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

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