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Emergence of LoCs as a Modality in India's Development Cooperation: Evolving Policy Context and New Challenges

Prabodh Saxena*

Abstract: Development cooperation is an integral part of India's foreign policy and India has been extending cooperation to its fellow developing countries even before its independence in 1947. In present times, India's development cooperation is manifested through its 'development compact' comprising five components, namely, capacity building and skill transfer, technology and related partnerships, development finance (which includes concessional loans and lines of credit), grants, and trade and investment. Off late, Indian extension of Lines of Credit (LoCs) through EXIM Bank of India have also become a prominent modality of Development Cooperation. However, in many a cases it has been seen that the projects faced a number of challenges for effective delivery. This discussion paper explores these challenges and other issues related to quality and timely delivery of the projects. It also explains evolution of the scheme IDEAS and discusses new guidelines by EXIM Bank.

Keywords: Development compact, LoCs, DPRs, PMC, IDEAS, South-South Cooperation

Introduction

With modest beginning in the years of freedom struggle, India's development cooperation programme with the fellow developing countries has come a long way. At present, apart from capacity-building (which continues to be key focus), India's development cooperation is manifested through its 'development compact' comprising five components: capacity-building and skills transfer, technology and related partnerships, development finance (which includes concessional loans and lines of credit), grants, and trade and investment (which also includes duty free quota free, DFQF scheme).

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Usual Disclaimers Apply.

Capacity building initiative of India is channelled through Indian Technical and Economic Cooperation (ITEC) programme which was formalised in 1964, though India has provided assistance for human resources development since its Independence in 1947. By 2015, ITEC was offering training to more than 10,000 candidates per year from 161 countries through 52 institutions which cover over 250 courses starting with a small number of nine scholarships just after independence, bringing the total number of people trained under ITEC since its inception to more than 50,000. The budget for ITEC has seen a considerable rise over the last few years and stands at US$ 131.69 million for 2015-16 as compared to US$ 46.45 million in 2008-09. Off late, Indian extension of Lines of Credit (LoCs) through EXIM Bank of India has also become a prominent modality of Development Cooperation.

Though there are limited instances of Government of India (GoI) extending credit to friendly countries,[1] the formal arrangement of doing so came in vogue in 1966. Later, when the value of LoCs grew, India provided further major support to the private sector. The first gesture, in 1948, took the form of a Rs. 75000 loan to Indonesia. In 1955-56, a loan of US$ 42 million was extended to Burma. In fact, the first loan for Burma was in 1950-51 of £ 1,000,000.[2] The GoI would sign credit agreements with the borrowing country; later popularly called as the Lines of Credit (LoC). The relevant LoCs were directly charged to the budget and disbursed through the State Bank of India. Till 2003, the GoI extended 83 government-to-government LoCs to 23 countries, totalling US$ 498.56 million (US$ 1466.64 million, PPP/Rs 33069.48 million). In case of 31 LoCs payment were made in US$ while Rs. 5,862.1 million (US$ 88.37 million/US$ 259. 96 in PPP) for 52 LoCs were paid in Indian rupees.

The bilateral aid to India and Indian development cooperation both changed in 2003 in various different ways. With its new initiatives, India launched opening of the second phase of the LoC programme. The change reflected India's growing economic profile and a response to the tensions with Western donors after the 1998 Pokhran nuclear

test. It was also a confidence that emerged out of the success that India had in managing on its own two major natural disasters, viz. the 1999 Orissa Super-Cyclone, and the 2001 Gujarat earthquake. The GoI found an opportunity to redraw its development cooperation paradigm after 2000, once India had achieved comfortable foreign exchange reserves and low domestic interest rates. Finance Minister Jaswant Singh, in his 2003-2004 budget speech[3], launched India as a significant 'development partner' with its own distinctive path, while also drastically reducing the category of eligible bilateral donors[4].

It is now almost a decade that India launched this new scheme for Lines of Credit. One decade of experience has thrown many cases where the intervention has done damage instead of creating goodwill and a viable project. This must have set the planners thinking. It is not difficult to realise that in good number of cases the country procurement systems faced several challenges for an effective delivery. Quality and timeliness of the project delivery crucially depends on clear, concise and detailed project reports (DPRs) and effective project management consultant (PMC). In absence of these and adequate monitoring mechanisms both procurement and delivery gets affected.

The current paper further explores some of these issues. Next section explains the evolution of the scheme IDEAS while section III explains related initiatives by China. In Section IV, the new EXIM Bank Guidelines are discussed and the last section draws the conclusions.

Evolution of IDEAS

With this new approach, the new programme launched was the International Development Initiative, which allows India's Export-Import (Exim) Bank to extend LoCs to friendly foreign countries at the GoI's behest. The GoI bears the Interest Equalisation Support (IES), that is, the differential between the actual interest charged and Exim Bank's normative commercial interest rate. Such Exim Bank LoCs carry double guarantees: a sovereign one from the borrowing Government and a

counter-guarantee provided by the GoI. The programme was renamed the Indian Development and Economic Assistance Scheme (IDEAS) in July 2005. With South-South Cooperation in the backdrop, the IDEAS had several objectives for mutual gain. While GoI was providing IES to support the partner countries, it also intended for boosting India's exports (especially of industrial goods), opening new markets for Indian companies, establishing India's reputation for high-quality goods and services and, last but not the least, increasing India's political influence and gaining goodwill among partner countries. Of late, India's domestic requirements for natural resources, food, and energy security have also become important considerations in the Scheme. Initially proposed for five years beginning in fiscal year (FY) 2005-2006, IDEAS received a five-year extension from the Cabinet (i.e. from FY 2010-2011 to FY 2014-2015) on 3 March 2011, The Government on 18 November 2015 further extended the Scheme for another five years to culminate in 2020.

Over the last few years, the LoC portfolio has grown exponentially in all directions - in sheer volume, as a percentage of the entire bilateral assistance basket, and as a share of the Exim Bank balance sheet.

As on 31 March 2016, Exim Bank has received approvals from GoI for 234 LoCs aggregating to US$ 17.94 billion (US$ 70.08 billion in PPP; of which, 202 LoCs aggregating to US$ 14.47 billion (US$ 56.52 billion in PPP) have been signed. Contracts aggregating to US$ 7.65 billion (US$ 29.88 billion, PPP) have been covered under the LoCs and disbursements effected amount to US$ 5.91billion (23.08 billion, PPP). The approvals by the GoI in the last few years are tabulated in Table 1. As it is evident the pace of approvals have multiplied from 2014 onwards.

Table 1: LoCs Approvals year wise since 2009-10

Financial Year	Amount (US$ Billion)	US$, Billion (PPP)
2009-10	1.96	5.94
2010-11	1.81	4.95
2011-12	1.3	3.63
2012-13	0.61	1.97
2013-14	1.56	5.60
2014-15	3.57	13.01
2015-16	3.39	13.06
Total	14.2	54.82

Source: EXIM of India.

Consequently, Interest Equalisation Support liability of the Government has seen a substantial rise in the last couple of years conforming to the burgeoning portfolio. The details are captured in Table 2.

Table 2: Interest Equalisation Support (IES) to EXIM Bank of India

Year	US$ million	US$ million, PPP
2005-06*	22.68	62.63
2006-07*	47.27	134.11
2007-08	55.14	142.76
2008-09	53.33	145.28
2009-10	57.43	174.07
2010-11	28.43	77.75
2011-12	29.93	83.54
2012-13	41.58	134.56
2013-14	69.37	248.81
2014-15	33.25	121.17
2015-16	88.94	342.77
2016-17	86.24	336.88

Note: '*' Interest Equalisation Support to EXIM bank does not include India's Development Assistance to neighbouring countries (Bhutan, Nepal and Bangladesh).

Source: RIS database on Indian Development Cooperation.

The way announcements and commitments for big ticket LoCs are happening it is safe to project that the requirement may increase to US$ 150.60 (US$ 588. 29 million, PPP) a year, sooner than later. It is interesting to look at the Top 10 development partners to whom India extended the LoCs as at Table 3.

Table 3: Details of Ten Top countries, as on 31 March 2016

Sr. No.	Country	Number of LoCs	Credit Amount (US$ million)	US$ million, PPP
1	Bangladesh	2	2862.00	11180.00
2	Nepal	4	2100.00	8203.36
3	Sri Lanka	8	1734.16	6774.25
4	Ethiopia	7	1004.54	3924.10
5	Mauritius	6	868.80	3393.85
6	Sudan	8	737.07	2879.26
7	Myanmar	11	678.90	2652.03
8	Mozambique	12	639.44	2497.88
9	Tanzania	5	615.22	2403.27
10	West Africa (Ecowas Bank for Investment & Development)	3	500.00	1953.18
Grand Total		66	11740.13	45861.18

Source: EXIM Bank of India.

As can be seen from the Table 3, while six of the 10 top recipients of the LoCs are from Africa, the top players are in neighbourhood, reemphasising the strategic deployment of financial products. More than 64 per cent of the credit among the top 10 borrowers is deployed in Bangladesh, Nepal, Sri Lanka and Myanmar.

Africa is the front runner, having over taken the neighbourhood very recently. At the India-Africa Forum Summit at Addis Ababa in 2011, Indian Prime Minister Manmohan Singh announced LoC commitments

to Africa aggregating US$ 5000 million LoC (US$ 13.95 billion, PPP) over the following three years — a transformational initiative. True to the commitment, in last few years Africa has moved to the centre of the circle. In the six years from FY 2008-2009 to 2013-2014, 91 LoCs out of 121 LoCs (74.38 per cent) went to African countries. The five-year allocation approved by India's Cabinet Committee on Economic Affairs (CCEA) in 2011 earmarked 70.5 per cent of the total. In FY 2012-2013, almost the entire allocation went to Africa. The region-wise position as of 31 March 2016 is captured in Table 4.

Table 4: LoCs Distribution Over Regions

Region	LoC Credit Amount (US$ billion)	US$ million, PPP	Percentage
Africa	7270	28840.86	50.00
Asia	6760	26817.63	47.00
Latin America and CIS (only Belarus)	310	1229.803	2.00
Oceania	130	515.7237	1.00
TOTAL	14470	57404.01	100

Source: Author's calculation based on data from EXIM Bank of India.

The impact of announcement by Prime Minister Narendar Modi at the Third India Africa Forum Summit at New Delhi in 2015 for a US$ 10 billion (US$ 39.67 billion, PPP) commitment to Africa for the coming five years will further enhance the proportion of Africa in the total basket of Indian LoCs.

As specified in the Operational Guidelines (Para A[ii]), economic and infrastructural projects receive priority for LoCs, followed by specific sectors that may create bridgeheads for bilateral trade. Power accounts for a quarter of the portfolio and it is in fact a felt need of the developing countries. Rural electrisation is another 5 per cent of the project allocation. It is closely followed by railways, one of the most efficient mode of

transport and connectivity. Indian experience in running a massive railway network is a real value addition. Additionally, 5 per cent of the project allocation is towards roads and transport. Power and Transport together account for almost 58 per cent of credit commitment. The capital formation must stimulate employment potential as well. 11.7 per cent of total LoCs are for both greenfield and brownfield sugar industry and as much as 10.6 per cent resources are dedicated for manufacturing sector. The complete sectoral distribution of projects is given in Table 5.

Table 5: LoCs distribution over different Sectors

Sector	Percentage
Power	25.2
Railways	22.3
Sugar Plant	11.7
Engineering	10.6
Agriculture	5.8
Irrigation	5.2
Roads & Transport	5.2
Rural electrification	5.2
Others	3.1
Construction	2.9
Cement plant	1.3
Information & communications technology	1.2
Aviation	0.4
TOTAL	100

Source: Author's calculation based on RIS database adn data from EXIM Bank of India.

Policy Initiatives by China

Lines of credits are not the sole prerogative of Indian economic diplomacy. Couple of other developing countries have also provided loan based support. Besides India, other prominent players are China and Brazil.[5] In this section, we capture some of the details from the Chinese

programme. Even though it is acknowledged that Indian resources and reach is much constrained as compared to China, yet a comparison with China is both natural and desirable. The envelope of China is much bigger and the instruments of maneuverability available with them are varied, some not acceptable in a democratic setup. Of late, there has been some dissemination of information on China's foreign assistance. The first White Paper appeared in 2011 and it was quickly followed in 2014.[6]

China extends foreign assistance through three instruments namely grant, interest free loans and concessional loans. From 2010 to 2012, China appropriated in total 89.34 billion yuan (US$ 14.41 billion) for foreign assistance. The 2014 paper further mentions that in the three years (2010-2012) China offered 7.26 billion yuan (US$ 1.19 billion) of interest free loans taking up 8.1 per cent of its foreign assistance volume. During the same period, the concessional loans provided to the other countries by China amounted to 49.76 billion yuan (US$ 8.15 billion), 55.7 per cent of its total assistance. The concessional loans operate through Exim Bank of China in the same manner as does Indian lines of credit. There is, however, a discernible distinguishing feature. Chinese investments are dominated by State Own Enterprises. In case of Indian investment, it is mainly the private sector which has executed projects/supplies under the LoC.[7]

During the three year period 2010 to 2012, spread over from Financial Year 2010-2011 to 2012-2013, GoI gave approval of LoCs of US$ 2.72 billion (US$ 8.08 billion in PPP). It is obvious that the Indian portfolio is limited as compared to the Chinese portfolio. It is also to be factored that Chinese not only have declared provision for interest free loans, they additionally consider debt waiver as a valid arm of their foreign assistance policy. Their products are definitely far more attractive in terms of its packaging. It is clear that India cannot compete with China on scale or range of projects in the assistance portfolio. Lacking the latter's flexibility and resource bucket; attempts to do so will simply complicate Indian development cooperation architecture. Enhancing

proven strengths seems a more appropriate focus. A borrowing country desires an efficiently delivered project, conforming to its expectations, even if it proves at times somewhat more costly than the alternatives. In this context, the substantial improvements made by the new guidelines from the EXIM Bank of India, when implemented, will add to the strength of Indian LoCs and may compensate for financial disadvantages that we just discussed.

New Operating Framework

The Indian LoCs is a recent quasi strategic financial product which has gained currency in the last decade. Considering the dynamic nature of the space in which they operate, there has been reasonably high responsiveness of the government to address the emerging situations. The first guideline was issued by the Department of Economic Affairs (DEA) in 2007, which was revised and updated in July 2010 and September 2011 respectively (refereed hereinafter as 2010 Guidelines). In December 2015, DEA has superseded the previous guidelines and issued the latest Guidelines (for short, the Guidelines). In government, these changes can be considered as relatively rapid. This paper proposes to discuss and analyse the provisions of the guidelines as they are not just another government circular. Much thought has come into the drafting of the guidelines and they incorporate path breaking changes, in more ways than one. Why were the new guidelines notified? There are broadly speaking two triggers, firstly, policy related and secondly the implementation experience. They are dealt below separately.

The impact of trans-Atlantic economic crisis of 2008 has not diminished even after almost a decade. It has changed the benchmarks considerably. The low interest rates are dominating the market for a fairly long period and are not likely to abate in near future. The terms of credit were not just unattractive but have also given rise to anomalies. For the past few years, Heavily Indebted Poor Countries (HIPC) and Low-Income Countries (LIC)/Least-Developed Countries (LDC)[8] paid higher fixed interest (1.75-2.00 per cent) compared to Middle-Income Countries (MIC), (LIBOR + 50 basis points (bps) = 0.88 per cent as in March

2014). Calculation of the grant element also often came into question. The grant discount rate of 10 per cent (OECD formula) might seem reasonable in an Indian context with bank base rates over 10 per cent, but was materially out of line for a US$ credit with LIBOR at less than 1per cent and the borrowing rate less than 2 per cent. All this underpinned many borrowing-country demands for relaxation, and made a strong case for revising credit terms. Further, there was a sharp fall in concessional parameters from HIPC (20 years with five years' moratorium) to LIC/LDC and MIC (10/8 years and 3/2 years). This unintentionally penalised HIPC countries that do well enough to graduate to the higher category. A case existed for making the transition gentler.

New Policy Challenges

The Guidelines have made some substantial changes in the LoC regime. The significant ones are enumerated in the succeeding paragraphs. In addition, there are some minor changes as well, for instance, the new guidelines corrected the omission in the Standing Committee composition by including Exim Bank in it. This would help in overcoming the avoidable omission of the Lending Bank earlier. This would help in improving the efficacy and reach of the Committee.[9] It is also important to discuss local content requirement or relaxation prior to the approval of the LoC.[10] The new guidelines also emphasise on terminal disbursement date for both project exports and supply contracts. This will be 60 months after the scheduled completion date of a project and the unutilised portion of a contract will stand cancelled at the end of 60 months.[11] The new guidelines have also clarified that in situations where domestic law prohibits exemption of taxes, they will be paid by the contractor and reimbursed by the buyer, thus entailing no tax burden on the LoC. Some of the other details are as follows:

Classification of the Countries[12]

Under the guidelines, IMF-prescribed minimum binding concessional requirements is the benchmark for the country classifications. The countries have been classified in three categories as under:

a) Low and Lower Middle Income (L& LMI) countries for which IMF has prescribed a minimum binding concessional requirement. (Category1 countries).

(b) Low and Lower Middle Income (L& LMI) countries for which there is no minimum binding concessional requirement. (Category 2 countries).

(c) Other developing countries. (Category 3 countries).

The advantage of this classification is that it is IMF ordained which has the most superior mandate to adjudge the strength of an economy. This also avoids both discussion and contention by either side on their actual status. Further it is a dynamic ranking which is not frozen in time.[13] Thus this classification is much more realistic as compared to the 2010 classification and shall address apprehensions and doubts of the some of the borrowing countries.[14]

Going further the guidelines have factored additional tenor of 5 years with additional moratorium of 2 years for infrastructural projects costing US$ 200 million or more or for projects of strategic importance costing US$ 100 million or more.[15] Additionally the guidelines permit financing of equity of the government of borrowing country in a Special Purpose Vehicle/Joint Venture Subsidiary for project execution.[16]

Terms of Credit[17]

The guidelines have corrected the anomaly by creating intelligent differentiation of interest among the three categories of countries. The transition is smooth and not a disincentive for performance.

While maintaining the uniform moratorium of 5 years across the categories, the interest moves from 1.5 per cent fixed for category 1 countries to 1.75 per cent fixed for category 2 countries. For other developing countries, the interest rate is assigned at LIBOR+1.5 per cent as compared to LIBOR+0.5 per cent in 2010 Guidelines. The tenor

of the loan progressively declines by 5 year among the three categories. The decline in the grant element is reasonable and moderate particularly between the first and second category of countries.

For Project Readiness and Preparation

The guidelines repeats the commitment of 2010 guidelines[18] by stating that grants can be provided for project identification, preparation and appraisal as well as evaluation and assessment of projects. This may include consultancy charges to be paid to professionals/organisations.[19] The bigger issue is the provisioning of grants in the Budget. Hopefully adequate provision will be created year on year.

The Detailed Project Report

For the DPR, 2010 guidelines were liberal. It provided that in the case of projects, the DPR should be provided. However, if it is not ready, then an outline Project Proposal, indicating estimated project cost, start up and expected completion dates must be submitted. Project details are to be fully developed before according approvals for the LoCs. The guidelines have plugged the escape route.[20] It says that in case the country is unable to prepare a DPR on its own, it should provide as many details as possible through a Project Outline, Feasibility Study, etc. LoCs in such cases can be approved subject to the condition that an amount not exceeding 1 per cent of the LoC will be utilised for preparation of the DPR. It further binds down the borrowing country by stipulating that the utilisation of the LoC will be subject to the DPR appraisal, findings and approval thereof.[21]

The DPR is to be examined by the Standing Committee.[22] To convey how serious is GoI on the issue of DPR, the guidelines has a full paragraph devoted on detailing required in preparing a DPR.[23] It goes on to make it clear that DPR should not be more than six months old prior to the approval of the DPR[24] and further that major deviations in the DPR may be considered prior to the approval of the GoI.[25]

Monitoring

In the Monitoring mechanism, it has laid down that the status report on project execution should be submitted on quarterly basis till completion of the project by the executing authorities.[26] Under 2010 guidelines, it was at an interval of six months.[27] However, Para 11 (VI) of the guidelines make a material difference. It permits the Lending Bank to appoint a Lender's Engineer at its cost for independent monitoring of the project, if considered necessary. Borrowing Governments and all contractors and consultants engaged with the project shall provide necessary support and assistance to the Lender's Engineer.

Post Evaluation[28]

For all projects worth US$ 50 million or more, the guidelines states that there shall be evaluation of the projects on completion by the Lending Bank or an independent agency employed by it.[29] The evaluation should be on the net export/benefit accruing to the Indian economy and effectiveness of the project in the target area. The study will look into the relevance, effectiveness, efficiency, overarching developmental impact and sustainability of the project. It will also assess the performance of the LoC for the purpose for which it was approved.

Ethics and Integrity

Para 15 of 2015 guidelines carries a separate section on Ethics and Integrity. The guidelines mandate that all borrowers, bidders, suppliers, contractors, agents, consultants, subcontractors, service providers, and any personnel thereof are expected to observe the highest standard of ethics during all GoI LoC project preparation, bidding, procurement and execution processes. A suitable Integrity Clause will be included in the LoC Agreement that borrowing Governments sign with the Lending Bank, and will also be required to be incorporated in all contracts to be financed under a LoC. All of them have further been obliged to allow the GoI/Lending Bank to inspect all accounts, records and other documents relating to submission of bids and contract performance, and to have them audited by the auditors appointed by GOl/Lending Bank.[30] This is an

adequate response to an unfortunate situation where certain unscrupulous Indian businessmen in cohort with certain influential people in few of the borrowing countries were seriously compromising the credibility of the Scheme.

Procurement and Bidding

Para C of the Operational guidelines for bidding and procurement is far more elaborate than the corresponding provisions in the 2010 guidelines. It emphasises on transparency more categorically and wants the Lending Bank to display all products under bidding on its website and to disseminate it to industry associations.[31] It reiterates that the Indian Missions should remain vigilant qua the contract awarding by the borrowing Government and it is meaningful that the phrase "without being overtly intrusive" used in 2010 guidelines is not there.[32] However, the critical introduction is the responsibility entrusted on the Lending Bank to do pre-qualification exercise for each project at its cost.[33]

Tendering Procedure

The guidelines have dedicated a separate paragraph, namely Para D, to give detailed protocol for tendering. It has tasked the Lending Bank to vet the tender documents and has fixed accountability by stating that the final approval of the tender document will be made by the Lending Bank. It has also made the following far reaching changes:

(a) Payment terms to be linked to milestone achievements,

(b) Advance payment to be restricted to 20 per cent of the contract value,

(c) 10 per cent of the contract value to be retained and released only subsequent to the installing and commissioning of the equipment, and

(d) Payment term to include liquidated damages in the range of 1-5 per cent of the contract values for delays.

Approval of Contracts

Again there is a full Para E only on award and approval of contracts and it makes many crucial changes and lays down a definite protocol. After the bidding process, the Borrower will submit a draft copy of the contract and the Bid Evaluation report to the Lending Bank for its concurrence.[34] It has been made unequivocal that the Lending Bank reserves the right to keep in abeyance all contracts that are violative of the norms of transparency and fair competition.[35] Mindful of the fact that deviations are occurring more than the desired frequency, it demands detailed justifications for any deviations.[36]

The prescription goes on in greater details. To infuse professionalism and quality, it suggests that terms and conditions of International Federation of Consulting Engineers guidelines should guide the drafting of the contracts and in cases where the borrowing country lacks the skill, the Lending Bank should guide it to do so. In case the Lending Bank itself needs domain expertise, it may hire such services and bill it to the LoC cost.[37] This is really a progressive step.

Draft contract has to be in conformity with the DPR and deviations, if any, has to be decided by the Lending Bank on merits.[38] To make the way for smooth sailing of the project, it requires the borrowing Government to confirm the availability of land, right of way, basic resources, clearances, tax and duty exemptions, financial closure and other commitments. These confirmations have to be forwarded with the contract and in any case prior to the release of advance payments.[39]

Project Management Consultant

The guidelines have taken care of a major criticism of India's LoC Scheme by providing for appointment of an Indian PMC as also Consultant, when and where felt necessary in Para F of the Operational Guidelines, through fair and transparent bidding. The scope of work of PMC has also been laid down. It includes design, bidding (including

preparation of tender documents and evaluation of bids), monitoring of implementation, evaluation of operations and maintenance, and post commissioning stages of a project.[40] They can also be appointed for preparation of DPR.[41] The borrowing Government has been given the liberty to select PMC on nomination basis provided it pays the cost, unless the relaxation is allowed by GoI.[42] If the borrowing Government requests Ministry of External Affairs (MEA) or the Lending Bank to either nominate or appoint a PMC on its behalf, MEA may do so in accordance with the prevailing rules and procedures of GoI.[43] The Policy also states that borrowing country can appoint a Consultant of international repute at their own cost.[44] This is a very material change in the way LoC works as such a Consultant can be a non-Indian as well. The implications can be either way as far as project implementation is concerned in the eventuality of a non-Indian being selected by the borrowing Government.

Concluding Remarks

The guidelines have covered sufficient distance but also missed a few points, for instance, the opportunity of elaborating and clarifying the concept of local content and its clear distinction from third country imports. Similarly, no attempt was made to enable professional certification of added value. The Operational Guidelines, though very detailed, has not made particular provisions regarding procurement of Supply contracts. However, one significant omission is the protection to GoI and the Lending Bank in Para B (iii) of the 2010 Guidelines which made it clear that the "contract is between the borrower Government/its nominated agency/ buyer/executing agency and the supplier or contractor from India whose selection is the prerogative of the borrower. GoI and EXIM Bank are not responsible for such selection." This omission contains with it the potential of litigation to the detriment and cost of GoI and the Lending Bank.

The changes have left many confused and for good reasons. The guidelines are a result of deep understanding of some of the maladies. They have ring fenced many escape routes. But it has also left the Lending

Bank not exactly prepared to go full gear. It is a fact that the full protocol of the guidelines will slow the process atleast in the beginning but it is a price worth paying and in any case once things settle down, the process time may even get reduced as a well prepared project will conclude both better and fast. Most of the recommendations made in an earlier study have been adopted in the revised guidelines. However, an allowance on the touchstone of pragmatism has to be accepted if the guidelines have to take off. It is necessary that Pre-qualification requirement in Para C(ii) of the Operational Guidelines, at this stage, may be mandated only in projects beyond a certain amount which can be worked out depending on the division of projects within the overall portfolio. Doing it for all projects in one go may be an avoidable burden which may be difficult to discharge and may very adversely impact the whole programme itself. Prior and post review practice of major multi-national institutes like the World Bank and the Asian Development Bank are accepted best practices and are possible solutions.

Secondly, the application of the guidelines has to be gradual. Para 17 of the guidelines proclaims that projects under already sanctioned LoCs, which have not yet been tendered out, will be executed under the revised Bidding, Procurement and Tendering procedures prescribed in Operational Guidelines. This is an ideal condition but there are a few apprehensions about its practicability and possibility of opening litigations. This is because in the LoC agreements already settled and signed, the bidding procedure of the 2010 Operational Guidelines is the one which has been agreed upon. It is undeniable that the Operational Guidelines are a game changer. It is, therefore, necessary that an informed and empirical decision should be taken if the guidelines are to be implemented as per Para 17. If the analysis reveals legal complications and huge delays, perhaps it would be better to start applying the guidelines to the prospective LoCs. Though not exactly germane to the analysis, it is important not to lose sight of the fact that of late the biggest threat to the LoC Scheme is the inability of some of the borrowing countries to service the LoCs. The turmoil in Middle East and falling commodity

prices have jeopardised repayment schedules. Unless the Government proactively protects the fiscal health of the Lending Banks, all good intentions of the guidelines may simply not fructify.

Having said so, it must be acknowledged and appreciated that the Government has made bold and significant decisions to carry out the mid-term course correction. By re-classification of the countries and by revising the terms of credit, the LoCs have become competitive and attractive, leaving little scope for tweaking. Simultaneously, very serious and sincere efforts have been made to raise the implementation standards to international benchmarks and to couch the product with a solid professional touch. What is needed to remove some practical problems by being flexible so that an excellent idea soon translates into an efficient and effective product.

Endnotes

1 As early as 1950, India contributed £ 1,000.000 to a £ 6 million short term loan in pursuance of an agreement reached among the Prime Ministers of Commonwealth at the Ceylon Conference to the Government of Burma, now Myanmar

2 Chaturvedi (2016).

3 Union Budget 2003, Para 66, 117 and 126.

4 Donors giving below US$ 25 Mission were asked to find other destinations.

5 Government of Finland, not in the same class of countries, nonetheless is another important provider of Lines of Credit.

6 The 2014 Paper is accessible at http://news.xinhuanet.com/english/china/2014-07/10/c_133474011.htm.

7 Though public sectors like BHEL, Power Grid, IRCON, RITES are a major player, yet they would be consuming around 35 – 40 per cent of the total contracts. Around 60 – 65 per cent of the contract value is with the private sector. This is because big public sectors are not interested in contracts of small values and secondly private companies are better at networking. It is expected that with new guidelines with rigorous processes and procedures, the public sector may increase its share in coming times.

8 Heavily Indebted Poor Countries (HIPC), Low-Income Countries (LIC)/Least-Developed Countries (LDC) and Middle-Income Countries (MIC), in accordance with United Nations (UN) definitions (World Bank 2011).

[9] Para A (v) of the Operational Guidelines.

[10] Para 5 of the Guidelines.

[11] It was 48 and 72 months respectively in the 2010 Guidelines.

[12] Para 2 of the Guidelines.

[13] Para 3.4 of the Guidelines.

[14] The Standing Committee, in accordance with Para A (vii) of the Operational Guidelines, is tasked with the responsibility to deliberate on the request of revision of terms and conditions.

[15] Para 3.5 of the Guidelines.

[16] Para 3.6 of the Guidelines.

[17] Para 3 of the Guidelines.

[18] Para 16 of 2010 Guidelines.

[19] Para 14 of the Guidelines.

[20] As under the 2010 guidelines, the insistence on DPR was halfhearted. A brief outline and a half baked report would not obstruct approval of project. Once the project was approved, a professional DPR was not exactly a priority. Under the new guidelines, DPR has become a serious requirement.

[21] Para A (b) of the Operational Guidelines.

[22] Para A (v) of the Operational Guidelines.

[23] Para B of the Operational Guidelines.

[24] Para B (viii) of the Operational Guidelines.

[25] Para B (ix) of the Operational Guidelines.

[26] Para 11 (iii) of the Guidelines

[27] Para 12 (iii) of the 2010 Guidelines

[28] Para 12 (iii) of the Guidelines

[29] The Guidelines in 12(i) clarifies that the borrowing country will bear the cost of Project Completion Report

[30] Para 15 (i) and (ii) of the Guidelines.

[31] Para C (i) of the Operational Guidelines.

[32] Para C (v) of the Operational Guidelines.

[33] Para C (ii) of the Operational Guidelines.

[34] Para E (ii) of the Operational Guidelines.

[35] Para E (i) of the Operational Guidelines.

[36] Para E (iii) of the Operational Guidelines.

[37] Para E (vi) of the Operational Guidelines.

[38] Para E (iv) of the Operational Guidelines.

[39] Para E (v) of the Operational Guidelines.

[40] Para F (iii) of the Operational Guidelines.

[41] Para F (i) of the Operational Guidelines.

[42] Para F (i) of the Operational Guidelines.

[43] Para F (ii) of the Operational Guidelines.

[44] Para F (iii) of the Operational Guidelines.

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