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Understanding external assistance toIndia: its policy and problems

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Abstract

Objectives: This study primarily looks at understanding the influence of aid in framing the health policies of India. In this process, it tries to bring out the challenges and critics of aid as noted by scholars.
Methodology: The major aspects discussed in this study such as understanding the aid policies in India, its influence on policy formulation, aid transition, critics of aid received by India are largely derived out of the literature review and interviews conducted with some of the public health experts.
Findings/Application: There are three major policy aspects to the aid i.e., policy to streamline the aid receipts to India, India's policy as a donor and importantly the policies of India influenced by donors. This study primarily has looked into the last aspect of it. The mixed economic policy of India, economic theories emerged at the world level and donors and their philosophies have influenced the health policy of India to a greater extent. The mixed economic model of the country adopted the selective health care system much before the proposal of the World Health Organization. Hence the policies at the national level and the influence of donors through the world economic policies such as globalization led to the issues such as privatization, a further decrease in the Govt expenditure on health etc have largely affected the health system of India.
Keywords: External Assistance, Policy, Health, Donors, Aid issues*.*

1. Introduction

India has been one of the highest aid-receiving countries in the world. Being an aid recipient is not new to India. The aid history of India goes back to pre-independence when India received support to implement health initiatives under the RockefellerFoundation.

At the time of independence, India's external debt was Rs 3.7 crore [1]. It has an experience of working with multiple donors, multiple countries, as aid is received by bilateral, multilateral and from philanthropic institutions. The diversity in the donors and their policies have influenced India to a greater extent. There are three aspects of the policy that are seen in India about foreign aid. i.e., Firstly, Framing the aid policy to avoid unnecessary donor interferences. Second, India's policies influenced by donors. Third, the recent development of India to frame its policy to showcase its power by being a donor. This article looks into all the three dimensions of policy influence, aid transition in India, major problems in the external assistance and the administrative channel of receiving the aid.

2. External assistance

External assistance is also called as foreign aid or official development assistance (ODA), economic assistance or development assistance. In general terms, foreign aid is referred as the 'transfer of capital, goods, or services from a country or international organization for the benefit of the recipient country or its population'. Aid can be for economic, military, or emergency humanitarian purposes. As per the definition of Development Assistance Committee (DAC), ODA is official funding provided by governments and official agencies that are members of the Organisation for Economic Co-operation and Development (OECD) - DAC plus the European Commission. The DAC has strict qualifying criteria focused around two key principals: the primary objective must be the welfare and economic development of developing countries, and assistance must be concessional either through the provision of grants or soft loans [2,3]. Until 2000 there were two channels that assisted the developing countries, i.e., Bilateral aid and multilateral aid. The new millennium era gave rise to different institutions such as public-private philanthropies, corporates and international NGOs started playing an important role by giving more aid to the developing countries.

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As per the OECD DAC documents, Bilateral aids means the flow of resources from official (government) sources directly to official sources in the recipient country. Multilateral aid represents core contributions from official (government) sources to multilateral agencies where it is then used to fund the multilateral agencies' programmes. In some cases, a donor can contract with a multilateral agency to deliver a programme or project on its behalf in a recipient country. Such cases are typically counted as bilateral flows and are often referred to as Multi-bilateral. India has received external assistance, from the beginning of the first five-yearplan. It is estimated that from 1979 to 2007 India has received 359171.5 crores of external assistance from different donors and all these aids are mostly interest-bearing loans and these loans accounted for 90% of the aid receipts [4]. India's major multilateral donors are World Bank – IDA, IBRD and ADB, UNICEF, WHO, UNFPA, WFP, FAO, UNDP and major bilateral donors are USA,Japan,Germany, France,Denmark, Netherlands, Norway, New Zealand, Swedenand UK. The grants are primarily received for different development works like Health, education, water and sanitation, transport, energy, irrigation, Industry and non-fuel minerals etc [5].

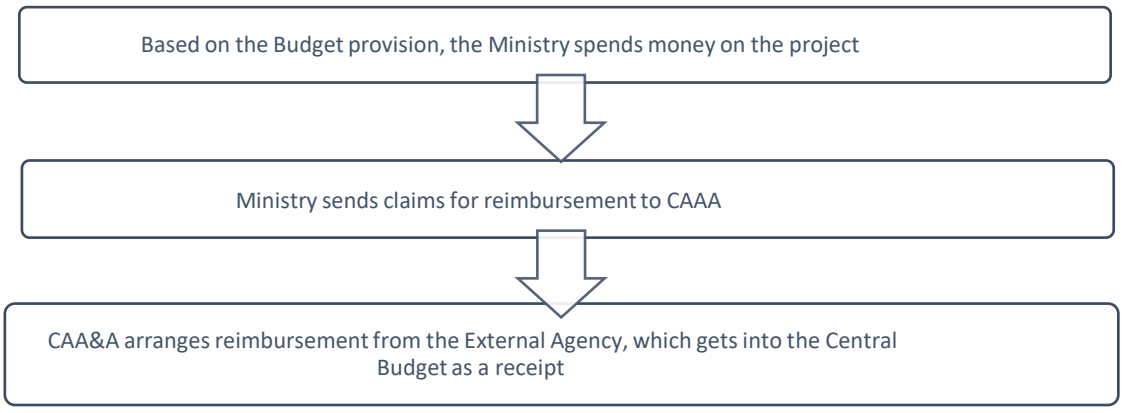
3. The flow of external assistance in India

The government of India receives external assistance from bilateral and multilateral assistance in the form of loan, credits and grants; that includsequipment, commodities, technical assistance in the form of expert's facilities and training. Govt of India acts as a guarantor while the project or program for which assistance is received could be implemented by either central Govt or state Govt. These funds are distributed by the donor at agreed stages of projects, and the repayment of loans takes place after the expiry of the grace period. Along with the principal amount, interest and other commitment charges are also paid to the donor, based on the terms and conditions of the project. Govt of India's Ministry of Finance, Department of economic affair looks after the external assistance received by India. Aid Account and Audit (AA&A) division of economic affairs department looks into the aspects of external assistance such as tying up of external assistance, handling project related activities starting from identification of the project, finding an appropriate donor, negotiation, finalizing the agreement and it looks after all the matters related to finance. AA&A maintains the different accounts for the received loans, credits and grants. It is the only authorized division to withdraw funds from these respective accounts.

3.1. Implementation of externally aided projects

There are three types of schemes/ projects that are implemented by the central and states Govts, i.e., central schemes, state schemes and centrally sponsored schemes implemented by states. All these schemes are planned and incorporated under five-year plans with the authorization of the NitiAayog/ Planning commission. The required resources including external assistance are disbursed by the central Govt to implement the planned activities.

Figure 1. Fund flow to India



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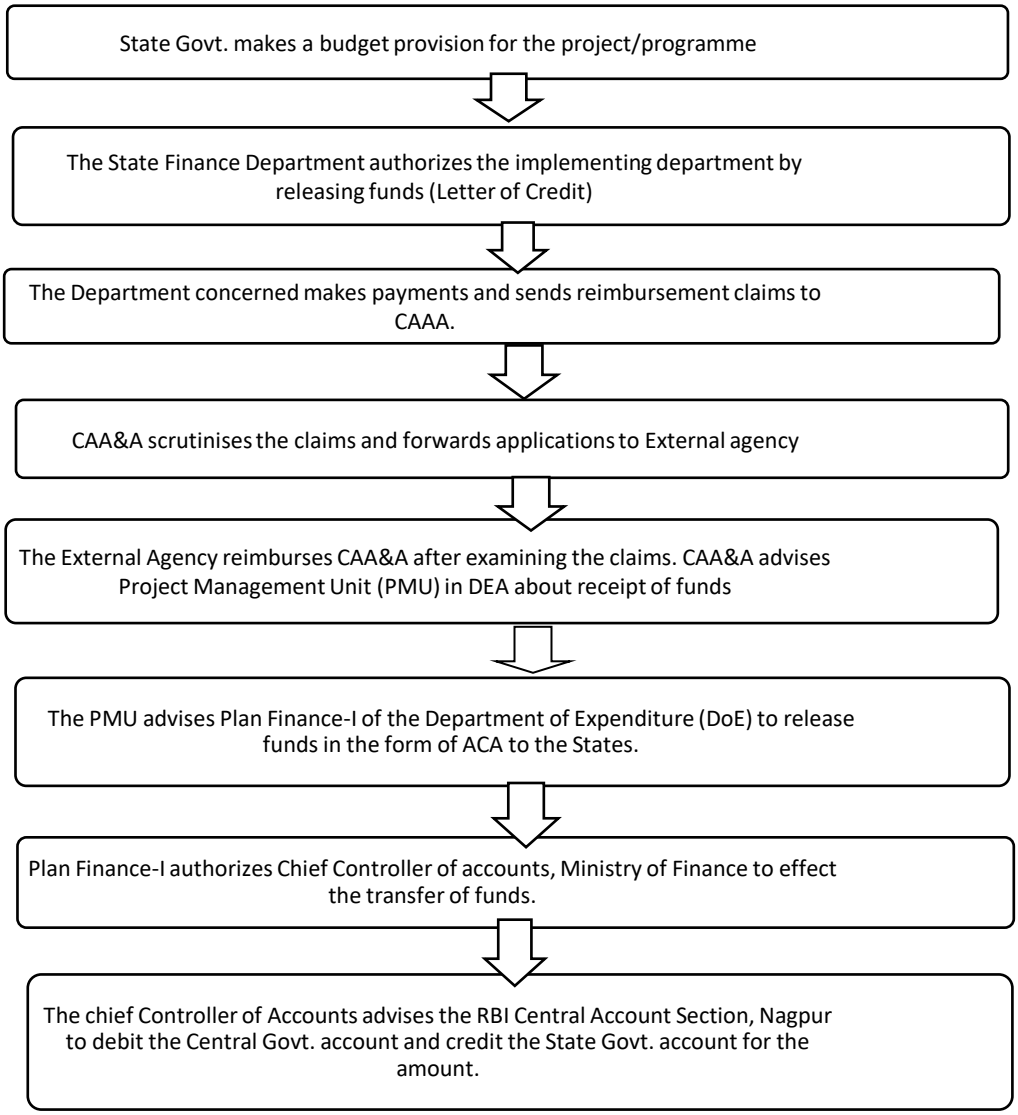
These resource allocation includes central, state sector projects and also centrally sponsored schemes. The external assistance transferred to the state Govt by the central Govt is called as Additional Central Assistance (ACA). Irrespective of the different clauses mentioned by the donor agencies, Govt of India has specified terms and conditions to give the ACA to states. The states are given ACA at 30:70 ratio, whereas 70% of the amount is in the form of an interest-bearing loan with 12% of the rate of interest and the 30% of the amount in the form of a grant. These rules apply to all states except seven northeastern states, Sikkim, Himachal Pradesh and Jammu & Kashmir. The ACA is given to these states with 90:10 where 10% of the ACA amount is in the form of a loan and 90% is a grant [6]. The Figure 1 and 2shows the fund flow route in case of externally aided projects implemented by Central machinery. The initial expenditure to implement the project is expected to be borne by the State Govt and reimbursement to be claimed by the central govt. In case of lack of financial reserves with the State Govt, it is allowed to take advance money from ACA to implement the externally aided projects.

Figure 2. Fund flow from central to the state machinery



The figure shows a complex fund releasing system, for the state projects supported by external aid. Hence utilization of funds out of the allocated funds is less in India. This is one of the causes of concern expressed by many of the researchers.

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4. Discussion

This study primarily looks into all three policy angle to the external assistance, aid transition in India and problems of external assistance is discussed in detail in this section.

5. The policy dimension of external assistance to India

1. Framing policy to avoid unnecessary donor interferences: As India's economic condition progressed, it started framing the policy to avoid the vulnerability of the country. They are as follows

India has said 'no' to tied aid – Tied aid implies that loans from a particular country have to be utilized for imports from that country alone. In the initial years of planning, aid to India was mostly in the form of tied.

Post-independence India framed a five-year plan through which it started deciding the future goals of development of the country. The second five-year plan focused on the industrialization. The overemphasis on industrialization and neglect of agriculture resulted in a decrease in food production and caused a shortage of food. Therefore, India accepted food aid in the form of tied aid from US which is popularly known as PL-480. This tied aid had a negative implication on the agricultural production of India such as lack of market for Indian grains, poor prices for the crops produced by the Indian farmers etc. This pushed the farmer for further distress. Similarly, India received tied aid from various other countries time and again to cope up with the situations. But every time it resulted in a negative effect on the economy. As a result, once the economy of the nation strengthened, it affirmed its stand on not accepting tied aid. From February 4, 2003, India is not taking any tied aid.

Debt servicing - Debt servicing is the form of loan where the loans are provided with a high rate of interest and the repayment period is shorter. A high proportion of short-term debt in total debt creates danger for the balance of payments management and foreign exchange reserves of a country. As a result,India has substantially reduced the burden of debt servicing.

Assistance during a natural disaster - In the records of natural disasters, India has declined the foreign aid assistance offered by the bilateral donors such as the US and Japan. This shows the country's stability to cope up with the situation as well strengthening the policy to choose the donors, modalities and need for the aid [7,8].

India has emerged as a donor:From the past 30 years, India has emerged as a donor. India has become a donor for some of the South Asian and African countries. India is contributing to an international organization and also providing preferential loans as a bilateral donor. It has given a significant contribution of external assistance and become the second largest donor after China among the list of donors for the global south. India is the fifth largest donor to Afghanistan. In 2011, it had allocated $7 billion foreign aid to South Asia and Africa. The economic presence was strengthened in Cambodia, Laos, Myanmar, and Vietnam. In 2016 Rs500 crore Project Development Fund was allotted by India [9]. Hence it is evident that India is emerging as a potential donor in the world.

India's policies are influenced by the donors:Multiple donors and donor presence have influenced the policies of India. This section discusses in detail about the donor influence with special reference to the health policy of India. Health is one of the important social sectors for which India has been receiving aid before itsfreedom. The aid has been both financial as well as technical assistance. Though the financial contribution of foreign aid has been very negligible to India, there is a greater influence of donors on developing and shaping the health policy.

Out of total health expenditure, India's public health expenditure on health is 33%,whereas 67% of the expenditure is borne out of people's pocket (Ministry of Health and Family Welfare, Government of India, 2017). Out of 33% of the public health expenditure US $ 775 million, i.e., 0.7% of the expenditure is contributed by external assistance. Hence the contribution of foreign aid to the total public health expenditure is very less in India [10]. As Ravi Duggal explains that in spite of less financial contribution, the donors have been able to induce their ideology into our health system and influence the policy change. There has been a direct and indirect way of influencing India's health policy.

The direct influence of the donors:One of the biggest policy changes that influenced vast changes in the health system is Structural adjustment programs influenced by World Bank. The major thrust of the structural adjustment was to decrease the Govt investment on social development sector rather invest the same resources on economic development activities.

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As a result, already less financial allocated sectors like health received even a lesser contribution after being influenced by this policy. This policy also influenced to develop the free market and extend the Govt support for the establishment of private hospitals. Therefore, the private hospitals mushroomed in India and poor regulation and monitoring of private services has led to severe challenges such as heavy services cost, poor and uneven quality of services, lack of accountability are the major challenges that are not just causing the poor health services but also causing poverty in India.

Policy suggestions to the underdeveloped and developing countries in the world: The 1993 world development report released by World Bank. This report was largely influenced by the structural adjustment program. Based on the suggestions referred in this document, the World Bank promoted these changes in India's public health policy by introducing cost-effective, essential health services at primary health care. Secondary and tertiary health care services were provided by the private hospital and Govt receives the medical services for poor people from private players by paying them money through insurance schemes.

The indirect way of influencing health policies are as follows:

Policy influenced through consultants: Through the appointment of consultants, the policy suggestions are flown into the system. These consultants could be either from donor country/donor agency or the people from the recipient country working for the donor agencies. These consultants are paid by external aid agencies through an international consulting company. Due to their loyalty towards their paid master, they give policy suggestions as per the philosophy of the donor agencies [11].

Support the policy development institutions to propose the changes:Different donors have supported various institutions in India that primarily focus on giving policy suggestions to the Govt. With the donor funding support to these institutions, the donor has succeeded in bringing the policy changes that they wanted through these institutions. For example: in spite of all the existing expertise within the department, the technical secretariat role was given to the Public Health Foundation of India (PHFI) to give suggestions about the immunization program. On the other hand, PHFI was supported by Bill and Melinda Gates Foundation with Rs100 million, who proposed the policy changes that are in line with the Bill and Melinda Gates Foundation.

Inducing the policy directions/changes through influencing the bureaucrats: bureaucrats play a vital role in developing the policies. Some of the bureaucrats are from the mindset to completely appreciate the knowledge of the west, their technology and their management style. As a result, they are more inclined towards the suggestions made by the donor countries. Apart from this superiority feeling about the west, some of the bureaucrats are sent to foreign countries to get the training. These training have also influenced them to imbibe the philosophy of the west, which is mostly privatized and industrialized in nature.

6. Donor and Aid transition in India

The economic policy of India and economic theories at the world and donor agendas have largely influenced the health policy of India.

1. India's economic policy – India's mixed economic policy largely expressed its interest to enhance the industrialization had attracted many donors to support India to strengthen infrastructure, transportation, heavy industrialization, energy sectors etc. As the nation's, primary priority was not education, health, to enhance the lives of peopleetc., the funding by external donors also didn't see this as an immediate need.
   As Sujatha Rao mentions in her book, India and China started their journey as an independent nation and had the same health issues such as malnutrition, diarrhoea causing mortality and morbidity.
   China adopted the barefoot doctor, where the doctors were identified within the community and trained to work as doctors. China worked towards changing the behaviour of people and addressed the issues effectively. Whereas India focused on a few diseases with techno-centric solutions supported by the donors. Hence social determinants causing the disease remained the same. As a result, even after 70 years, India is struggling to cope up with these social determinants of health [12].
2. Influence of economic theory – there are two main economic theories that influenced the structure of aid in India. They are as follows

2.1 Harrod – Domarmodel: The major argument of this theory is saving leads to investment and investment leads to growth. The poor savings were considered to be the major reason for the lack of development of the underdeveloped countries. Therefore, foreign aid was looked up as an option to fulfil this investment

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and growth gap. As a result, foreign aid in India focused on investing on aspects such as industrialization, infrastructure that would ensure growth [13].

2.2 Liberalization, Privatization and Globalization (LPG): This brought huge changes among the developing countries in opening up the market for private players to play an important role. This brought the structural change among the developing countries, and multilateral donors such as the World Bank played an important role in ensuring such changes takes place in the world. Similar to many other developing countries, India also allowed itself for structural changes, and as a result, Govt reduced its role in the social development sector and allowed private investors to take the lead in providing required services to people. As discussed above this has a huge impact on India's health system.

3. Donar and their philosophies: As Dr Ravi Narayan mentioned during the interview that World Bank being the Bank looks after its profit. It finds various ways to lend more money so that it gets enough profit out of it. NageshPrabhu mentions in his book that as much as the developing countries need the support of the World Bank, even World Bank for its own existence needs the borrower as well [14,15].
   World Bank is the bank; it has largely funded for the projects that were focused on economic activities. Similarly, when UNICEF started funding to India in the year 1949, it had widespread support for sectors ranging from education to natural disaster. Over some time, it created child development as its niche area. Hence UNICEF supported projects has been child-centric. This shows that the donor-supported projects have always been theme specific, but not the overall development. As a result, most of the recipient countries social development sector's performances have remained poor, without enough focus on the overall development of the community.
4. Change in leadership: Marcos traces how a change in leadership brings changes in the institutions. WHO which started promoting health for all through Alma Ata declaration, that surprisingly changed over some time and it started promoting selective health care. This drastic change was largely due to the change in leadership, political context, change in the economicsituation of the world. Therefore, based on all these factors even well-reputed organizations like WHO tend to change in the definition of development and move towards convenient development measures.

7. Problems of external assistance

Most of the problems or challenges found due to external assistance in India are as follows

1. Most of the projects have received technical aid/support from the donor agencies; the technical assistance finds a way back to donor countries. Hence by giving a loan to the underdeveloped countries,the donors make way to get themselves benefitted out of it. As DrRavi Narayan mentioned during the interview that many young consultants are appointed by the donor agencies from the respective donor countries to suggest what to do and how to implement the projects without even realizing the complexity of socio, cultural, political and economic background of the recipient countries. These consultants tend to give suggestions that are irrelevant to the Indian context. Instead, the experts from the recipient country should be taken to get the required suggestions and use the resources wisely.
2. Many donors have supported the same causes such as population control, blindness control, TB, Malaria, leprosy eradication. But there was no greater synchronization found between the donors to implement these projects. Every project ran parallel with different strategies, reporting system and accounting system.
   Hence the management of each of these projects took a greater amount of time and resources from the implementing state Govt. The similar experience was found in many of the developing countries, and it has led to the aid fragmentation [16,17].
3. The strategies of the donors started changing over some time. These changes were largely influenced by economic theories and developmental trends in the world. The broader trends were, change from the ford foundation's camp mode approach to UNICEF's IEC, targeted approach to a broader approach, general funding to performance-based funding, from central specified projects to state-focused projects were introduced in India in the past 72 years. Some of the effective strategies were adopted by donors in recent decades. In spite of the same suggestions made by the public health experts and activist long ago, it took time to bring out the required changes.
4. Most of the assistance is in the form of interest-bearing loans. Up to the five-year plan, loans accounted for 90% of the aid receipts and 10% was a grant. Until the 1970's the bilateral aid accounted for 81% of the aid

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amount and 19% by the multilateral donors such as IBRD and IDA. Multilateral sources of funding began to gain predominance only after the 1970s. Until the 1970's the US was the major donor supporting health in India [18]. Because India was a good market for the US to sell contraceptives by supporting population projects in India. Post-1970's the presence of multilateral organizations especially World Bank increased and the US being one of the highest contributors for World Bank found a new way to channelize its influence in the developing countries.

5. Along with the continuation of vertical programs World Bank has largely funded to the sectoral policy and planning. Hence its funding share towards improving the primary care diseases specific projects and family planning reduced over some time.
6. All the major projects implemented in India were largely supported by external aid, and these aids are in the form of an interest-bearing loan. For example project like KHSDRP received a loan from World Bank at the rate of 8% of the interest. This leads to increasing long-term indebtedness. Therefore, the wise and proper utilization of funds is highly essential.
7. Complex problems such as TB, malaria tried to be solved with a techno-centric solution, whereas the social determinant being the root cause of this problem, remained the same without addressing it. As a result, even today a large number of people die due to these diseases.
8. Shyam Kamath comments that India's centralized economic planning supported by foreign aid, lack of free trade and the accumulation of foreign aid have resulted in the poor performance of India [19].
9. Increasing regional disparity: there are two major reasons that have played a major role in increasing the regional disparity and letting the poorer states remain poor. They are:

1. Regional disparity: The rationality for choosing the states to avail external aid in India has not been based on need, rather several other factors such as bureaucratic interest, administration, cooperation with the donor agencies have been an important aspect to select the state for funding. As a result, the aid distribution is in favour of prosperous states of India. Hence the development of the poor performing states is not the ultimate motto of the aid. In this entire process, the poor performing states receive no attention and hence increases the regional disparity among the states of India, where the poorer states remain poorer.
2. Reduced health expenditure and its effect on poor performing state:Much before the structural adjustment program were formally introduced in India; the preparatory work had started. As a result, the central grants to the states declined from 19.9% to 3.3% between 1984. The larger proportion of the deduction was on the social sector. Expenditure on public health reduced from 27.9% to 17.7%. The effect of this reduced budget was high on poorer states who had limited state revenue. Hence health indicators of the poorer states remained poor due to the reduced allocation of the budget [20].

8. Conclusion

India along with other developing countries experienced similar trends of receiving aid for development. India's mixed economic policy and the donor's interest in spending on industrialization went hand in hand.

Only after the changes at the international level emphasis on the development started so as India started receiving aid for the development sector. The challenge of aid remains the same with India similar to other aid-receiving countries in the world.

With all the odds,India is to carefully choosing and accepting the aid. As it is not just the money that we need to repay but along with money ideologies that are transferred from the developed to the developing countries is what needs to be carefully analyzed before accepting any aid from the donors. In case of the health sector, India has imbibed the ideas of neo-liberalism from the west. Hence the poor performance of the public health system, poor health indicators, the growing disparity between rich and poor is evident only because of these donors influenced policies in India along with the failure of the state for being shy to adopt a strong policy in favour of the poor and marginalized people.

Easy and quick solutions are not practically ideal for improving health status in India. It's highly essential for India to realize this and work towards developing the much needed comprehensive, community-based, sustainable primary health care along with tertiary care to enhance the health of its people.

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