

# India's trajectory from aid recipient to donor nation

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2012-12-7

*Olina Banerji documents India's response to the announcement that the UK will no longer provide the country with financial aid.*

On 9 November, the Minister of International Aid in the UK, Justine Greening, [announced that all financial aid from the UK to India would cease with immediate effect](#), with the exception of programmes running on the ground, which are to be completed by 2015. Britain has overhauled its strategy vis-à-vis India to replace direct aid with “sharing expertise, supporting innovation and building skills.” The focus now will be on encouraging bilateral trade between the countries, given that India is the biggest overseas market for British goods.

The latest evidence of a restructured world order, the UK's justification for withdrawing aid is based on India's surging GDP over the last decade, its multi-million dollar space programme, and the fact that India itself is emerging as a [donor nation](#). Meanwhile, India's own [development policy is focused on consolidating programmes through central schemes rather than pursuing fragmented efforts](#), which are often the direct beneficiaries of foreign aid.



Greening's predecessor Andrew Mitchell had hinted at restructuring Britain's India aid policy in late 2011, but cutting the chord was deemed premature at the time. Last month's sudden shift in stance thus upset several left- liberal activists, who point to India's bottom 30 per cent that lives in socio-economic conditions at par with, or even worse than, Sub-Saharan Africa. According to World Bank estimates, 456 million in India live on less than US\$1.25 a day. Official reports state that 55 per cent of children in Bihar (a DfID focus area) are underweight and over a million are undernourished. Eight million have no access to education.

“Poor Indians deserve aid,” [writes](#) political analyst and human rights activist Praful Bidwai. “The rationale for official development aid (ODA) is based, among other things, on acknowledging and redressing the horrible injustice of colonial exploitation, which has continued in the form of ... various restrictive trade practices imposed on the South, and in a skewing of its economic policies to favour free flow of global capital.”

Others argue that DfID's continuing humanitarian support to the government and civil society groups will ultimately lead to cooperation at different levels. “Through its aid programme, DFID has also built strong partnerships in India and together we can work on issues of common interests such as a fairer trading system, climate change, more effective aid,” says Nisha Aggarwal, CEO, Oxfam India.

Historically, India has been the largest beneficiary of the UK's aid programme, with an annual sanction of GBP 280 million targeted towards poverty reduction. DfID concentrated on three of the poorest regions in the country – Bihar, Madhya Pradesh, and Orissa – to carry out development projects in the areas of healthcare, sanitation, nutrition, and education. Despite the moderate success of these initiatives, there are few in the Indian government, including the president and the newly appointed Minister of External Affairs, Salman Khurshid, who will miss these [“peanuts”](#). This aid accounts for a mere 0.04 per cent of India's total GDP and is less than 2 per cent of what the government spends on food subsidies and rural alleviation programmes alone.

Government officials and development experts also point out that foreign aid is problematic because it comes with – in the words of Jayati Ghosh, professor of Economics at the Jawaharlal Nehru University – an ‘instruction manual’:

an unrealistic expectation of what aid will achieve at the grassroots level and in terms of strategic influence over policymaking.

“By seeking foreign aid,” [says](#) Jamal Kidwai, Director, AMAN Trust, “the struggle against the government’s neoliberal agenda is distorted. Aid comes with conditions that assist transnational corporations. Additionally, donors dictate strategies for implementing these projects, which are completely out of tune with political realities and do more harm than good.”

Such reasoning underscores why British financial aid for India won’t be missed. But vast problems of inequitable distribution of wealth, endemic corruption, and excruciating poverty still remain major challenges. Many Indians believe that the onus is on India, not foreign donors, to empower its underprivileged millions. A strong opponent of foreign aid reliance, Ghosh claims “the internal political economy of India remains the biggest obstacle towards ensuring universal access to basic needs for the population. More progressive fiscal policies that raise taxes from the rich are obviously both necessary and possible, as are strategies that encourage more productive employment and economic diversification.”

Moving on from being an aid recipient, India is bolstering its credentials as a donor nation. Post 2008, the old rules of give and take have crumbled in light of new alignments in a new world. The Economist made a pointed [observation](#) about this, detailing how India proposes to disburse almost US\$11 billion in aid over the next five years.

“India has pledged nearly US\$2 billion in Afghanistan for various capacity and institution-building purposes,” explains Shanthie Mariet D’Souza, Research Fellow, Institute of South Asian Studies, National University of Singapore, Singapore. D’Souza adds that India’s aid pattern giving is unique because in addition to state building efforts, Indian NGOs such as Self-Employed Women’s Association (SEWA) are engaging with communities in Afghanistan (through women’s groups) to build capacity at a grassroots level too. This two-pronged approach, coupled with the historical and cultural ties between the countries, is making India’s aid more effective and popular in Afghanistan. “It’s in India’s interest to stabilise Afghanistan. With its emerging great power status, many countries in the neighbourhood are looking up to India to set a positive precedent for the rest,” adds D’Souza.

In a re-ordered world that still grapples with gaps in access to basic human needs, the need may be for [impact investing](#) rather than the old model of unilateral grants. Impact investment offers donor countries the opportunity to invest in developmental interventions, achieving social as well as financial objectives. Not only does it hold promise to spur social innovations in such countries, it offers a balanced solution to the long-standing debate of aid versus trade.

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