

## Demise of foreign aid in India

Mains Syllabus: GS III- Development processes and the development industry —the role of NGOs, SHGs, various groups and associations, donors, charities, institutional and other stakeholders; Effect of policies and politics of developed and developing countries on India's interests.

### Why in the News?

The new US government has reduced the fund to U.S. Agency for International Development (USAID).

### What are the significances of foreign aid to India?

- **Post independence assistance** - India sought international aid soon after Independence to assist in its task of catching up with the developed world.
- **Supporting government** - Most of the aid went to the government, as it was believed that the government should be the lead change agent.
- The peak period was from 1955 to 1965, and most of it came from Western nations.
- **Compensating deficiency in government funding** - Where government grants are meagre, not easily available, foreign aid helped in supporting Indian NGOs.
- **Supporting NGOs** - While public donations sustained Indian NGOs in the pre-Independence period and for some years afterward, since the 1960s onwards, the two major sources for NGOs in development have come to be government grants and foreign aid.
- **Poverty Reduction** - Foreign aid has played a role in alleviating poverty by supporting economic development projects, improving education standards, and promoting inclusive development.
- **Geopolitical Tool** - Foreign aid, both received and given by India, serves as a tool for strengthening geopolitical interests and fostering relationships with other countries, especially its neighbors.

### Why is foreign aid to India declining?

- Official developmental aid has shown an almost constant decline, especially from 1970 onwards.
- **Economic growth of India** - Western aid-giving nations no longer see India as a country needing aid, given its high growth rate and its aim of becoming the fifth largest economy by 2047.
- After 1990, Official Development Assistance (ODA), as a proportion of either Gross National Product or public investment, became insignificant partly due to the success

of India's growth story.

- **India become a doner** - Historically, India was one of the largest recipients of foreign aid, but since the 2000s, it has transitioned to being a net donor, providing over \$48 billion in aid to more than 65 countries, especially in Africa and South Asia.
- **Strict government regulations** - While allowing NGOs to accept aid, government regulations have been tightened with several restrictions since 1976, when the FCRA was passed.
- The FCRA required those receiving or wishing to receive foreign money to register themselves with the Ministry of Home Affairs, and to use the funds strictly according to the rules.
- Each time, the rules have been made more and more stringent, and several NGOs have lost their FCRA registrations.
- **Global conflicts** - Global conflicts can alter the geopolitical landscape and the strategic priorities of donor countries.
- This can significantly affect the flow and nature of foreign aid.
- **Slowing of economic development in the aid-offering countries** - During economic downturns, there's often increased domestic pressure on governments to prioritize spending on internal issues.
- This economic hardship in donor countries will lead to reduced public support for foreign aid.

### What are the impacts of declining foreign aid?

- **Unemployment** - Low fund flow will affect the employment in aid-giving organisations in both donor and recipient countries.
- Over 500 field level workers are employed under various HIV-related projects with USAID.
- **Wastage of stockpiled food and medicines** - Without the fund, the collected humanitarian food and medicines aid can't be distributed to the needy.
- **Reduced global collaboration** - Declining foreign aid will affect co-operation between developed and developing countries in health and environment.
- **Affects NGO functioning** - Private non-governmental organisations engaged in development work — referred to as NGOs — will be more affected by a decline in aid, both official and private.
- **Slowing down of social sector development** - Inadequate aid fund will affect the development of existing and new social projects like construction of schools, hospitals etc.
- US AID fund cut to India's AIDS society and the consequent reduction in human and material support, will affect India's AIDS elimination goal.

### What lies ahead?

- What India seeks now is Foreign Direct Investment (FDI) and global cooperation in trade, climate change, and technological developments.
- Declining official aid is not as great a concern as declining private aid to non-government agencies.
- Government can compensate the declining aid and support the NGOs to continue their

social welfare work.

## **Reference**

[The Hindu | Demise of foreign aid in India](#)

