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India's Lines of Credit: Advancing Development Finance within the Global Development Compact

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ABSTRACT: This study examines how India's Lines of Credit (LOCs) have emerged as a key instrument in the country's development finance strategy, particularly in fostering cooperation with the Global South. This article explores the evolution of India's LOC policy, highlighting its transformation from a traditional aid-based approach to a strategic tool for economic diplomacy. LOCs have played a pivotal role in supporting partner countries by financing infrastructure development, capacity building, and livelihood generation, thereby enhancing India's global standing as an emerging economic power and diplomatic force. In August 2024, during the India-hosted third Voice of the Global South Summit, Prime Minister Narendra Modi proposed a comprehensive and human-centric "Global Development Compact" for the Global South. This initiative emphasizes trade, sustainable growth, technology sharing, and concessional financing. LOCs, as a central pillar of this compact, have been deployed in over 100 connectivity projects across four neighbouring countries, with more than 50 already completed. Notable projects include the Parliament Building in Gambia, the Presidential Palace in Ghana, the Kosti Power Project in Sudan providing a third of the country's electricity and Rwanda's Nyaborongo Power Project, which supplies a quarter of its power needs.

In terms of both volume and reach, the LOC portfolio has expanded significantly, now extending to Russia and Central Asia. LOCs offer partner countries lower interest rates, a five-year grace period, and long repayment terms of 20-25 years. Furthermore, partner countries have the autonomy to select sectors and projects based on their national priorities, adding to the flexibility and attractiveness of the LOC framework.

Recent trends indicate a growing focus on defence LOCs, reflecting a strategic shift in India's development compact. However, the challenges have evolved, moving from implementation and structural issues to concerns about the economic sustainability of LOCs.

This paper offers recommendations to enhance the effectiveness and impact of India's LOCs, including streamlining project implementation, improving transparency, and fostering stronger coordination among stakeholders.

Keywords: Lines of Credit, Development Finance, Global Development Compact, Economic Diplomacy, Concessional Financing.

INTRODUCTION

Diplomacy is the conduct of international affairs through negotiation dialogue or other means to foster peaceful relations between states. It is a set of activities, institutions, and discourses essential to understanding the historical evolution of the international system and its changing functional and normative requirements (Cornago, 2022). The developments on global platforms are driven by several political, social, cultural, and economic factors which keep on tunning the dynamic interrelationship between the nations in an ever-changing environment impacted by globalisation, regionalism, and, more recently, the pandemic.

Foreign policy plays a crucial role that is mainly decided by the stability and cohesiveness of domestic policy, especially in domains that expand the state's power. Other than military and diplomacy, the essential field for developing foreign policy is the economy, which has proven in many instances to create equally positive benefits for the state's authority and for exerting influence in other fields (Papadimitriou & Pistikou 2015). States have numerous mechanisms and tools at their disposal for engaging in economic diplomacies, such as commercial and investment agreements or embargoes-blockades and financial or monetary sanctions, intending to exert the most significant possible influence at either the transnational or regional level to dominate the market and increase their power, initially on an economic level and then in the security sector (Mastanduno, 1998). Globalization is creating new incentives for nations to rethink the balance between their varied national interests.

Economic diplomacy is becoming more comprehensive, including the activities such as commercial diplomacy (trade and investment), trade diplomacy (negotiations), and cooperation on the developmental front (grants and concessional loans, etc.).

The history of India's Economic Diplomacy is intriguing; even before achieving independence, India became a founding member of Bretton Woods Institutions, including the World Bank Group and the International Monetary Fund (You, 2002). Before India's polity and the economy stabilised, it lent Burma (now Myanmar) a large sum of loans in 1948 (Hiep *et al*., 2021). In the year 1949, the first development assistance to Bhutan was given after the signing of the Treaty of Perpetual Peace and Friendship. India provided Nepal with economic and social development aid after the Rana regime fell in 1951 (Adhikari, 2014). In 1954, India launched the India Aid Mission in Kathmandu to coordinate and monitor India-funded projects (Chaturvedi & Mulakala 2016). Soon a similar arrangement emerged in Afghanistan at the request of their King in the late 1960s; India agreed to a Joint Commission at the ministerial level.

In September 1964, when the Indian Union Cabinet decided to launch the Indian Technical and Economic Cooperation Programme (ITEC) (Singh, 2007), the still impoverished nation declared that it would now provide capacity and skill development skills to its even poorer friends in Africa and Asia, arguing that "it was necessary to establish relations on mutual concern and interdependence based not only on shared ideals and aspirations but also on solid economic foundations (Suri, 2022). In 1966 India decided to transfer cash to the recipient countriesas a concessional loan for various developmental works.

Despite significant domestic challenges and limited resources, India, from the outset of its independence, pursued a robust and forward-looking international approach. A carefully calibrated roadmap for assisting neighbouring and other nations was developed alongside the wave of independence across Asia, Africa, and Latin America. India's commitment to fostering solidarity with these newly independent nations laid the foundation for its development cooperation strategy, rooted in mutual economic growth and shared diplomatic goals.

Over time, India's approach to developmental cooperation expanded, eventually becoming known as the "Development Compact" (Chaturvedi & Mulakala 2016). This compact consists of five key components, as outlined in Fig. 1.

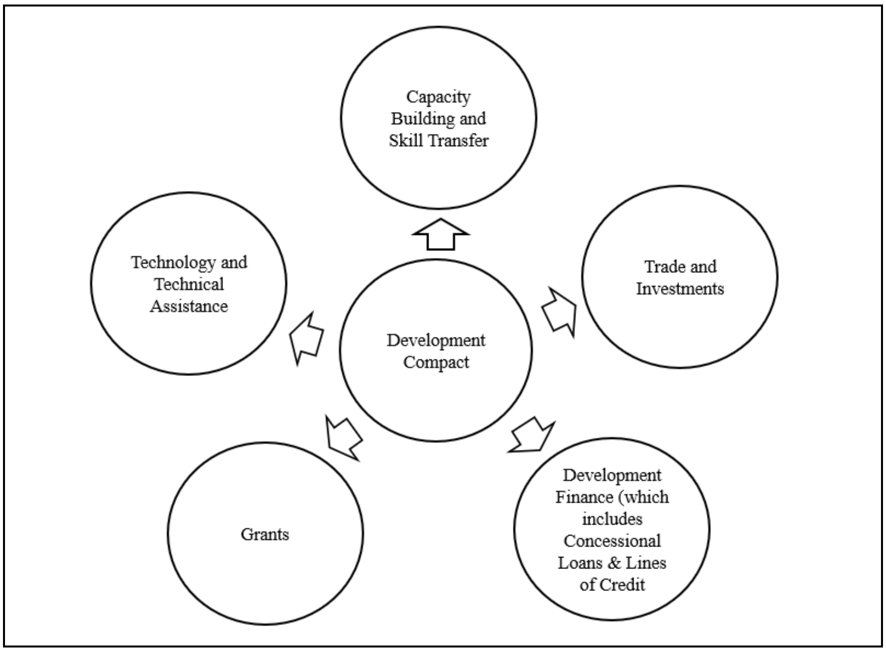


Fig. 1. Development Compact.

Of these, Lines of Credit (LOCs) have emerged as the most influential tool in India's Development Cooperation strategy, particularly over the last two decades (Kurian, 2020). LOCs have evolved from a form of concessional aid into a dynamic instrument of economic diplomacy, playing a critical role in infrastructure development, capacity building, and livelihood generation in partner countries, especially within the Global South.

LOCs have not only contributed to the economic progress of recipient nations but have also reinforced India's position as a rising economic power and diplomatic leader. In August 2024, during the third Voice of the Global South Summit, India introduced the "Global Development Compact," a comprehensive initiative promoting sustainable growth, trade, technology sharing, and concessional financing. LOCs, a vital component of this compact, offer partner nations favorable terms such as low interest rates, extended repayment periods, and flexibility in choosing projects that align with their national priorities. To further examine the strategic role and effectiveness of India's Lines of Credit within the framework of the Global Development Compact, the rest of this article is organised as follows: Section 2 provides the background of Lines of Credit. Section 3 traces the evolution of the LOC policy, while Section 4 examines the current status of LOCs. Section 5 offers insights into the 2022 operational guidelines for India’s LOC policy framework. Section 6 discusses the challenges LOCs face and presents policy recommendations, and the article concludes with Section 7.

2. Background of LOCs: A Pre- and Post-2003 Perspective

The journey of LOCs under the umbrella of the development compact can be divided into two phases marked by 2003. The Pre-2003 and the post-2003.

In the first phase (1966-2003), the Government of India (GOI) signed agreements with the partner country, directly charged to the budget, and credit was disbursed through the State Bank of India. LOCs worth USD 1,816.82 million (mn) for eighty-three government-to-government LOCs were sanctioned (Saxena, 2016).

The second phase started in the year 2003. One could say that India had reached maturity by this time. How did it happen? It is inextricably linked to the 1991 Liberalisation, Privatisation, and Globalization Reforms. A decade of these reforms transformed the country’s economic landscape (Anand, 2014). India’s growth rate accelerated to an impressive rate (Devarajan & Nabi, 2006). The country’s improved economic strength and low interest rate quickly translated into a more aggressive and confident Foreign Policy. Therefore, India was unwilling to accept platitudes or sermons from countries that contributed a small amount of dollars through grants and loans. The 2003 budget address is a landmark reference document. It boosted the nation’s morale as a partner and established India as a donor (Mawdsley, 2012). It drastically reduced the scope of bilateral assistance, shortened the list of assistance providers, and repaid loan commitments in advance. The speech also declared the government’s intent to expand its portfolio of LOC significantly (www.indiabudget.gov.in). For further reading of the speech, please refer to (www.indiabudget.gov.in).

In the same year 2003-2004, the Government of India (GOI) established the Indian Development Initiative (IDI), which has been known as the Indian Development and Economic Assistance Scheme (IDEAS) since 2010. The initiative was designed to share India's development experience with other countries through three key approaches, as illustrated in Fig. 2 (Chaturvedi *et al*., 2014).

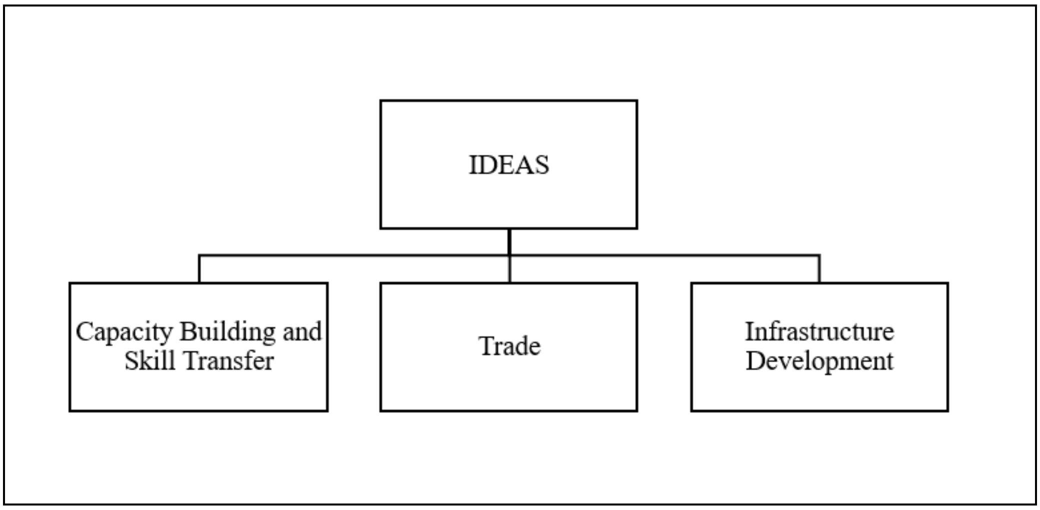


Fig. 2. Three ways of IDEAS.

IDEAS provided the guidelines for operationalising and implementing India's LOCs. While LOCs are primarily intended for infrastructure development in partner countries, the guidelines conceptualize them as more than just an infrastructure financing tool. LOCs are also envisioned as a vehicle for capacity building in partner countries through skill transfer and the creation of ecosystems that promote bilateral trade.

Additionally, a formal mechanism was established for this purpose, with India's Export-Import Bank (Exim Bank) mandated to extend LOCs to friendly foreign countries on behalf of the GOI. This structure reinforces India’s broader goals of fostering long-term development partnerships and enhancing diplomatic and economic ties through a multi-faceted approach.

The GOI bears the Interest Equalization Support (IES), the differential between the actual interest charged and Exim Bank’s normative commercial interest rate of the international debt capital market. Such LOCs carry double guarantees, a sovereign one from the partner government and a counter-guarantee provided by the GOI through a Deed of Guarantee to guard against any default by the partner country in payment of interest and repayment of principal.

Initially proposed for five years beginning in the 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 March 3rd, 2011. It was extended in March 2022 for a further period of five years after receiving a short-term periodic extension for the period between April 2020 to March 2022 (Ministry of Finance, 2022).

3. Evolution of the LOC Policy

IDEAS started in an ad-hoc mode with a letter from the Department of Economic Affairs (DEA) to the Foreign and Commerce Secretary of GOI. The letter captures two existing situations, mainly debt relief and LOCs. In the case of the latter, terms of credit used to vary from case to case. The letter, therefore, wanted to bring some semblance of a formal position of the government on the classification of countries, debt relief, and credit terms and conditions. The letter further provided the credit terms for the four categories of countries in terms of interest, the tenor of the loan, grace period, and grant.

While clarifying the terms used, it also states that the partner government is required to give a guarantee for payment. Emphasizing the Indian component of the LOC, the letter stated that 85% of the total credit should be used to import goods and services from India. A reading of this letter makes it clear that the beginning of this scheme was to only provide a very broad framework of certain critical elements of LOCs. The details of how it is to be implemented were not even attempted to be addressed.

The new LOC regime started with supply contracts and moved on to project LOCs. However, despite best intentions, something was seriously amiss; it was soon noticed that the journey of LOC was not on the desired track and, in a few cases, far removed from the objective of gaining goodwill; the outcome was contrary, thanks to corruption and inefficiency in project delivery. It was realised that unscrupulous consultants and contractors in a league with corrupt elements in the partner countries and even in India took advantage of the gaps in the guidelines. It is to the credit of GOI that it acted very swiftly and continuously evolved the guidelines. The swift changes in the guidelines are in response to both the situation, firstly, policy-related, and secondly, the implementation experience. The article provides a detailed examination of this evolution.

The first indicative framework was replaced by detailed guidelines in 2010. However, the Guidelines in 2015 introduced major structural changes by superseding previous guidelines and launched a direct onslaught on identified gaps; in fact, much thought had gone into the drafting of the 2015 Guidelines (GL). In 2022, an extension of IDEAS was accompanied by new guidelines. The planners need commendation for continuously improving the framework.

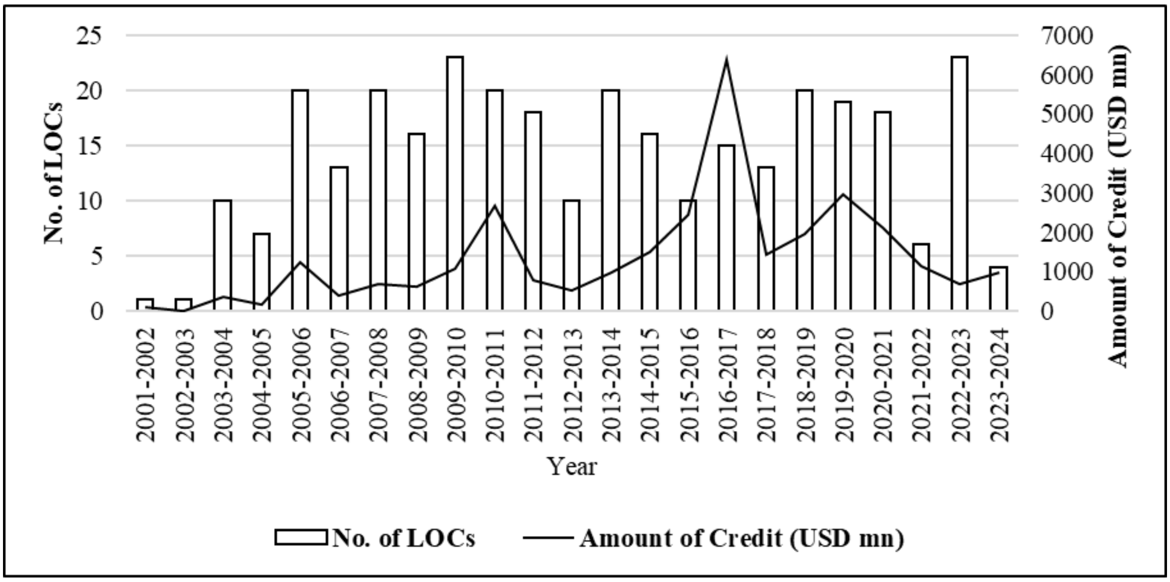
Here, the immediate reference point is the 2022 GL, but the actual reference is the 2015 GL. Almost all of the pathbreaking provisions of 2015 have found a place in 2022 GL with few changes, including editorial. Whatever is additionally or differently provided in 2022 GL as compared to 2015 GL will find a specific mention.

Building on the evolution of India's LOC policy, particularly the comparison between the 2015 and 2022 guidelines, it becomes essential to understand how these policy shifts have influenced the current status and implementation of LOCs. The next section provides a detailed analysis of the present status of LOCs, examining how the changes in policy frameworks have translated into real-world outcomes across different regions and sectors.

4. Status of LOCs

As of March 31st, 2024, 323 LOCs have been extended to 66 countries for USD 31.143 billion (bn). Fig. 3 shows the year-wise breakup of the number of LOCs and the total amount in USD mn issued from 2001-02 to March 31st, 2022. We can observe the growth of LOCs in terms of number; it has grown from just one LOC to the highest number of 25 LOCs in 2019-2020. As far as the amount of credit is concerned, the year 2001-02 started with USD 87.85 mn and reached the highest amount of USD 7187.52 mn in 2016-17, reflecting a growth rate of 440.45% from the base year of 2001-02. However, there is a sharp drop in the amount of credit in the year 2017-18 from the previous year, a drop of -146.94% from the amount of USD 7187.52 mn to USD 1653.52 mn. From 2001-02 to March 31st, 2024, the average amount of credit per LOC is USD 102.15 mn. It is noticeable from the data presented below that the approval of LOCs is demand-driven, dependent on the partner government's request in a given year.

The next step involves segregating LOCs and amounts based on region. Table 1 shows the region-wise number and amount of credit in LOCs. Region-wise, Africa commands the highest number of LOCs, with 204 involving 41 countries, but the highest amount is for Asia with USD 15380.54 mn with just 11 countries and 56 LOCs signed. The largest users are neighbouring countries *viz.*, Bangladesh, Nepal, and Sri Lanka. Region Oceania, with two countries, has just three LOCs, with an amount of USD 155.78 mn Similarly Latin America and the Caribbean (LAC) and Commonwealth of Independent States (CIS) regions have negligible exposure to the Indian portfolio because of factors such as long trading routes. On a per-country basis, the highest amount for each country is in Asia, with USD 1398.23 mn, followed by East Africa, with USD 405.82 mn.



Source: Exim Bank of India

Fig. 3. Year-wise number and value of LOCs approved as of March 31st, 2024.

Table 1: Region-wise number and amount of credit in LOCs approved as of March 31st, 2024.

Region	Number of Countries	Number of LOCs	Amount (USD mn)
East Africa	16	79	6493.16
Rest of Africa	26	112	5845.86
Asia	11	56	15380.54
LAC	7	33	735.08
Oceania	2	3	155.78
CIS	4	2	503.6
Total	**66**	**285**	**29114.02**

Source: Author’s calculation based on the data received from EXIM Bank

Table 2: LOC Exposure in Top 10 Countries.

Sr. No.	Name of Country	No. of LOCs	Amount USD (mn)	Percentage (%)
1	Bangladesh	4	7862	27.00
2	Sri Lanka	10	2234.4	7.67
3	Nepal	4	1450	4.98
4	Maldives	6	1430	4.91
5	Mongolia	5	1248.2	4.29
6	Tanzania	6	1115.2	3.83
7	Mauritius	7	1029.8	3.54
8	EBID	4	1000	3.43
9	Mozambique	10	772.44	2.65
10	Sudan	9	742.12	2.55
Total		**65**	**18884.3**	**64.86**

Source: Author’s calculation based on the data received from EXIM Bank

Table 2 displays the exposure of LOCs in the top ten countries. The largest exposure in terms of aggregate credit amount of LOCs signed with a single country is Bangladesh at USD 7862 mn accounting for 27.00% of the total credit commitments, followed by Sri Lanka at USD 2234.4 mn (7.67%), Nepal at USD 1450 mn (4.98%), Maldives at USD 1430 mn (4.91%). The total number of LOCs is 65, with an amount of USD 18884.3 mn.

Table 3 presents data for India’s neighboring countries and ASEAN, supporting both the "Neighbourhood First Policy" and the "Act East Policy." The two policy instruments are designed to promote economic cooperation and cultural ties and develop a strategic relationship with countries in the Asia-Pacific region through continuous engagement at bilateral, regional, and multilateral levels. In particular, GOI is promoting connectivity with neighboring countries by extending finance for infrastructure development, i.e., road, rail, inland water transport, telecom, and power. The data shows that under the LOC portfolio, as of March 31st, 2024, 53 LOCs with credit value aggregating USD

15236.84 mn have been approved for countries in Asia and ASEAN region. Three largest LOC partner countries viz. Bangladesh, Nepal, and Sri Lanka are from Asia Region.

Table 3: Cooperation with Neighbourhood/ASEAN.

Name of Country	Number of LOCs	Amount (USD mn)
Bangladesh	4	7862
Sri Lanka	10	2234.4
Nepal	4	1450
Maldives	6	1430
Vietnam	4	191.5
Myanmar	10	445.57
LAO PDR	4	153.83
Cambodia	4	102.12
Total	**46**	**13869.4**

Source: Author's calculation based on the data received from EXIM Bank

Out of the ASEAN nations, Cambodia has 4 LOCs worth USD 102.12 mn, LAO PDR with 4 LOCs worth USD 153.83 mn, and Myanmar with 10 LOCs worth USD 445.57 mn.

Defence and Security as an Emerging Area for Indian LOCs

India's foreign assistance has traditionally focused on economic development and technical support in strategically important areas. However, it is now increasingly being extended to new domains. Defence and security have emerged as significant initiatives in India's LOCs, marking a strategic expansion of its development cooperation (Nainar, 2024). This shift strengthens India's global partnerships by enhancing the defence capabilities of partner countries. For example, India has supplied Vietnam with offshore patrol vessels and high-speed guard boats, provided coast guard vessels, maritime reconnaissance aircraft, and coastal radars to Sri Lanka, Mauritius, the Maldives, and Seychelles, and delivered helicopters to Nepal, Namibia, and Suriname. Additionally, India has supported key defence institutions, such as a biomedical research lab in Kyrgyzstan and a Cyber Security Training Centre in Mongolia and has deployed military instructors and training teams across Africa and Asia.

Following the statistical analysis, which offers insights into the current distribution and impact of India's LOCs across various regions, it is crucial to examine how the most recent policy adjustments under the 2022 guidelines influence their implementation. The next section examines the 2022 Operational Guidelines, exploring how they provide the structural framework for India's LOC policy and shape the evolving dynamics of India's development cooperation strategy.

5. The 2022 Operational Guidelines for India's LOC Framework

The 2022 GL has a different presentation style than previous guidelines. It starts with a paragraph each as an Introduction and Preface, which were not done in previous guidelines. Again, it is structured in 2 Parts. Part A deals with IDEAS for LOC offered by GOI. Part B is about the Concessional Financing Scheme (CFS) to support Indian Entities bidding for strategically important overseas infrastructural projects.

The Operational Guidelines are as in Annexure-II of 2022 GL which have been referred to as Op GL 2022. It lists down GOI priority in the following manner, economic and infrastructure projects, exports of goods and services, creating bridgeheads for bilateral trade, and setting up of an adequate network of servicing facilities by exporters. (clause-A (ii) of Op GL 2022) The priority set up by India clearly brings out the objective of promoting Indigenous business interests.

The salient features are presented as under:

Objective of the Scheme

The Preface to the 2022 GL says that the aim of the LOCs is to generate goodwill, strengthen long-term partnerships and share India's expertise in project planning, design, and implementation in diverse areas of socio-economic development. The preface is supplemented by clause 2, which further elaborates that the objective of sharing India's development experience is to fund economic and infrastructure projects in the partner countries, generate socio-economic benefits in the partner countries, promote bilateral trade in goods and services, and support capacity building and skills transfer. From the drafting perspective, the two provisos of the 2022 GL could have been merged to convey the message in one place.

Classification of the Countries

Under the guidelines, IMF-prescribed minimum binding concessional requirements are the benchmark for the country classifications (clause 3 of 2022 GL).

The Table 9 below shows how the issue of classification of countries was handled over successive guidelines.

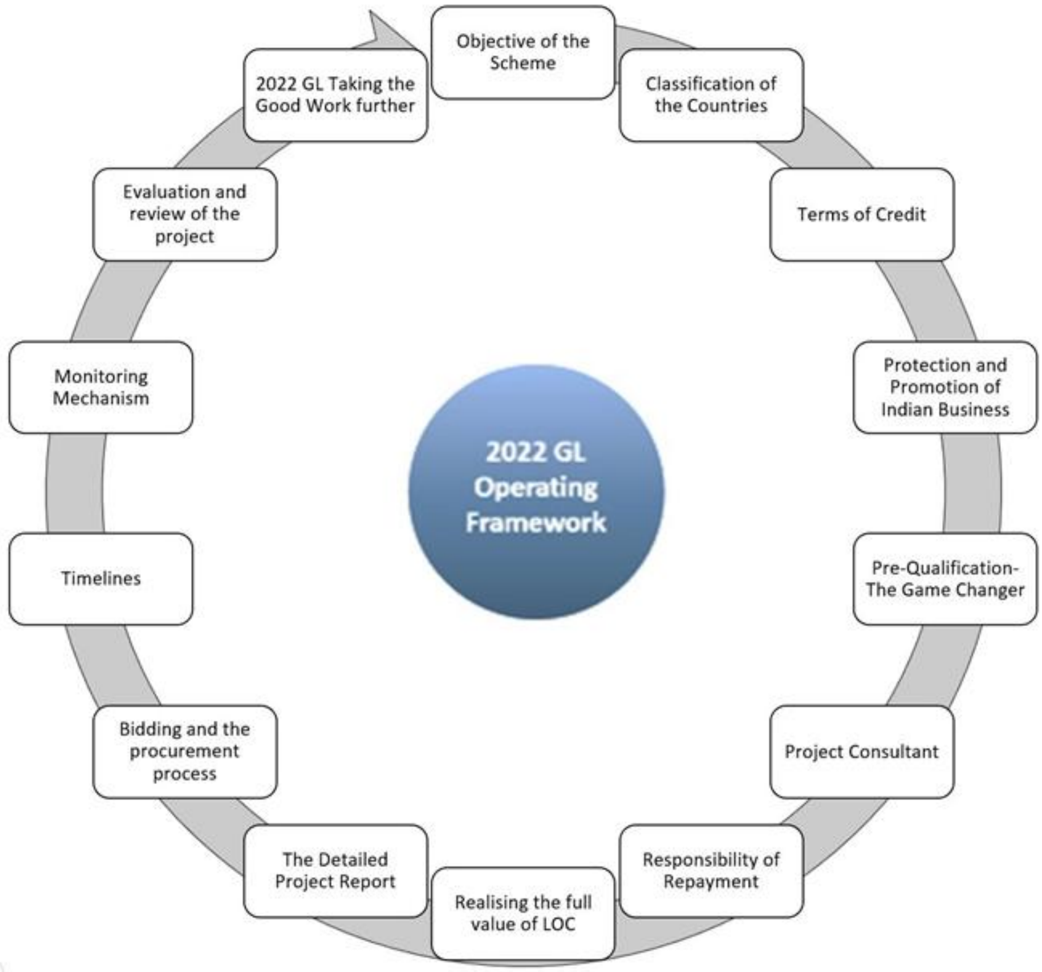


Fig. 4. The 2022 GL operating framework.

Table 4: Classification of Countries.

Basis	2004	2010	2015 and 2022
Classification of Countries	**4 Categories-** i. HIPC- High Indebted Poor Countries under the Paris Club Initiative ii. LIHD- Low Income and medium to high level of debt iii. MIHD- Middle-level income and medium to high level of debt iv. MILD- Middle-level income and low level of debt	**3 Categories-** (i) Heavily Indebted Poor Countries (HIPC) (ii) Low-Income Countries and LDC Countries (iii) Middle Income Countries	**3 Categories-** (i) Category I- Low and Lower Middle-Income countries for which IMF has prescribed a minimum binding concessional requirement. (ii) Category II- Low and Lower Middle-Income countries for which there is no minimum binding concessional requirement (iii) Category III- Other developing countries

Source: Compiled by the author from policy documents.

Accepting the minimum concessionality requirement, as determined by the IMF- the best agency to assess the economic fundamentals of a country, lend credibility to the classification. It also rules out any controversy among borrowers regarding terms of credit of loans offered to them vis a vis, say, their neighbours.

In order to make credit more liberal, in case the IMF-ordained binding concessional requirement is more than i.e., offered under 2022 GL to any country, the same will be deemed to be part of 2022 GL (clause 4.2 of 2022 GL). Another advantage is that such a classification is not frozen in time. A comparison of the classification provided in Annexure 1 of the 2015 GL and the 2022 GL reveals the following positions. In 2022 GL, 26 countries are in Category 1, and 57 countries are in Category 2, respectively, as compared to 27 and 59 countries in 2015 GL. Grenada has been deleted from the list of Category 1 countries and is also not in Category 2 countries. In the category –2 countries list, the following countries have been added, Angola, Eswatini, Republic of Cabo Verde, Republic of Congo, and Tunisia. However, six countries have been deleted, namely Armenia, Cape Verde, Georgia, Kosovo, Samoa, and Swaziland. This testifies to the dynamic nature of the ranking of the countries. Going further, the guidelines have factored an additional tenor of 5 years with an additional moratorium of 2 years for infrastructural projects costing USD 200 mn or more or for projects of strategic importance costing USD 100 mn or more (clause 4.3 of 2022 GL). Additionally, the guidelines permit the financing of equity of the government partner country in a Special Purpose Vehicle/Joint Venture Subsidiary for project execution (clause 4.4 of 2022 GL). However, 2022 GL adds that if the partner government has selected an Indian entity, the possibility of co-financing with a multilateral financing institution can also be considered.

Terms of Credit

The attractiveness of a financial product is contained in its terms of credit which is a combined function of the Rate of Interest, Tenor, Grace Period, and Grant Element. It has been as under during the three guidelines.

Table 5: Guidelines for terms of credit.

Terms of Credit	2004	2010	2015/2022
a. Rate of Interest (p.a)	(i) 1.75 (ii) L+0 (floating) (iii) L+0 (floating) (iv) L+0 (floating)	(i) 1.75% (ii) 2.00% (iii) L+0.5%	(i) 1.50% (ii) 1.75% (iii) L+1.5%
b. Maturity (Years)	(i) 20 (ii) 15 (iii) 12 (iv) 8-10	(i) 20 (ii) 10 (iii)8	(i) 25 (ii) 20 (iii) 15
c. Moratorium (Years)	(i) 5 (ii) 5 (iii) 4 (iv) 2-3	(i) 5 (ii) 3 (iii)3	(i) 5 (ii) 5 (iii) 5
d. Grant Element (%)	(i) 41.25 (ii) 35.11 (iii) 28.75 (iv) 17.11-24.56 It is built in terms of credit 1.24% of LIBOR	(i) 56.4 (ii) 37.3 (iii) 34.4 0.60% of LIBOR. (6 months, US$)	(i) 37.45 (ii) 31.37 (iii) 24.31 (iv) Grant element calculated as per IMF prescribed formula
(i), (ii), (iii) & (iv) represent the categories of countries as presented in table 9.			

Source: Compiled by the author from policy documents.

The Terms of Credit in 2022 GL remain the same as in 2015 GL, but the column depicting the grant element has been removed; rather, three explanatory notes have been appended. They define that the grant element is the difference between the Net Present Value of the loan repayments and the actual amount of loans and, further, that it shall be calculated as per the IMF prescribed format. It specifically lays down that for category 1 countries, a minimum of 35% grant element is necessary. Category 3 is the only country classification where LIBOR is introduced as a benchmark (clause 4 dealing with Terms of Credit says that for Category 3 countries rate of interest will be linked to an equivalent rate based on the Alternate Reference Rate, approved by GOI in the transition away from USD LIBOR, as per extant Regulatory Guidelines). The need for this clarification is due to the phasing out of LIBOR (https://www.forbes.com/advisor/investing/what-is-libor/).

In the 2010 GL, the tenor was 20, 10, and 8 years respectively, for the three categories with a grant element of 56.4, 37.3, and 34.4 %, respectively. The decline in the tenor and grant element, particularly between categories one and two, was sharp. The 2015 GL increased the tenor and, at the same time, reduced the gap, and so was the case in the grant element. With the uniform moratorium of 5 years across the categories, the interest rate and tenor of loans remain the same in 2022 GL as in 2015 GL.

In addition, certain administrative charges are also payable, like commitment fees and management fees. The idea of the commitment fee is to provide a deterrence so that the funds do not remain idle. Where the prescribed deadline for withdrawal of funds is violated, the commitment fee is available at the rate of 0.5% per annum to the Lending Bank on the amount of credit remaining undrawn in respect of each contract. To give more period to Category 1 countries, it is made clear that the commitment fee will start accruing only after the expiry of 12 months from the date of each contract. In contrast, in the case of Category 2 and

Category 3 countries, this window is only for three months. In addition, a Management Fee @ 0,50% is to be paid to the Lending Bank by Category 2 and Category 3 partner countries.

Protection and Promotion of Indian Business

But how are Indian business interests protected and promoted? The policy states that up front, a minimum of 75 per cent of the contract goods and services must come from Indian sources. Exceptional circumstances (especially in civil construction projects) may permit a suitable relaxation (not exceeding 10 per cent), determined on a case-by-case basis. (clause 6 of 2022 GL). Given the experience that execution of various LOCs was held up because of such requests. In 2015 GL, it was made clear that relaxation should be sought before the project is tendered. The guidelines have further clarified that LOCs may finance up to 100 % value of the contract on FOB/DFR/CIF/CIP basis.

Table 6: A Snapshot.

	2004	2010	2015 and 2022
100% of the value of the contract on	FOB basis	FOB/CFR/CIF/CIP Basis	FOB/CFR/CIF/CIP Basis
The percentage of the total credit should be used to import goods and services from India	85%	75%	75%
Relaxation	None	A 10% relaxation may be considered on a case-to-case basis for exceptional reasons, especially in civil construction projects	A 10% relaxation may be considered on a case-to-case basis for exceptional reasons, especially in civil construction projects

Source: Comparison made by author

Pre-Qualification-The Game Changer

To improve the process of the award, the pre-qualification process was introduced to identify Indian contractors best suited for the project. After the LOC is made effective and DPR has been finalised, EXIM Bank invites Expression of Interest and undertakes a pre-qualification exercise to hire an Indian Project Monitoring Consultant (PMC)/ Engineering, Procurement, and Construction/Supply contractor for the management and execution of the project. Where conditional approval has been conveyed in the absence of DPR, EXIM Bank undertakes a pre-qualification exercise to shortlist Indian companies for the preparation of DPR as well. After the DPR, a competitive bidding process is undertaken by the borrower government for the selection of an Indian PMC/contractor from the pre-qualified companies.

Scrutiny of tender documents, bid evaluation reports, and draft contract agreements by EXIM Bank was also introduced to improve transparency in selection and address previous concerns with the scheme wherein a set of companies were repeatedly bagging contracts from borrower countries. This also led to an enhanced role of EXIM Bank in scheme implementation.

The introduction of the pre-qualification process has not only empowered the Exim Bank but, more importantly, is the single most factor that has resulted in the selection of reputed Indian contractors. This is the best service for the cause of IDEAS and has been successful in removing the bad tag that got attached to the scheme in the earlier days.

Project Consultant

The guidelines have taken care of a major criticism of India's LOC Scheme by providing for the appointment of an Indian PMC as also Consultant when and where felt necessary. In clause F of the OpGL, through fair and transparent bidding. 2022 GL has made another important decision. An independent Indian Project Management consultant (PMC) is a must for all projects of and above USD 10 mn. In case projects are less than this amount, or in case of supply projects, the decision to appoint PMC can be taken on a case-to-case basis, and they can also be appointed, in case of need, for preparation for DPR. The scope of work of PMC has also been laid down in the Op GL

The scheme also states that the partner country can appoint a consultant of international repute at their own cost. 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 partner Government. The 2015 GL in clause-F (i) allowed the partner government to appoint PMC on a nomination basis, but this discretion has been denied in 2022 GL in furtherance of the bigger objective of setting up transparent and fair systems.

Responsibility of Repayment

The partner government (clauses 4.5 and 4.6 of the 2022 GL) has been entrusted with the following responsibility: -

a. Repayment and servicing of the loan

b. Provide a sovereign guarantee for payment and servicing of the loan in case the loan is taken by an agency of the partner government.

c. Interest on due days and principal installments to the Lending Bank on due days as per the agreed repayment schedule.

d. The obligation of the partner government is absolute, irrevocable, and not contingent upon repayment by sub-borrowers, completion of projects, etc.

Realizing the full value of LOC

In order to have the maximum value for the bank, the LOCs are free from all kinds of taxes and duties of any nature**,** including Corporate/Personal/Value added Tax/ Import/Custom duty/Social Security Contributions case the exemption for tax exemption for service to be rendered, the same is required to be mutually agreed upon before utilization of the LOC. 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. Further, no tax is liable to be paid from the LOC proceeds

The Detailed Project Report

For the DPR, 2010 GL was 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, should be submitted. As a safeguard, it does go on to say that details are to be fully developed before according to approval to the LOC (clause A (i)(a), Annex 11 of 2010 GL). In the case of LOC of goods and services, it will be sufficient if the product, quantity, and estimated cost are indicated (clause A (i)(b), Annex 11 of 2010 GL).

The loophole that the DPR could wait for led to massive slackness in the actual implementation of the scheme and introduced undesirable practices. The intervention was made in 2015 (clause A of Operational Guidelines); before approval is granted, DPR must be available for appraisal.

2022 GL recognizes two exemptions:

1. Given the political significance of LOC, it has been stated that commitment made at a high political level amounts to “in principle” approval, but that does not absolve the requirement of DPR, and it is the responsibility of the Indian Diplomatic Mission (IDM) and the partner government to prepare the DPR at the earliest.

2. As many partner governments may not have the capacity to prepare the DPR, the guidelines state that the project outlines and feasibility studies may be furnished so that the LOC/DPRs can be prepared. For doing so, an amount not exceeding 1 per cent of LOC can be utilized for the preparation of DPR and adaptation/appraisal thereof. To ring-fence relaxation, it states that further utilization of LOC will be subject to DPR proposal, finding, and approval thereof.

The 2022 GL has, for practical reasons, provided that the DPR should not be more than 12 months it was 6 months in 2015GL) before the approval of LOC and any major deviation like a change of site and change for scope and other commission terms has to be approved before the approval. The preferred currency for the project is USD. Needless to say, the DPR must present a technical and financial sustainability project, most importantly to ensure that there are a minimum number of missing gaps. To see that the project is fully funded, it is provided that the DPR must indicate the requirement and source of funding by the partner government.

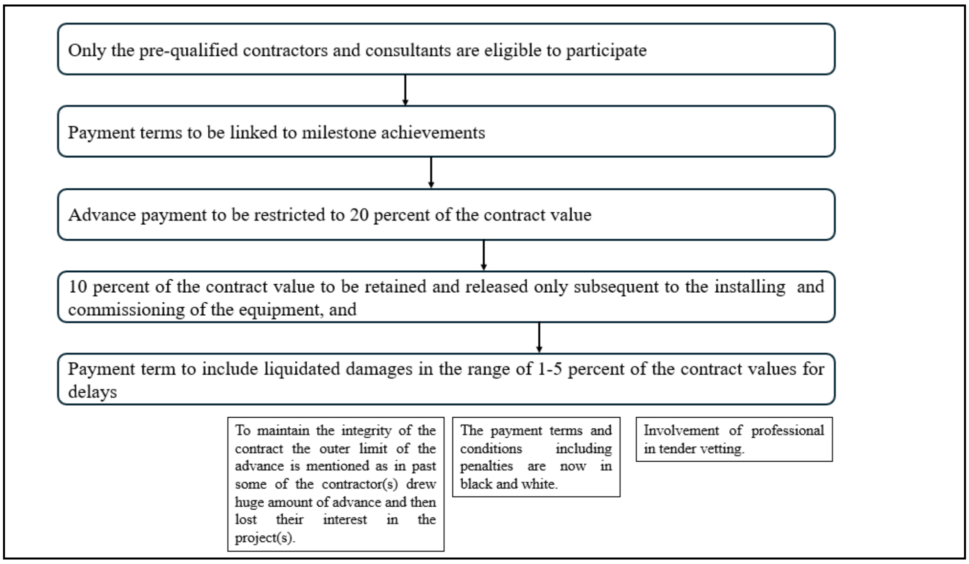


Fig. 5. Tendering Procedure.

Bidding and the Procurement Process

The entire emphasis of Op GL is to ensure that the bidding and procurement procedures are transparent, fair, and equitable and go through the process of widespread publicity and elaborate competitive bidding process. This is very necessary since, unlike multilateral and bilateral banks and agencies, the LOC works on the principle of a country system of procurement which in the past has seen many non-standard and suspicious practices. To make things more serious, IDMs have been advised to remain vigilant to ensure transparent and due scrutiny in the award of contracts by the partner government (clause C (v) of Op GL). Any deviation from the procedure will not come into effect unless MEA and DEA grant approval to such contracts after examining the detailed justifications and recommendations of the Lending Bank (clause-C (iv) of Op GL). The guideline also creates the mechanism of pre-qualification exercise for each project which Lending Bank will do at its own cost (clause-C(ii) of Op GL).

For the bidding process under the LOCs, eligibility of participation shall be compliant with extant GOI Rules and are limited to Indian entities registered in India and/or incorporated/established under any law in force in India. However, such an entity should not be blacklisted by Multilateral Development Bank, GOI, or the partner government (clause C (ii) of the Op GL).

The guidelines work on the premise that IDMs have to be fully integrated with the process of LOC, and therefore, it makes it clear that the partner government should make the tender documents available to the IDMs to purchase by potential Indian bidders besides uploading them online (clause D (iv) of Op GL).

Timelines

The position as given in clause 8 of 2022 GL is compared with clauses 7 to 9 of 2015 GL and is depicted in the Table 12 below.

Table 7: Timelines.

Activity	2015 GL	2022 GL	Remarks
Award of Tender	Within 18 months after signing of the LOC, failing which LOC shall lapse unless extended	At least one contract should be awarded within 18 months of signing, failing which LOC shall be deemed to have lapsed	To make it practical, the concept of one contract was introduced in 2022 GI.
		Further, all contracts must be awarded within 48 months from the date of signing of LOC The balance unallocated amount of LOC, as at the end of the 48-month period, shall lapse.	To give a date for closure, 2022 GL has introduced the end month.
Automatic suspension of LOC		If not signed within a period of 18 months from the date of approval by GOI	Suspension was not a part of 2015 GL
Automatic annulment of LOC	If not signed for a period of 18 months from the date of its approval by DEA. However, for justifiable reasons extension by 6 months permissible	If not signed within a total period of 24 months from the approval	Taking a practical view the period has been extended from 18 to 24 months.
Terminal disbursement date (TDD) (both project exports and supply contracts)	60 months after the scheduled completion date of a project. The unutilized portion of the contract will stand cancelled at the end of 60 months.	48 months from the scheduled completion. The unutilized amount of the contract will stand cancelled at the end of 48 months	For speeding up the contract disbursement date has been reduced by 12 months.

Source: Comparison made by author

While the 2015 GL provided for an extension of 6 months only in case of annulment of LOCs, the 2022 GL is more liberal and allowed this extended window of 6 months with respect to all timelines, that is, suspension/annulment/award of contract/TDD. This has arisen out of the practical difficulty that the practitioners have felt, particularly in countries with poor institutional frameworks and limited capacity.

Monitoring Mechanism

One of the biggest reasons why LOCs were not performing the way they should have been was a lack of institutional mechanisms. This was attempted to some extent in 2010 GL. Nobody owned the LOCs, and they were left to the contractors. The IDMs were very reluctant to get associated with such LOCs. This was a very strange situation. Even small bilateral banks are very passionate about monitoring their projects and have laid down very detailed, at times excessive, guidelines to monitor the execution of the project.

The edifice raised by 2010 GL was immensely improved in 2015 GL, and the same stands transported to 2022 GL. The mechanism as it exists now is as under:

a. Responsibility for setting up a monitoring mechanism is on the partner government, which must include a representative of the Lending Bank and the IDM to ensure that projects are delivered in accordance with DPR and on time, and within the cost.

b. The partner government has to send regular progress reports on a quarterly basis to GOI through IDM.

c. Status report on project execution every quarter till completion of the project by executing authority.

d. In case a project is not proceeding in the desired manner, or there is a complaint, the responsibility has been cast on the IDM to investigate and redress the issue and do so in coordination with the partner government and by organising joint site missions.

e. Most importantly, the Standing Committee compromising officers of MEA, DEA, and Lending Bank have been constituted to review the LOCs bi-annually.

f. Once a project is completed, a status report on project execution has to be submitted by the executing authority of the partner government to GOI and the Lending Bank.

However, the positive intervention through the 2015 GL is to arrange for the appointment of a Lender's Engineer by the Lending Bank at its cost for independent monitoring of the project if it is considered to be necessary. The partner government and all contractors and consultants are under an obligation to provide necessary support and assistance to the Lender Engineer. The strength of the provision is that the guidelines have come up with a specific solution to a project going off track.

Evaluation and review of the project

When a project gets completed, there is a requirement for a Comprehensive Project Completion Report (PCR) at the cost of the partner government. The PCR should look at the physical and socio impact economic impact of the project. The PCR has to reach the Standing Committee through the Lending Bank, IDM, and MEA.

Clause A (c) of Op GL makes a further confidence-building safeguard which says that an amount up to 0.50% of the LOC can be utilised for evaluation of the project on completion by the Lending Bank or an independent agency appointed by it, as mentioned under clause 11 (iii) of the scheme.

2022 GL Taking the Good Work further

The biggest contribution of the 2015 Guidelines is that the unsavoury, unscrupulous, and low-skill companies are out of the game. The 2015 GL changed the landscape, and its integrity was maintained in the 2022 GL while introducing more progressive and robust features like

a. More favourable terms of credit for partner government.

b. Re-classification of countries on the IMF criteria.

c. Closer scrutiny of DPRs, pre-qualification criteria, tender documents, bid evaluation, and draft contracts by Exim Bank to eliminate hurdles and issues that could crop up during project implementation.

d. Mandatory Detailed Project Report (DPR), Appraisal of DPRs for better assessment of financial needs and project implementation.

e. Appointment of a Project Management Consultant (PMC) for closer supervision of project execution.

f. Improved transparency and fairness in bidding.

g. Introduction of the pre-qualification process to identify the Indian contractors/suppliers best suited to execute the contract.

h. Intensive review of projects and close project monitoring through videoconferences, site visits, monthly/bi-monthly reviews by MEA, EXIM Bank, partner government authorities, and stakeholders, including PMC and EPC Contractors.

i. Introduction of milestone-linked payment terms for enhanced control over disbursements with the objective of maintaining parity between the financial and physical progress of the project.

While the 2022 guidelines provide a comprehensive structural framework for India's LOC policy, their implementation brings to light various challenges that affect the efficacy and impact of LOCs. The subsequent section examines these challenges, identifying key areas where the LOC policy faces obstacles, and offers actionable recommendations for addressing these issues to enhance the effectiveness of India's development cooperation strategy.

Challenges of LOC Policy and Recommendations for Improvement

The biggest threat to the sustainability of the scheme is the mounting overdues. The scheme is only 15 years old, and almost for the last number of years, the world has been passing through economic difficulty. It started with the crisis of 2008, which drastically reduced commodity prices, impacting the capacity of energy source partner countries. The pandemic, too, delivered a body blow to the economic structure of the partner countries. Rising LIBOR and depreciation of INR vis-a-vis USD adversely affected Exim Banks' liquidity position causing a loss in its interest income.

Though more than 300 LOCs have been approved because of the moratorium and tenor of the loan, so far, only 11 LOCs have been fully repaid. The current situation regarding the continuance of repayment has clouds of doubts hovering. It is common knowledge that LOCs given to Sudan, and Eritrea are not paying anymore. The position of LOCs extended to Mozambique and Ethiopia also under stress. The situation reported by the Republic of Congo, Djibouti, Nepal, Burundi, Fiji, Guinea Bissau, Zambia, Zimbabwe, Comoros, and Cuba is also alarming. The recent development in Sri Lanka will unsettle the balance sheet of Exim Bank in great measure.

Where causes of default are long-term, LOC is either restructured or classified as a default case. In case of later, DEA compensates the Exim Bank to the extent of 90 % of the interest overdue only. Hence the compensation to the Exim Bank is not complete.

The concept of sovereign guarantee and counter-sovereign guarantee is a mirage. If a country decides not to pay because of its own problems, the guarantee becomes a paper only. There is another complication. If GOI agrees to the invocation of the guarantee, there will be no end to it, prompting stressed partner countries to prefer to default, seriously challenging the fundamentals of the scheme and threatening the stability, rating, and credibility of Exim Bank.

The problem of overdue is likely to progress as repayment of more and more LOCs will become due, with the lapse of time and also because of the global economic situation. The GOI must, therefore, pause and draw up a realistic plan for the future, keeping in view the risk assessment of the countries and their capacity to pay. The further approval of the LOC cannot simply be a function of diplomatic recommendation alone.

Terms of Credit

A major anomaly is introduced in the credit structure. With the weakening of the LIBOR in the recent past, particularly during the Covid and prior to that during the global financial crisis where LIBOR hovered around 30 %, the interest rate for the third category countries has been then less than first and second category countries. LIBOR is now being phased out, but the anomaly may still continue. There has to be an interest rate keeping in view the following two points: -

a. Reference to unpredictable benchmarks be removed, and there should be fixed rates of interest for each of the three categories;

b. States which are doing economically well should not be penalized for their performance by a steep interest differentiation.

Content

There are practical difficulties with the requirement of Indian content as, by its very nature, it is in contradiction with the requirement of local involvement, which is necessary to generate goodwill and to gain acceptability. There are also practical difficulties in adhering to this requirement in projects like the construction of roads, earthen dams, land reclamation, dredging, and in some specific projects where the Indian exporters may not have very robust expertise. It is, therefore, felt that we should not be very insistent on this requirement, particularly in the project of civil instruction, strategically important countries in the neighborhood, and where the Indian expertise in the project sector is limited or nonexistent. There is, however, a word of caution. Due diligence and enquiry should be made to safeguard the interest of Indian exports before agreeing to such a relaxation.

Detailed Project Report

The most important reason why the program just could not take off was the lopsided manner in which projects were executed in the absence of a proper DPR or, worse, flawed DPR. There are reports that, in many cases, DPRs were prepared by the contractors who were eventually selected to execute the project causing irreparable damage to the delivery of the project and also the goodwill of the country. The insistence that DPR in 2015 GL, as a condition precedent to start the project, retrieved and repaired the situation.

The practice is that the DPR is between MEA and Line Ministries, which have very little enthusiasm for examining the documents in detail and with precession. The Exim bank comes into the picture once DPR is finalized by MEA in consultation with line Ministries. This is an imperfect system as it is Exim Bank is responsible for the implementation of the DPR, and it is handed over a DPR that has been prepared without any dialogue with them. The result is that if Exim Bank has an issue with DPR, it obviously causes delays and back-and-forth references.

The official position is that the involvement of the Exim Bank in DPR preparation leads to a conflict of interest. However, it is not understood what is gained by excluding the Exim Bank, which is the main stakeholder, and moreover, all multilateral and bilateral developmental banks take full responsibility for the DPR. In the view of the author, the task of finalization of DPR must be transferred from MEA to Exim Bank as they are the right agency to guide the preparation of the DPR. This is a good way to take care of the technical quality of DPR which is a persistent issue. Further, the appointment of a PMC for DPR also calls for a standard protocol, and there is a need to make PMCs accountable for the correctness of all provisions of DPR, including tendering procedures.

Another unintended situation is contemplated in view of the provision that the cost of DPR is charged to the LOC project cost. The problem with this arrangement is that if, after DPR, the identified project is found to be infeasible, how will the payment of DPR be booked to a non-existent LOC project? A possible way out is to create a budget in MEA to address such costs and let it be detached from the project cost of the proposed LOC.

Delays

The informed sources in Exim Bank have shared with the author on condition of anonymity that it takes about four years before the stage of contract signing is reached. This defeats the efficacy of IDEAS and needs to be probed

Unlike India, many partner governments have to seek rectification of the agreement from their legislature, and in many cases, clearances are required by IMF, resulting in a delayed start. The lag continues during the period of operationalisation, project commitments, and finally, project completion. Whenever a large umbrella project is approved containing many projects, it further elongates the process. The lack of equality in terms of procurement standards, legal system, and implementing processes among countries explains different leads of the progress of projects in various countries.

Land Acquisition, planning, and approval delays, dilatory decision-making, and unpredictability of tax regime and industry regulations are major institutional challenges. Limited availability of skilled and affordable labour and low labor productivity, and non-tariff barriers such as high visa fees, non-issuance of multi-entry visas, and quota for national labor, are also factors that impede the speedy execution of projects. It has also been reported that many of the EPC contractors do not have the desired level and number of qualified manpower and machinery.

What can be contemplated is the simplification of procedures, paperwork, and processes. For all partner countries, except for Nepal and Myanmar, the approval lands up at the level of the Finance Minister before approval is given since IES is administrated by IDEA. It is time to seriously consider housing the policy function and IES for the entire portfolio with MEA so as to cut on pre-approval time.

While there is a lot to be done in terms of tightening of documentation, legal safeguards, and agreement writing, there is definitely a need to lay down strict timelines for each activity, and it will be even better if they are put in the public domain through amendment in the 2022 GL.

Evaluation

Opening more IDMs in the African region and using NETRA is likely to improve the institutional resources for more effective monitoring and evaluation. GIS mapping of assets is also recommended. It has been seen that the partner government, which has been advised to submit an impact assessment report of the project, is not interested in doing so. If the GOI is serious, it has to take responsibility for doing it and must also provide for funding of such evaluation operations.

Extending the Scope

The choice should not be confined to infrastructure projects but should include investment projects also leading to the downstream cycle of development activities of manufacturing and services. The possible areas are Railway projects, Automobile, Textile, Chemicals, and Engineering, etc. The purpose of IDEAS can only be fully served if we create a system where the Indian companies continue much after the expiry of the project financed by LOC.

Empowering the Exim Bank

Exim Bank is performing a peculiar function as compared to commercial Banks. The most striking distinguishing feature is their lack of choice in choosing their clients. Their regulatory oversight like norms of income assets classification and provisioning have to be different if not exactly liberal recognizing the inherent constraints of Exim Bank. Some suggestions are as under

a. The capital base of Export Credit Agencies (ECA) in countries like South Korea, Canada, the US, and Japan is guaranteed/supported by their governments. In India, the access to funds by the Exim Bank is constrained by the commercial rates applicable to its domestic borrowing. Surprisingly, the GOI has made available this guarantee to the recently set up Development Financial Institutions like the National Bank for Financing, Infrastructure and Development (NBFID) for its borrowing from multinational institutions, sovereign wealth funds, and other foreign funds.

b. The borrowing limit of Exim Bank is ten times of its net owned funds, no different from commercial banks. It can be raised to twenty times as is the case of ECAs of other countries, with suitable board-level safeguards.

c. There is also a strong need to increase the degree of concentration of exposure of the Exim Bank by tweaking the prudential limit of Single Borrower and Borrower Group prescribed by the RBI to enhance the bank's funding of commercial projects.

d. RBI’s IRAC norms can also be relaxed for Exim Bank’s buyer's credit under the National Export Insurance Account. Like ECAs of the US, Japan and America if income tax is exempted, that much surplus funds will be available to upscale the credit operations.

e. Exim bank is also subject to incidence of withholding tax on oversees borrowing, restricting their ability to offer competitive credit packages as compared to international banks and ECAs of other countries. Waiving off the withholding tax of overseas borrowing of Exim Bank will also help it to grow.

f. If the interest rates in programs like National Export Insurance Account and Concessional Financing Schemes, which are currently linked to floating interest rates, can be tailored to meet the requirement of minimum grant element mandated by the IMF/WB for LDCs/HIPCs, then with the meagre additional burden the concessional lending window of the country will enhance substantially.

g. All multilateral and bilateral financial institutions have a very robust procurement cell comprising of full-time specialists and a wide range of consultants available on call. Given the limitation of being a government bank, it may not be possible for Exim Bank to hire expensive staff in its role, but it must be allowed to have the best procurement consultants on market rates.

Looking for Resources to Supplement the Indian Effort

Meeting the aspirations of the partner countries is a big challenge in the face of the inelastic availability of corresponding funds. It is time to explore triangular cooperation with foreign donor agencies and multilateral organisations. Small grant assistance to private sector enterprises to support employment generation and livelihoods in partner governments have been recently implemented by USAID, DFID, KFW, etc. Such examples can also be studied and if found feasible, be used by India to provide small grant assistance and to partner with NGOs for additional sources of funding. Indian companies can even be authorized to use their Corporate Social Responsibility resources for augmenting government-led development cooperation. It may even be worthwhile to see whether private equity or multilateral financing can be a source of funding for IES.

Collaborating with Other Partners

Though almost all the LOCS are extended to sovereign Governments but some of them are being routed through the ECOWAS Bank for Investment and Development, a regional institution in West Africa, which lends the proceeds to its member countries. It is high time that the Exim Bank should collaborate with at least the African Development Bank in cases where Indian exporters have secured procurement contracts. If the experiment is successful, it may even think of collaborating with other regional banks in the African region.

Of late QUAD has become a very powerful alliance, particularly for diplomacy and defence. it should also explore joint financing of projects by involving Exim Bank, Export Finance Australia, the Japan Bank for International Co-operation and the Japan International Cooperation Agency, and the newly formed International Development Finance Corporation of the USA.

Time to Pause, rethink and realign

Long-term five-year ODA strategy for India outlining the maximum number of commitments that can be undertaken under the scheme over the next few years, in consultation with EXIM Bank. The long-term strategy for building up the development assistance should be developed by keeping in mind the various interests of GOI from time to time in achieving the desired outcomes for development as well as building a steady line of development assistance via official channels. The focus of the development assistance should revolve around emerging areas after the pandemic, such as health infrastructure, digitalization, and providing key services to other nations. Additionally, the EXIM should look into the Bridge Financing Program, which will allow exports to continue through short-term (i.e., one-year) financing of exports as project exporters develop substantial competitiveness in specialized areas.

CONCLUSION

The journey of LOC is just about two decades old, but it has been quite a roller coaster ride. During IDEAS' first few years, most of its LOCs were supply contracts. Soon localised civil projects became the favourite. Even though physical infrastructure projects are still the most important part of the portfolio, partner governments are now also demanding credit lines based on knowledge.

Under LOCs, the partner countries get lower interest rates, a long grace period of 5 years, and a longer time to pay back the loan, 20 to 25 years. Partner countries have a lot of freedom when it comes to picking the sectors and projects, they want to work on based on their own national priorities. Also, a good deal of any development project is done by local subcontractors using local materials, which helps the local industry and economy in the partner countries.

LOC shows a lot of attention to regional connectivity projects, and they act as force multipliers to speed up regional growth and development, help people get to know each other, and promote trade and commerce. In four countries near us, LOCs have been used to start 100 connectivity projects worth about USD 7 bn, of which 50 have already been finished. Some of the famous projects under the LOCs include the Parliament Building in the Gambia, the Presidential Palace in Ghana, the Kosti Power Project in Sudan, which provides one-third of the country's power, the Nyaborongo Power Project in Rwanda, which provides one-fourth of the country's power, the Railway Bridges and Signalling Systems in Bangladesh, and the rebuilding of the Sri Lankan Railways after the war, among others. At the cost of USD 1.24 bn, India is building Mongolia's first oil refinery. This will give this landlocked country a very important source of energy security. India has set up the first factories in many countries, like the first cement plant in Djibouti, the first milk processing plant in Mauritania, and the first sugar factory in Ghana, among others. More than 2 mn people in the Dar es Salaam area can get clean water to drink from Tanzania's Upper Ruvu Water Treatment Plant, meeting 26% of the water needs of the capital city.

The portfolio of LOCs has been made more diverse in terms of both geography and industry. Geographically. LOCs have now been made longer to include Russia and countries in Central Asia. Elaborating on the expanse of the portfolio, Prime Minister Narendra Modi, during the inauguration of the new Supreme Court building in Mauritius on July 30th, 2020, said, "India's approach to development partnership is mainly human-centric. India had undertaken projects that were diverse – commerce to culture, energy to engineering, health to housing, IT to infrastructure, and sports to science".

Unfortunately, to date, there is no study or empirical data available in the public domain on the various aspects of the scheme's furtherance of geo-strategic objectives, socio-economic benefit to the partner government, and export benefit to India, market penetration of Indian companies, etc.

However, the assessment of the scheme and LOCs is no hostage to any empirical data. Diplomats are quick to correlate it to the various factors contributing to Indian stature. For the growing stature of India in the international polity, IDEAS is a necessary appendage. After all, the scheme got revised in 2015 without there being any formal study, but at the same time, enough word-of-mouth feedback was available.

There is no denying the fact that Indian export gets support from IDEAS, but even if 75 % of all contracts are sourced from India, it is still a very meagre part of Indian exports. Hence, export promotion alone does not justify the running of the scheme, but nonetheless, it is a very welcome attribute of this scheme. M/s Shapoorji Pallonji completed an iconic project of Ghana's Presidential Office under a LOC of USD 60 mn and later bagged a large non-LOC contract for the Tema-Akusombo Railway line project in Ghana worth around USD 400 mn. Similarly, the successful supply of 6 DEMU train sets supplied by RITES to Sri Lanka under a LOC project of USD 58 mn led to extensive press coverage and public appreciation in Sri Lanka, resulting in a repeat order to RITES of more DEMU train sets for Sri Lanka worth USD 22 mn.

This section reviewed the journey of LOCs, tracing their evolution and examining their current status. Additionally, the 2022 GL operating framework was discussed in detail. There is a detailed account of the challenges before the scheme and recommendations of the author. It is safe to assert that the Scheme has yielded significant diplomatic and considerable economic benefits to the country. It has also served foreign countries well in terms of infrastructure building, capacity building, and generation of livelihoods. This has translated into goodwill and tangible contribution to the stature of India as an emerging economy and diplomatic powerhouse. It has also successfully positioned India as a rival to China, though it is a difficult position to maintain in the long run because of the very deep pockets of the eastern neighbour of India.

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-classifying 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 market the product with a solid professional touch.

In terms of volume and reach, the growth is phenomenal, but so are the challenges. The challenges have also shifted from implementation and structural issues to the emergence of existential issues mainly relating to the economic sustainability of LOCs. The issues have more to do with the financial architecture of the scheme, and the bottom-line requirement is to find possible mechanisms to keep the scheme afloat and, at the same time, to improvise it so that it can meet the new threats. The Indian planners have so far been successful in handling the roadblocks that they encounter in this journey and must show the same grit for innovation and creativity to take IDEAS further in a manner that is sustainable and beneficial to all the stakeholders.

FUTURE SCOPE

The future scope of India's Lines of Credit (LOCs) lies in transitioning from a project-based lending model to a more resilient, strategically integrated, and economically sustainable architecture.

Central pillar of the Global Development Compact, LOCs will increasingly focus on regional connectivity as a force multiplier for trade, particularly in India's immediate neighborhood through the "Neighbourhood First" and "Act East" policies. The Government of India (GOI) must adopt a more rigorous, risk-assessed approach to future approvals rather than relying solely on diplomatic recommendations.

India's future strategy should emphasize triangular cooperation with foreign donor agencies and multilateral organizations. Joint financing initiatives within the QUAD alliance—with US International Development Finance Corporation and the Japan Bank for International Cooperation and African Development Bank etc., can help Indian exporters penetrate new markets more effectively.

Future iterations of the LOC guidelines (post-2022) should aim for greater flexibility in Indian content requirements, especially for civil construction in neighboring countries where local involvement is crucial for gaining goodwill. There is also a need to empower the Exim Bank.

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