1972-73, India allocated about US\$ 369.7 million (in 2000 constant prices) of development assistance to Bangladesh (mostly in the form of grants and concessional loans). In 2011-12 alone, India gave US\$ 100 million to Bangladesh as grant assistance and committed to give a total of US\$ 200 million.<sup>4</sup> Of this, US\$ 175 million was released in four instalments for utilisation in priority projects.<sup>5</sup>

civilians as well as the country's defence sector employees, primarily through the Indian Technical and Economic Cooperation (ITEC) scheme and the Technical Cooperation Scheme (TCS) of the Colombo Plan. As of March 2013, India has offered 185 training fellowships under the ITEC programme and 35 fellowships under the TCS scheme annually, with 414 Bangladeshi civil servants being trained under these two programmes between 2006-07 and 2009-10.<sup>6</sup>

India has stood by Bangladesh in its hour of need with aid and economic assistance to help it cope with natural disasters and floods. In the wake of Cyclone Sidr in November 2007, aid worth over US\$ 37 million, including supply of relief materials consisting of medicines, tents, blankets, ready-to-eat meals, portable water-purifiers, 1,000 MT of skimmed milk powder and 40,000 MT of rice was provided to Bangladesh.<sup>7</sup>

India extended a Line of Credit (LoC) worth US\$ 1 billion to Bangladesh in 2010 for developing infrastructure and its communications sector, of which US\$ 200 million was subsequently converted as grant assistance in June 2012. The LoC component was further increased to US\$ 862 million for a range of projects, including railway infrastructure, supply of broad gauge micro-processor based locomotives and passenger coaches, procurement of buses, and dredging projects. At that time, this was the single largest LoC India had ever extended to any country in one announcement (and the single largest that Bangladesh had received from any single donor).<sup>8</sup> As shown below, Bangladesh is the single largest recipient of concessional credit from India.

Table 1: Ten Top LoC recipient countries, as on 31 March 2016

Sl. No.	Country	No. of LoCs	Credit amount (US\$ million)
1	Bangladesh	2	2862
2	Nepal	4	2100
3	Sri Lanka	8	1734.16
4	Ethiopia	7	1004.54
5	Mauritius	6	868.8
6	Sudan	8	737.07
7	Myanmar	11	678.9
8	Mozambique	12	639.44
9	Tanzania	5	615.22
10	West Africa (ECOWAS Bank for Investment & Development)	3	500
	<b>Total</b>	<b>66</b>	<b>11100.69</b>

■ Other borrowing countries ■ Bangladesh

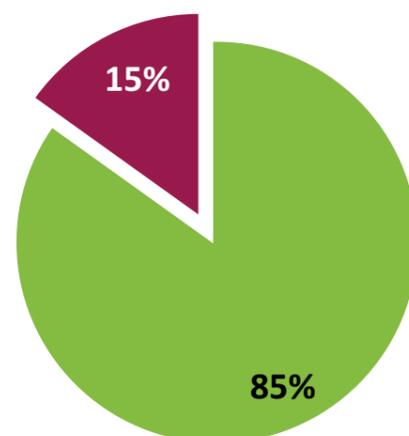


Figure 1: Proportion of LoCs extended by India to Bangladesh vis-à-vis the rest of the world  
Source: EXIM Bank of India

As evident from the Figure 1 chart, the highest recipient of Indian LOCs has been Bangladesh. During Indian Prime Minister Narendra Modi's visit to Bangladesh in June 2015, a joint declaration was made by the two heads of state stressing strengthening ties through trade and commerce.<sup>9</sup> As part of this strategy, the two countries would start discussions on several travel treaties to enable movement of goods and tourist travel via rail, road and waterways. A second LoC worth US\$ 2 billion was announced during the same visit. The new LoC would cover projects in areas of roads, railways, power, shipping, Special Economic Zones (SEZs), health and medical care, and technical education. According to Lohiwal the US\$ 2 billion credit line carries one per cent interest rate and 0.5 per cent commitment fee.<sup>10</sup> The repayment period will be 20 years with a moratorium period of five years.

The range and quantum of South-South Cooperation (SSC) has expanded significantly in the decade gone by. India, as an emerging economy, has been an active player in development cooperation efforts with low-income countries in Asia and Africa. According to Chaturvedi, India's development cooperation is based on a "development compact".<sup>11</sup> The core principles of this development compact are sustainability, inclusivity, non-conditionality, demand-driven and mutually beneficial to India and the partner country. This policy brief highlights the importance of leveraging India's Development Cooperation to build local capacities of both institutional and individuals of line ministries of Railways and Road Transport in Bangladesh. Along with this the policy brief recommends the importance of Transparency in South-South cooperation to enable CSOs and think tanks to make suggestions vis-à-vis the economic and social implications of projects under bilateral South-South credit.

### 1. Using multiple development cooperation instruments in tandem

The Bangladesh Road Transport cooperation has often been criticised for the maintenance or the lack of it, for the buses

procured under the LoC. Since there is a lack of maintenance of the buses procured, BRTC has to phase these buses out and procure new ones. This increases the debt of BRTC which is already a loss incurring company. To ensure that these investments yield the expected returns these buses need to be operational for their estimated lifetime. Hence, there is a need to invest in the capacity building of BRTC in maintenance and skill and technology transfer. Similarly, investments should be made in Bangladesh Railways to build their maintenance capacities, especially since the government is focusing on expanding both the railway stock and the infrastructure.

#### Recommendation:

Through its development compact, India not only provides concessional finance to Bangladesh through LoCs, but there is also a component of capacity building, skills and technology transfer. Financial assistance through LoCs provides Bangladesh with much needed investment in infrastructure as well as an avenue for training to build the capacity of Bangladeshi personnel to operate and maintain the assets procured under the supply projects. For example, 100 drivers have been trained to drive the double-decker buses supplied. Building capacities through trainings has a long-term impact on employment generation, economic growth and poverty reduction. Such trainings reduce the dependence of Bangladesh by capacitating the local population not only to maintain the assets but also to reverse engineer the spare parts, thereby reducing the overall loan component in the long run. Hence, it not only builds the capacity of the local professionals but also facilitates the transfer of skills and technology.

Under the 2015 guidelines on LoC extended by the Indian government to various countries under IDEAS, one of the priorities of India would be to support in setting up adequate network of servicing facilities by exporters through LoCs. It might be relevant to set up local spare parts manufacturing facilities while training modules can be designed to provide regular trainings to technicians and mechanics to enable

them to repair and maintain procured vehicles/coaches with ease. This would reduce the loan component for the borrowing government and simultaneously generate local employment and facilitate knowledge transfers.

Apart from developing individual capacities through trainings of individuals, future Indian LoCs should aim to facilitate developing substantive, institutional and infrastructural capacities in partner countries. However, since only Indian organisations participate in the tendering process and, implementation of projects, this limits the scope of organisations and firms from the partner countries to participate and enhance their capacities through "learning by doing". In the spirit of mutual benefit, knowledge transfer can be achieved if these LoC conditionalities can be modified to allow Indian organisations to collaborate with organisations from the partner countries. Preference can be given to those proposals which contribute to developing local capacities by partnering with local organisations.

### 2. Availability of information in public domain regarding appraisal, implementation, monitoring and impact of projects

Information regarding the implementation, monitoring and the impact of completed projects is not well documented and to make matters worse, such documentation is not available in the public domain. This presents a significant challenge in accessing data and information. Availability of Detailed Project Reports (DPRs), quarterly status reports and project completion reports in the public domain would make identifying and analysing projects far less challenging. This makes it very difficult to carry out economic analysis because feasibility studies, environmental impact assessment of projects, and also the monitoring reports, are not shared with the CSOs, academia and think tanks. This prohibits these stakeholders to make suggestions vis-à-vis the economic and social implications of projects under bilateral South-South credit.

Some see this as lack of transparency and accountability. CPD a think tank in Bangladesh has expressed concerns about the consistency and quality assurance of the projects undertaken with the funds as there is no single central agency/authority supervising such financial transfers between ministries through binding rules and regulations guiding the financial flows. It is seen as the Development cooperation being practised through closed official circuits, without discussions in the public sphere. Hence there is a limited public understanding and appreciation of India's international development cooperation.

#### Recommendations:

According to the 2015 guidelines on LoC extended by the Indian government to various countries under IDEAS, the borrowing government is supposed to prepare and submit a comprehensive project completion report to the Indian mission, highlighting the benefits derived/to be derived from

the project, and its socio-economic impact. If such reports are made public, it will allow civil society, think tanks and other stakeholders to analyse the benefits of such partnerships and document the good practices.

The guiding framework of South-South development finance is evolving and it is flexible while the financial transfers take place bilaterally. The terms of LoC from India, is at first negotiated by the ERD under the MoF, Bangladesh. Following which the project-wise allocation is made directly to the concerned ministries under which the selected projects are to be implemented. There is no single central agency/authority supervising such financial transfers between ministries and hence the concerns regarding the consistency and quality assurance in the implementation of the projects arise. Hence, it is advisable to make it mandatory for the borrowing government to follow the 2015 guidelines which warrant the borrowing government to make public the information on projects sought to be undertaken under the Indian LoC.

One of the major limitations reported by the EXIM Bank of India is that the reports submitted by Bangladesh are made on an ad hoc basis which does not provide an analytical insight into the accrued benefits and shortcomings of the project. This can be attributed to the fact that there is no clearly defined central reporting system in the borrowing country. The LoC guidelines of 2015 of Government of India warrant that quarterly monitoring and evaluation reports should be prepared. These will help monitor implementation status of the projects, calculate the rate of return on investment and assess the socio-economic impacts of the project. In order to maintain such reporting and information, there is a need to set up a central reporting system in the borrowing country. This will be cost effective and benefit the borrowing country in the long run.

These steps will serve well in enhancing transparency and accountability in projects under South-South cooperation through LoC and create a favourable perception of Indian development cooperation amongst the citizens of Bangladesh.

### 3. Civil society engagement in India's development cooperation

Civil society organisations in India and Bangladesh are a repository of experience and expertise in the field of poverty reduction, women's empowerment, social protection, and community development. Apart from implementing projects, some Indian CSOs are well known for their knowledge building.

#### Recommendations:

According to the 2015 LoC guidelines of the Indian government, the Indian mission in the borrowing country will need to provide inputs to the Indian government on the long-term economic benefits of LoC. In this context, it is recommended that the Indian missions could engage those civil society organisations with strong roots in the community and think tanks in the borrowing country during the project planning stage and during both economic and social impact