

Under-Utilisation of Foreign Aid In India: An Issue of Concern

* Dr. Kulwant Singh Phull

The coming in of foreign aid, in India, has coincided with the starting of economic planning, which has been "most fortunate from the point of view of evolving some kind of rationality and order in formulating requests for foreign aid" (Rao and Narain, 1963: p.16). During the successive five year plans, emphasis of public sector investment on basic and heavy industries such as: iron and steel, machine building, fuel and power, chemicals etc.; expansion of transport and communication infrastructure; urban development; and the like, along with limited savings and other varied but complex development requirements compelled India to seek foreign aid in the form of both loans as well as outright grants. Although, its share has remained less than 10 percent of the total investment in the public sector, yet, its worth lies in the fact that some of the important projects in various sectors have been funded by foreign aid. Even in the wake of liberalization, the role of foreign aid has gained further significance in view of the large gap in funding requirements for social and infrastructure sectors in order to acquire competitive strength under the globalized economic framework. A significant part of it also needs to be channeled towards programs for development of weaker sections so as to ensure the active participation of all groups in strengthening of the economy and accessing the commensurate benefits (Govt. of India, 2001:p.iii). It also remained a major factor responsible for the rising levels of investment during the successive five year plans, particularly upto the early eighties, although bulk of resources required for development have been generated indigenously. However, one of the peculiar features of foreign aid in India has been that despite authorised with great difficulties, mostly it remained under-utilised.

In the present paper, an attempt has been made to examine the under-utilisation of foreign aid in India with the following specific objectives:

1. To examine the authorisation as well as utilisation of foreign aid in India and the changes there in it;
2. To evaluate the main problems responsible for the under-utilisation of foreign aid in India; and
3. To suggest certain policy measures to improve its utilisation.

DATA BASE AND METHODOLOGY: The paper being country specific, relied on secondary data, which have been compiled from the *Economic Survey*, published annually by the Economic Division, Ministry of Finance, Govt. of India and the *External Assistance*, annual publication of the Aid, Accounts and Audit Division of the Ministry of Finance, GOI.

Tabular analysis along with simple statistical tools has been applied to analyze the collected data. The linear trend of the type $Y = \alpha + \beta t + \mu$ have been fitted to evaluate the authorisation as well as utilisation of foreign aid for the period 1966-67 to 2005-06, which have been sub-divided into two sub-periods: (a) Pre-eighty Period (1966-67 to 1979-80) and (b) Post-eighty Period (1980-81 to 2005-06), mainly to delineate the impact of economic reforms in India.

The paper has been organised in three sections. Section-I examines the authorisation as well as utilisation of aggregate foreign aid in India. It also provides the details of cumulative utilised as well as under-utilised foreign aid in India. In Section-II, an attempt has been made to examine the various problems responsible for the under-utilisation of foreign aid in India. The last Section-III concludes the discussion along with certain policy measures to improve its utilisation in the country.

SECTION I

The year-wise total amount of foreign aid comprising loans and outright grants, both authorised as well as utilised by India ending March 2006, has been presented in Tables 1 and 2.

Authorisation of Foreign Aid: Table 1 delineates the aggregate foreign aid authorised to India, which presented a fluctuating trend during the overall period of 1966-67 to 2005-06. Authorisation of aggregate aid dropped sharply from Rs. 1506.5 crore in 1966-67 to the lowest level of Rs. 634.3 crore in 1969-70 and then with fluctuations rose to Rs.3847 crore in 1980-81, touched the highest level of Rs. 25817.2 crore in 2004-05 before declining to Rs. 17105.1 crore in 2003-04. The linear slope (trend) of the loans during the pre-eighty period (1966-67 to 1979-80); post-eighty period (1980-81 to 2005-06); and for the overall period (1966-67 to 2005-06) have been estimated positive and significant at one percent level in Table 1A. Similarly, the trend values of outright

* Head, Department of Economics, Guru Nanak College, Sukhchainana Sahib, Phagwara-144401, Punjab.

E-mail : phull22@[gmail.com](mailto:phull22@gmail.com)

Table 1: Aggregate Authorised External Assistance (Rs. Crore)

Period / Year	Loans	Outright Grants	PL-480/665 Assistance etc.	Total Authorised Assistance
(1)	(2)	(3)	(4)	(5)=(2+3+4)
Up to end of Third Plan	3808.8	392.0	1510.8	5711.6
1966-67	1034.1	79.7	392.7	1506.5
1967-68	398.5	16.8	303.5	718.8
1968-69	753.1	68.4	125.3	946.8
1969-70	421.8	26.0	186.5	634.3
1970-71	705.4	56.5	----	761.9
1971-72	774.5	36.0	118.7	929.2
1972-73	639.6	36.6	----	676.2
1973-74	1129.5	41.1	----	1170.6
1974-75	1481.4	189.8	----	1671.2
1975-76	2192.8	440.7	20.0	2653.5
1976-77	806.7	386.1	93.6	1286.4
1977-78	1536.6	337.6	22.8	1897.0
1978-79	1894.6	441.1	----	2335.7
1979-80	1295.1	564.4	----	1859.5
1980-81	3771.2	75.8	----	3847.0
1981-82	2766.5	207.4	----	2973.9
1982-83	2549.4	423.3	----	2972.7
1983-84	1700.8	386.9	----	2087.7
1984-85	4409.3	470.7	----	4880.0
1985-86	5337.0	313.4	----	5650.4
1986-87	5730.0	429.5	----	6159.5
1987-88	8203.1	1062.2	----	9265.3
1988-89	12855.6	214.2	----	13069.8
1989-90	10105.8	720.2	----	10826.0
1990-91	7601.3	522.1	----	8123.4
1991-92	11805.8	901.8	----	12707.6
1992-93	13082.1	1011.7	----	14093.8
1993-94	11618.8	2415.1	----	14033.9
1994-95	12384.3	1075.8	----	13460.1
1995-96	10833.2	1330.0	----	12163.2
1996-97	14208.8	2932.6	----	17141.4
1997-98	14865.0	2101.0	----	16966.0
1998-99	8320.8	209.8	----	8530.6
1999-00	17703.7	2615.3	----	20319.0
2000-01	17184.1	940.6	----	18124.7
2001-02	21630.0	3465.0	----	25095.0
2002-03	19875.7	1161.0	----	21036.7
2003-04	14754.4	2350.7	----	17105.1
2004-05	22746.1	3071.1	----	25817.2
2005-06	17309.1	1628.8	----	18937.9

Source: Govt. of India, *Economic Survey*, 2006-07, p. S-98 and other issues.

Table 1A : Linear Slope (T - Values) of Authorised External Assistance

Period	Loans	Outright Grants	PL-480/665 Assistance	Total Authorised Assistance
1966-67 to 1979-80	87.12856** (3.14005)	40.21714** (5.8465)	----	104.7688** (3.189935)
1980-81 to 2005-06	713.46110** (9.474905)	96.07535** (4.535037)	----	809.53640** (9.540482)
1966-67 to 2005-06	548.32730** (15.34476)	63.61833** (7.50864)	----	607.90170** (14.80239)

N.B. ** Significant at 0.01 level * Significant at 0.05 level

Source (Basic Data): (i) Table 1 (ii) Linear Slope (T-values) has been computed.

grants for the corresponding periods were also positive and significant at one percent level. The trend values for aggregate authorised aid during the fore-mentioned periods were also found to be positive and significant at one percent level. However, loans under the US Public law 480/665 presented a downward trend from Rs.392.7 crore in 1966-67 to Rs.22.8 crore in 1977-78. Thereafter, no such loan was authorised to India. Thus, the authorised loans, outright grants and the overall authorised aid to India increased at significant rate, especially during the overall period.

Utilisation of Foreign Aid: The study of the quantum of foreign aid utilised by India out of the aggregate

authorised aid, as amplified in Table 2, shows that the utilisation of aid was maximum in 1967-68 (166.33 percent of the aggregate authorised aid) also presented a fluctuating behaviour. After touching the lowest level (40.59 percent of authorised aid) in 1988-89, utilised foreign aid rose to the level of 101.40 percent of the authorised aid (due to the utilisation of previously sanctioned aid) in 2005-06. However, the linear trend of the overall utilised aid, in Table 2A, worked out to be positive and significant at five percent level during the pre-eighty period (1966-67 to 1979-80), while during the post-eighty period (1980-81 to 2005-06) as well as during the overall study period (1966-67 to 2005-06) it was observed positive and significant at one percent level.

Table 2 : Overall Utilised External Assistance (Rs. Crore)

Period / Year	Loans	Outright Grants	PL-480/665 Assistance	Total Utilised Assistance	Utilisation Rate (%)
(1)	(2)	(3)	(4)	(5)=(2+3+4)	(6)
Up to end of Third Plan	2768.7 (61.41)	336.9 (7.47)	1403.2 (31.12)	4508.8	78.94
1966-67	674.7 (59.64)	97.1 (8.58)	359.6 (31.78)	1131.4	75.10
1967-68	793.2 (66.34)	60.7 (5.08)	341.7 (28.58)	1195.6	166.33
1968-69	679.8 (75.32)	65.2 (7.22)	157.6 (17.46)	902.6	95.33
1969-70	660.7 (77.15)	26.1 (3.05)	169.5 (19.80)	856.3	135.00
1970-71	658.9 (83.26)	43.5 (5.50)	89.0 (11.24)	791.4	103.87
1971-72	671.7 (80.53)	50.5 (6.05)	111.9 (13.42)	834.1	89.77
1972-73	649.9 (97.55)	12.0 (1.80)	4.3 (0.65)	666.2	98.52
1973-74	1015.0 (98.00)	20.7 (2.00)	----	1035.7	88.48
1974-75	1220.4 (92.86)	93.9 (7.14)	----	1314.3	78.64
1975-76	1464.9 (79.59)	283.3 (15.39)	92.3 (5.02)	1840.5	69.36
1976-77	1285.3 (80.39)	245.8 (15.37)	67.8 (4.24)	1598.9	124.29
1977-78	1007.5 (78.10)	260.6 (20.2)	21.9 (1.70)	1290.0	68.00
1978-79	942.3 (77.52)	273.3 (22.48)	----	1215.6	52.04
1979-80	1048.6 (77.50)	304.5 (22.50)	----	1353.1	72.77
1980-81	1765.3 (81.66)	396.5 (18.34)	----	2161.8	56.19
1981-82	1519.4 (81.47)	345.5 (18.53)	----	1864.9	62.71
1982-83	1909.2 (84.78)	342.8 (15.22)	----	2252.0	75.76
1983-84	1962.4 (86.61)	303.4 (13.39)	----	2265.8	108.53
1984-85	1962.2 (83.17)	397.2 (16.83)	----	2359.4	48.35
1985-86	2493.1 (84.92)	442.9 (15.08)	----	2936.0	51.96
1986-87	3175.7 (88.09)	429.3 (11.91)	----	3605.0	58.53
1987-88	4574.4 (90.55)	477.5 (9.45)	----	5051.9	54.53
1988-89	4738.6 (89.33)	565.8 (10.67)	----	5304.4	40.59
1989-90	5137.8 (88.55)	664.7 (11.45)	----	5802.5	53.60
1990-91	6170.0 (92.03)	534.3 (7.97)	----	6704.3	82.53
1991-92	10695.9 (92.09)	919.1 (7.91)	----	11615.0	91.40
1992-93	10102.2 (91.99)	879.6 (8.01)	----	10981.8	77.92
1993-94	10895.4 (92.48)	885.6 (7.52)	----	11781.0	83.95
1994-95	9964.5 (91.58)	916.0 (8.42)	----	10880.5	80.84
1995-96	9958.6 (90.35)	1063.6 (9.65)	----	11022.2	90.62
1996-97	10892.9 (90.94)	1085.6 (9.06)	----	11978.5	69.88
1997-98	10823.4 (92.16)	921.3 (7.84)	----	11744.7	69.22

1998-99	12343.4 (93.24)	895.5 (6.76)	----	13238.9	155.19
1999-00	13330.7 (92.55)	1073.9 (7.45)	----	14404.6	70.89
2000-01	13527.1 (94.90)	727.2 (5.10)	----	14254.3	78.65
2001-02	16111.7 (91.76)	1447.6 (8.24)	----	17559.3	69.97
2002-03	13999.2 (88.40)	1836.7 (11.60)	----	15835.9	75.28
2003-04	15271.0 (88.05)	2073.4 (11.95)	----	17344.4	101.40
2004-05	14660.9 (85.48)	2490.7 (14.52)	----	17151.6	66.43
2005-06	16097.8 (85.23)	2790.6 (14.78)	----	18888.4	99.74

N.B. (i) Figures in parentheses represent percentage of total utilised aid.
(ii) Utilisation rate (as percentage of aggregate authorised aid).

Source: (i) Govt. of India, *Economic Survey*, 2006-07, p. S-102 and other issues.

Table 2A : Linear Slope (Trend Values) of Overall Utilised External Assistance

Period	Loans	Outright Grants	PL-480/665 Assistance	Total Utilised Assistance
1966-67 to 1979-80	43.65604** (3.151447)	21.25099** (4.3875)	----	41.41208* (2.15804)
1980-81 to 2005-06	675.21000** (19.410650)	56.84974** (8.296364)	----	732.05980** (20.111840)
1966-67 to 2005-06	434.71210** (17.719980)	40.60409** (12.61373)	----	470.42900** (14.717890)

N.B. ** significant at 0.01 level and * significant at 0.05 level

Source (Basic Data): (i) Table 2. (ii) Linear slope (T-values) has been computed.

Loans versus Grants: Table 2 further outlined that the share of loans in the overall utilised aid always remained dominant as compared to the outright grants. During the pre-eighty period, the maximum share of loans (98.2 percent), taken together of loans and PL-480 loans, was found in 1972-73, while the share of outright grants (1.80 percent) was at its lowest level. Since then, the share of loans ranged between 77.50 percent in 1979-80 and 98 percent in 1973-74, while in case of outright grants, the share dwindled between 22.5 percent and 2 percent, respectively, during these corresponding years. During the post-eighty period, the share of outright grants reduced to 5.1 percent in 2000-01 and then increased to 11.95 percent in 2005-06. However, the trend values of both the loans and outright grants taken individually for the pre-eighty period, post-eighty period, and the overall period were all found to be positive and significant at one percent level. Thus, like aggregate authorised aid, utilisation of assistance demonstrated an almost similar trend during all the three above-mentioned periods.

Aid-GDP Ratio: There has been a widespread impression that India received large sums of foreign aid. This, of course, is true in absolute terms but is not, if the large size of country and its huge population are taken into consideration. Gross utilised aid as ratio of country's GDP at 1993-94 prices remained quite low and declined with fluctuations from the peak level of 3.98 percent in 1966-67 to the lowest level of 0.58 percent in 2005-06 as has been shown in Table 3.

Source-wise Utilised Aid: India received foreign aid both from the multilateral financial institutions and through the bilateral arrangements. The main sources of multilateral assistance to India included the World Bank (both IBRD and IDA); Asian Development Bank; OPEC Fund; European Commission; IMF Trust Fund; International Fund for Agricultural Development (IFAD); International Sugar Organization (ISO); and United Nations Development Programme (inclusive of UNICEF, WHO and World Food Programme) etc. The contribution of these multinational institutions taken together was 62.78 percent of the total utilised assistance up to the end-

Table 3 : Gross Utilised Aid As Percentage of GDP_{FC} (At 1993-94 Prices)

Year	Gross Utilised Aid (Rs. Crore)		GDP at 1993-94 Prices (Rs. Crore)	Aid/GDP Ratio (Percent)
	At Current Prices	At 1993-94 Prices		
(1)	(2)	(3)	(4)	(5)
1966-67	1131.4	9507.56	238710	3.98
1967-68	1195.6	9057.58	258137	3.51
1968-69	902.6	6890.08	264873	2.60
1969-70	856.3	6296.32	282134	2.23

1970-71	791.4	5534.27	296278	1.87
1971-72	834.1	5523.84	299269	1.85
1972-73	666.2	3989.22	298316	1.34
1973-74	1035.7	5152.74	311894	1.65
1974-75	1314.3	5236.26	315514	1.66
1975-76	1840.5	7421.37	343924	2.16
1976-77	1598.9	6319.76	348223	1.82
1977-78	1290.0	4831.46	374235	1.29
1978-79	1215.6	4552.81	394828	1.15
1979-80	1353.1	4336.86	374291	1.16
1980-81	2161.8	5858.54	401128	1.46
1981-82	1864.9	4627.54	425073	1.09
1982-83	2252.0	5323.88	438079	1.22
1983-84	2265.8	4979.78	471742	1.06
1984-85	2359.4	4864.74	492077	0.99
1985-86	2936.0	5802.37	513990	1.13
1986-87	3605.0	6738.32	536257	1.26
1987-88	5051.9	8725.22	556778	1.57
1988-89	5304.4	8527.97	615098	1.39
1989-90	5802.5	8673.39	656331	1.32
1990-91	6704.3	9096.74	692871	1.31
1991-92	11615.0	13843.86	701863	1.97
1992-93	10981.8	11897.94	737792	1.61
1993-94	11781.0	11781.00	781345	1.51
1994-95	10880.5	9671.56	838031	1.15
1995-96	11022.2	9064.31	899563	1.01
1996-97	11978.5	9417.06	970082	0.97
1997-98	11744.7	8843.90	1016595	0.87
1998-99	13238.9	9409.31	1082747	0.87
1999-00	14404.6	9913.70	1148367	0.86
2000-01	14254.3	9154.98	1198592	0.76
2001-02	17559.3	10886.11	1267975	0.86
2002-03	15835.9	9493.94	1318362	0.72
2003-04	17344.4	9860.29	1430548	0.69
2004-05	17151.6	9157.24	1529408	0.60
2005-06	18888.4	9661.42	1662880	0.58

N.B: Gross Utilised Foreign aid has been converted into 1993-94 prices by using Spliced Wholesale Price Index (1993-94=100) as deflator.

Sources: (i) Govt. of India, *Economic Survey*; 2004-05 p.S-102 and other issues.

(ii) RBI, *Handbook of Statistics on The Indian Economy*, 2005-06, p.5.

Table 4 : Aggregate External Assistance Utilised up to end-March 2006 (Rs. Crore)

Institution/ Country		Loans	Grants	PL-480/665 Third Country Currency Assistance	Total Assistance
(1)		(2)	(3)	(4)	(5)=(2+3+4)
1.	IDA	68268.90	209.19	----	68478.09 (26.55)
2.	IBRD	56898.77	137.73	----	57036.50 (22.11)
3.	ADB	29026.57	121.35	----	29147.92 (11.30)
4.	EEC	42.00	4249.08	----	4291.08 (1.66)
5.	OPEC*	2098.50	112.36	----	2210.86 (0.86)
6.	IFAD	762.21	18.17	----	780.38 (0.30)
7.	Japan	43214.25	1249.98	----	44464.23 (17.24)
8.	UK	1292.00	10892.65	----	12184.65 (4.72)
9.	Germany	9781.04	1034.98	----	10816.02 (4.19)
10.	USA	3460.00	972.47	2819.00	7251.47 (2.81)
11.	Russia	6287.86	8.00	----	6295.86 (2.44)
12.	France	3549.62	72.86	----	3622.48 (1.40)
13.	Netherlands	1288.07	2282.51	----	3570.58 (1.38)
14.	Sweden	798.00	1164.50	----	1962.50 (0.76)
15.	Canada	716.00	727.21	----	1443.21 (0.56)
16.	Others	1641.06	2763.95	----	4405.01 (1.71)
17.	Total	229124.85 (88.8)	26016.99 (10.1)	2819.00 (1.1)	257960.84 (100.00)

* Comprises Iran, Iraq, Kuwait, Abu-Dhabi, Saudi-Arabia and OPEC Special Fund.

N.B. (i) Figures are exclusive of suppliers' credits for the period 1978-79 to 1996-97.

(ii) Figures are also exclusive of food grants for the period 1997-98 to 2005-06.

(iii) Figures in parentheses represent percentage to the total.

Sources:

(i) RBI, *Report on Currency and Finance Vol. II*, 1997-98, Statement 209, pp.268-69 (up to 1996-97).

(ii) Govt. of India, *External Assistance*, 2005-06, pp. 302-306 & 313, Statement 13, 16 and 21 (1997-98 to 2005-06).

March 2006. The World Bank (both IBRD and IDA) has been the largest source with a share of 48.66 percent amounting Rs. 1, 25,514.59 crore up to the above mentioned period. The source-wise details of aggregate utilised external assistance up to end-march 2006 have been given in Table 4. Individually, Japan has been the largest contributor among all the bilateral donor countries with a share of 17.24 percent followed by UK, Germany, USA, and Russia with respective shares of 4.72, 4.19, 2.81 and 2.44 percent during the above-mentioned period. The contribution of other sources, taken individually has been marginal (i.e., less than 2 percent). Thus, from the stand point of their relative shares, only eight sources were worth-mentioning viz.: IDA, IBRD, ADB, Japan, UK, Germany, USA and Russia as their contribution in total utilised aid, taken together, has been more than 90 percent up to the end-march 2006.

Source-wise Un-utilised Aid: Whooping authorised aid amounting to Rs. 75586.55 crore has been remained un-utilised up to end-March, 2006 (Table 5) ---- a matter of serious concern, out of which the maximum Rs. 30149.96 crore (39.89 percent) has been sanctioned

Table 5 : Source-Wise Details of Cumulative Un-disbursed Aid up to end-March 2006 (Rs. Crore)

Source	Loans	Grants	Total Amount	Percentage of Grand Total
(1)	(2)	(3)	(4) = (2+3)	(5)
IBRD	17211.56	281.46	17493.02	23.14
IDA	12469.97	186.97	12656.94	16.75
ADB	15881.87	445.25	16327.12	21.61
EEC	--	704.06	704.06	0.93
IFAD	650.49	25.81	676.30	0.89
UN Agencies	--	544.05	544.05	0.72
Global Fund	--	303.16	303.16	0.40
Japan	10208.65	55.71	10264.36	13.58
Russia	8053.99	--	8053.99	10.65
UK	--	4046.99	4046.99	5.35
Germany	1625.34	707.27	2332.61	3.09
USA	--	1106.20	1106.20	1.46
Netherlands	-----	424.02	424.02	0.56
Denmark	-----	282.68	282.68	0.37
Italy	163.40	--	163.40	0.22
Switzerland	1.42	76.33	77.75	0.10
Norway	43.32	8.63	51.95	0.07
Sweden	-----	29.22	29.22	0.04
France	22.67	2.70	25.37	0.03
Canada	-----	22.91	22.91	0.03
D.G. F.	-----	0.45	0.45	0.01
Grand Total	66332.68	9253.87	75586.55	100.00

Source: Govt. of India, *External Assistance 2005-06*, Ministry of Finance, Department of Economic Affairs; Aid, Accounts and Audit Division; pp. 299-300.

by the WB (both IBRD and IDA); followed by Rs. 16327.12 crore (21.61 percent) by the ADB; Rs. 10264.36 crore (13.58 percent) by Japan; and 8053.99 crore (10.65 percent) by Russia.

SECTION II

An effort has also been made to identify and analyse certain major practical problems, specifically those which are associated with the day to day mechanics of foreign aid, and the extent to which these are intensified by the nature of aid process, responsible for the under-utilisation of foreign aid in India. Most of these problems are inter-related. Some reinforce each other, while some others are inversely related. These problems delay the implementation of externally aided projects (EAPs) in almost all the sectors, particularly in the power sector and highways. The most mundane problems encountered in the utilisation of foreign aid in India are discussed below:

1. Under-Provisioning: An EAP require funds upfront for incurring expenditure before its share of cost is to be reimbursed from the donor(s), known as foreign aid, is received. Hence, adequate provisioning for funds has to be made by the concerned authorities in Govt. of India. Unfortunately, adequate provision for these projects has not mostly been made in the budgetary estimates of the Govt. Planning Commission also treated 'additional central assistance' (ACA) to the States always as residual expenditure. Even in the case of Central Ministries, Government insisted on accommodating the provision for EAPs of the Central Ministries in the overall plan ceiling only, but these Ministries have been unwilling to cut back their other programmes to accommodate EAPs. Similarly, in a situation of fiscal constraint, the first charge on the plan funds has to be the allocations for EAPs, as the receipts of external assistance on the resource side are contingent upon project expenditure. But normally, it did not happen. Although pre-financing of EAPs has been introduced in 1993 to make start up of these projects easier and improve their implementation. Yet, the ground realities remained almost the same. For instance, 'Sarva Shiksha Abhiyan', the mother scheme for primary education launched in 1999-2000 by the HRD Ministry with financial assistance from the European Commission, was afflicted by a major resource gap in the very first year due to insufficient allocation by the Finance Ministry. Consequently, drop in the receipts on account of external assistance delayed the implementation of such EAPs. Interlinked with this is the issue of new commitments and the funds required to absorb these. However, the insistence of the Planning Commission on accommodating new external assistance commitments within the existing outlays has resulted in Central Ministries being unwilling to take on the new commitments (Phull, 2007: p.332).

2. Lack of Commitment and Coordination: Lack of seriousness, commitment and coordination, on the part of those entrusted to implement the EAPs in India, has also been responsible for undue delays in their implementation. It must be admitted that the implementing agencies viz: --- the Department of Economic Affairs, Planning Commission and the Budget Division of the Govt. of India have not taken the task of provisioning for central projects and ACA to the States seriously enough. There was little or even no coordination between these agencies to come to a mutually agreeable figure. In past, the difference was of little consequence as it was possible to make additional provisioning at the stage of revised estimates. However, the process of fiscal consolidation has made this task far more difficult (Govt. of India, 1994, Part I: p.3).

3. Inadequate Counterpart Rupee Funding: Fiscal adjustments and the associated budgetary stringencies have also acted as a further constraint on the execution of the EAPs. The disbursements on Japanese side were adversely affected due to the inability of concerned States to provide counterpart rupee funds during the early 1990s. "Assam Gas (NEEPCO/Power Grid), Raichur TPP (Karnataka), Teesta HEP (West Bengal) and Anpara (UP) registered a short fall of US\$ 45, US\$ 54, US\$ 5 and US\$ 42 million, respectively, on account of State budgetary constraints" (ibid., p.3). The paucity of rupee resources, both in case of Central Ministries and State Govts. reflecting inadequate preparedness, budgetary constraints and non-convergence of the project-interests and plan priorities (RBI, 1993: p.1161; Rangarajan, 2004, Vol. 2: p.282) have also been responsible for undue delays in the implementation of EAPs. Similarly, non-adherence to financial and other formal undertakings such as : property tax reforms, water tax revision, electricity tariff revision etc., due to inadequate counterpart funding also delayed the implementation of EAPs in India, because donors never pay for such duties and taxes.

4. Protracted Procurement and Contracting Delays: Probably, the most serious cause for delays in the implementation of EAPs in India involved difficulties associated with the procurement of goods and services along with contract awarding. This has also been universally cited as a factor in delaying projects (Sobhan, 1982: p.96). The stages for procurement of goods and services under the foreign loan agreements broadly consisted of donor's concurrence to bid documents, publication of invitation to bids, pre-bid conference, donor's concurrence to the evaluation of awards and recommendations, letter of awards and signing of awards etc. In case of procurement of civil works, in addition, there existed steps like pre-qualification of civil contractors. However, all these stages do not feature in case of a large number of bilateral donors as they do in the case of the WB and ADB funded projects. Thus, due to the complexity of process involved in the entire procurement cycle, there occurred significant delays in the award of contracts and hence in the implementation of EAPs also.

A 'reasonable' period of time for bid evaluation of contract award is somewhat dependent on the size and complexity of the proposed contract. However, in some cases, a period of 90 days will suffice, in most cases a period of 120 days was considered 'reasonable' or at most 180 days. On the basis of a study conducted by the WB, estimated sector-wise average time taken for bid-evaluation and award in India has been shown in Table 6. The experience showed that the evaluation of bids at the initial level generally proceeded satisfactorily in time but the delay was mostly at the review and decision making levels. However, a sample review made for the Kerala Power

Project, for 14 international competitive bids, the period elapsed from the date of invitation to date of order ranged between 10 to 28 months, while the time taken from the date of the invitation to date of contract varied between 6 to 24 months (Govt. of India, 1994, Part I : p.3).

Table 6 : Sector-wise Average Time for Awarding Contracts in India

Sector	No. of days
Agriculture	179
Power	262
Water Supply	356
Transport	409

Source: Govt. of India, *External Assistance: A Performance Review 1993-94, Part I*, Ministry of Finance, Dept. of Economic Affairs, Aid, Accounts and Audit Division, p.11.

Similarly, a 'Task Force on the Standard Bidding Documents' (M.C.Gupta Committee, Govt. of India, 1993 and 1994) mentioned that the delays in the award of contracts for the WB projects in India ranged between 6 to 14 months (Sarkar, 1999: pp.11-12). Following the recommendations of the 'Task Force' in this regard, Govt. has Indianised some standard bidding documents for use in the WB and ADB aided projects. A similar step is yet to be taken in the case of other donors.

Similarly, inordinate delays in India also occurred in the internal evaluation of bidding documents. Frequent interventions at every stage of internal evaluation process and absence of confidentiality in the decision making procedure make the contract award process more complicated and slow. Such delays are often further compounded in many cases by the fact that procurement staff are not familiar with the complex procurement procedures of the different donors. However, recently, the Administrative Staff College, Hyderabad and National Institute of Financial Management, Faridabad have started imparting training regarding procurement procedures under the WB assistance. This should be continued on sustainable basis (ibid, pp.12-13)

5. Start up and Other Procedural Delays: Many EAPs in India faced delays in the start up activities due to the shortage of requisite funds, basic infrastructure including staff, lack of procurement planning, problems in land acquisition, forest and environmental clearances, water rights etc. Generally, the administrative sanction, which allows the project authority to incur the project expenditure, has been granted only after the loan was approved by the donor agency. Consequently, there arose time gap between the project approval and the commencement of work. Similarly, personnel staff for manning the key positions in the project was sanctioned mostly after the project was approved and the loan was sanctioned. Identification of the project implementing staff and setting up the implementing unit were, thus, delayed. In most of the cases, detailed project design, its specifications, project bid documents etc., were prepared after the approval of the project, resulting thereby delays in starting EAPs. However, it should be noted in this regard that only in case of the WB and ADB funded projects, the issue of advance procurement actions have been addressed, which should also be followed in case of the other donors (Phull, 2007: p.335).

6. Ignorance about Contract Management: During the execution of certain EAPs, sometimes, the project authorities were not fully aware of the international conditions of contract, and other provisions relating to the punitive actions against defaulting suppliers and contractors. This made the punitive process slower than expected. It may be noted that in case of international competitive bidding contracts for the WB and ADB projects, the *Federation International Des Ingenieurs Conseils (FIDIC)* conditions of credit were followed as the general conditions of credit. Thus, application of domestic practices instead of the FIDIC conditions in civil contracts often resulted in long civil disputes. Similarly, for attracting domestic contractors, the project authorities packaged the size of the contract into smaller units. Consequently, global contractors have been reluctant to participate in the bids. Hence, due to a large number of contracts, the executing agency often found it difficult to manage. Further, there was high turnover/attrition of staff in the project implementation cell resulting in the loss of expertise which developed over a period of time (Sarkar, 1999:p.13).

7. Project Specific Issues: Any kind of delay in the resolution of project specific issues such as: land acquisition, land alienation, various clearances, resettlement and rehabilitation problems, shifting of utilities, staff and training equipment etc., also put a brake in the implementation of EAPs and the utilisation of foreign aid in India. Such delays have hold up two Japanese OECF financed irrigation projects in Orissa apart from the Japanese

assisted Ghatghar hydel power project (Shirali and Chatterjee, 1993: p.7). The WB stipulations that transcend economic and financial criteria to include environmental factors further slackened the implementation of EAPs. Sometimes, major changes are sought to be made, even after the finalization of these projects, which also delayed the utilisation of foreign aid as well as the implementation of EAPs. At times, the nature of these projects, particularly in the power sector, themselves is such that it takes on an average about five years to be implemented (RBI, 1993: p.1161; Rangarajan, 2004, Vol.2: p.282).

Thus, undue, unnecessary and inordinate delays in the implementation of EAPs resulted in the under-utilisation of authorised foreign aid in the country. There have been instances where committed amounts of aid had been cancelled as a result of such delays and commitment charges were paid on unutilised aid (RBI, 1993: p. 1162; Rangarajan, 2004, Vol.2: p.283).

SECTION III : CONCLUSION AND POLICY MEASURES

On the whole, it can be concluded that: first, the utilisation rate of foreign aid has shown a fluctuating trend. It remained most of the times under-utilised, although cent percent utilisation is imperative as the foreign aid is obtained with great difficulties. Consequently, a huge sum of authorised aid amounting Rs. 75,586.55 crore up to the end March, 2006 remained unutilised. Second, undue, unnecessary and inordinate delays in the implementation of externally aided projects resulted in the under-utilisation of authorised foreign aid wasting thereby the precious resources of the country, both foreign as well as the counterpart domestic. In addition, when time and costs overrun, the project cost escalated also due to the depreciation of rupee value necessitating supplementary loans which donors usually find it difficult to process.

Hence, it can be implied that in order to avoid undue, redundant and inordinate delays in the utilisation of foreign aid, and to side step the fluctuations in the rate of the same, adequate counterpart rupee funds to the externally aided projects (EAPs) should be allocated in time; contracting procedure should be streamlined and decentralized so that reference to the Govt. should be minimal; all the EAPs should be timely planned in accordance with their respective feasibility project reports; and monitoring mechanism should be reviewed from time to time in order to ensure adequate preparedness and timely actions. Such huge amount of un-utilised foreign aid of Rs. 75,586.55 crore up to the end March 2006, if fully utilised, could have relieved 13.54 percent of India's total external debt amounting Rs. 5, 58,372 crore during the same period (Govt. of India, 2006:p.4) or helped to achieve the Millennium Development Goals in the country to some extent, besides saving the commitment charges paid for the un-utilised loans.

BIBLIOGRAPHY

- Govt. of India (1970-71 to 2006-07), *Economic Survey*, Various Issues, New Delhi: Ministry of Finance, Economic Division.
- Govt. of India (1960-61 to 2005-06), *External Assistance*, Various Issues, New Delhi: Ministry of Finance, Department of Economic Affairs; Aid, Accounts and Audit Division.
- Govt. of India (1994), *External Assistance, 1993-94, A Performance Review, Part I*, New Delhi: Ministry of Finance, Department of Economic Affairs.
- Govt. of India (2001), *External Assistance Manual*, New Delhi: Ministry of Finance, Department of Economic Affairs, Project Management Unit.
- Govt. of India (2006), *India's External Debt: A Status Report*, Ministry of Finance, Department of Economic Affairs, August.
- Lipton, Michael and John Toye (1990), *Does Aid Work in India?: A Country Study of the Impact of Official Development Assistance*, London: Routledge.
- Phull, Kulwant Singh (2007), *Foreign Aid in India: Effectiveness and Policy*, New Delhi: Deep & Deep Publications.
- Rao, V.K.R.V. and Dharm Narain (1963), *Foreign Aid and India's Economic Development*, Bombay: Asia Publishing House.
- Reserve Bank of India (1993), "Report of High Level Committee on Balance of Payments", (Chairman: Dr. C.Rangarajan), *RBI Bulletin*, August, Bombay, pp.1139-80.
- Rangarajan C. (2004), "Report of High Level Committee on Balance of Payments", in Kannan, R. (ed.), *Select Essays on Indian Economy*, Vol. 2, New Delhi: Academic Foundation, pp. 241-331.
- Sarkar, S.K. (1999), "India's Foreign Aid Management: Next Steps", *Management in Government*, 31(1) April-June, New Delhi, pp.1-17.
- Shirali, Rajiv and Patralekha Chatterjee (1993), "Donor's Worry, India's Luxury", *The Economic Times*, New Delhi, August 22, p.7.
- Sobhan, Rehman (1982), *The Crisis of External Dependence: The Political Economy of Foreign Aid To Bangladesh*, Dhaka: The University Press.