Executive summary

In 2012 the UK government announced that it would transition away from funding India's government to implement traditional aid projects, and towards a new kind of partnership based on mutual interests. The transition was agreed with the Indian government and reflected India's growing economic strength. While India continued to experience high levels of poverty, bilateral aid was no longer a significant source of funding for its national development.

A decade later, the UK still provides a substantial amount of aid to India, but it is very different in nature and purpose. In 2021 India was the 11th-largest recipient of UK bilateral aid, ahead of countries such as Bangladesh and Kenya. While the UK no longer funds traditional development projects, India is the largest recipient of UK development investment – that is, loans and equity investments into the private sector that aim to achieve development impact alongside a modest financial return. The UK's development finance institution, British International Investment (BII, formerly CDC Group), has invested 28% of its global portfolio by value in India, and the Foreign, Commonwealth and Development Office (FCDO) also runs a development investment portfolio of its own ('FCDO DevCap') which produces returns, in principle, saving taxpayer money. UK aid also supports UK-India research partnerships, alongside a range of other objectives agreed in a 2021 'Roadmap' governing the bilateral partnership.[1] FCDO describes the India portfolio as an exemplar of the new model of development partnership signalled in the 2022 *Strategy for international development*,[2] where aid is used in support of an integrated UK foreign policy. All told, we calculate that around £2.3 billion in UK aid went to India between 2016 and 2021, including £441 million in bilateral aid, £129 million in investments via FCDO in Indian enterprises which generate returns, £749 through multilateral channels, and £1 billion[3] in investments through BII. BII's substantial portfolio of investments in India has been generating returns, but these are reinvested to help it meet its global financial returns target.

This country portfolio review examines the UK's new model of development cooperation with India, covering all UK aid since 2016. The review considers its relevance to the mutually agreed development objectives, its coherence across spending channels, and whether it is achieving its intended results.

Relevance: How relevant is the UK's evolving model for development cooperation with India?

The transition away from traditional aid to the government was a justifiable response to India's strong economic performance and its increased access to development finance. The development case for continued UK aid to India rests on it playing a catalytic role, by influencing Indian government policies and investments or mobilising private finance into areas that contribute to inclusive growth, such as renewable energy. The International Development Committee reached a similar conclusion in 2011.[4] The transition also reflects a longstanding preference of the Indian government for a partnership of equals, rather than a traditional donor-recipient relationship, as well as evolving UK government policy on the use of aid to support bilateral partnerships with middle-income countries.

However, the aid portfolio does not map neatly onto the objectives of the 2021 Roadmap, making it difficult to discern a clear overall strategy. Programming is fragmented across objectives and spending channels, rather than thematically integrated. We saw little consideration of the scale of support required for meaningful impact in different areas – especially since the recent UK aid budget reductions, which led to many activities being scaled back. Many of the activities appear focused on facilitating the bilateral partnership and lack a compelling link to poverty reduction, which remains the statutory purpose of UK aid.

The most convincing part of the portfolio is about climate change, where the UK is supporting India's transition to low-carbon development. This appears a sound choice, given the importance of reducing emissions from India's large and rapidly growing economy, which will benefit the poor in India and around the world. The UK supports the development of green infrastructure, particularly renewable energy, combining technical assistance to government with development investments designed to support innovation and stimulate private investment.

1 *2030 Roadmap for India-UK future relations*, Foreign, Commonwealth and Development Office and Prime Minister's Office, May 2021, link.
2 *The UK government's strategy for international development*, Foreign, Commonwealth and Development Office, May 2022, link.
3 This figure is for disbursements to BII via FCDO replenishments, which differs from commitments. BII's total commitments to India are £1.2 billion ($1.5 billion) between 2017 and 2021.
4 *The future of DFID's programme in India, Volume 1*, International Development Committee, June 2011, HC 616, link.

The UK's development investment in India shows a mixed picture on 'additionality' – that is, ensuring it does not duplicate what is already available from financial markets. FCDO DevCap focuses on equity investments in small and innovative businesses, and on green infrastructure, which is an underdeveloped sector in India. It works closely with the Indian government and government-linked financial institutions, with which it has established joint investment funds and platforms, giving it the potential to influence the investment practices of much larger institutions. We find that FCDO DevCap makes a reasonable case for additionality. We were less convinced by elements of BII's India portfolio. Nearly half (45%, by value) of investments have been in financial services, especially microfinance. However, the financial services it supports are already widely available in India's relatively mature financial markets, and there is limited evidence that the growth of the microfinance sector in India has contributed to poverty reduction.

One of the objectives of the UK's India portfolio is to support India's engagement on global and regional development issues. We saw some strong examples of regional programmes that support collaboration between India and its neighbours, in particular on the management of transboundary water resources, which is a key strategic issue in the region. We were less convinced by the UK's approach to supporting India's emerging global aid programme. The UK supports 'triangular cooperation' by co-funding initiatives intended to share Indian development know-how and private sector innovations with low-income countries in Africa and the Asia-Pacific region. While there are multiple initiatives supporting dialogue between UK and Indian institutions on global development issues, the potential benefits to low-income countries seem remote.

The UK has invested around £400 million on promoting research partnerships between UK and Indian universities and research institutes, mostly from central funds. The Global Challenges Research Fund and Global Health Research select their thematic priorities at the global level. While broadly relevant, they are not specifically tailored to India's needs. The Newton Fund has India-specific research priorities agreed between the two countries, addressing topics such as sustainable cities and the energy-water-food nexus, which are aligned with Roadmap priorities. While the research funding supports the objective of promoting bilateral cooperation in the research sector, it is not designed to support the UK's development objectives in India and lacks a strong focus on promoting uptake of findings.

According to global indices, democracy and human rights have come under increasing pressure in India in recent years, in the face of growing political polarisation, religious intolerance and restrictions on civil society.[5] The UK has not been active in this area in recent years, either in its aid programme or in its development diplomacy. There is little or no programming designed to protect democratic space, free media or human rights, and UK funding for Indian non-governmental organisations (NGOs) has largely been discontinued. While we acknowledge the acute political sensitivities, we take the view that there are missed opportunities to contribute to protecting India's longstanding democratic traditions – for example, by supporting civil society coalitions working on social issues.

Overall, we award an **amber-red** score for relevance. While UK aid to India reflects the shared interests of the two governments, it is fragmented across activities and spending channels, and lacks a convincing development rationale.

Coherence: How internally and externally coherent has the UK's official development assistance and associated diplomatic activity been in India?

India is the UK's largest overseas mission, consisting of 830 staff across 11 in-country posts and a large London-based team, with 17 UK departments and agencies represented. This makes effective coordination a perennial challenge. We find that coordination has improved over the review period, with a much clearer governance structure and a number of cross-departmental thematic teams. This structure works well in response to high-profile events (such as the COP26 climate conference in Glasgow in 2021) and situations (such as the response to COVID-19). However, we were not convinced that the India aid portfolio is being managed at a strategic level to promote complementary approaches across thematically linked activities.

5 *Democracy Index 2021*, Economist Intelligence Unit, 2022, link; *Freedom in the world 2022: India*, Freedom House, link; *India: events of 2021,* Human Rights Watch, link; *India 2021 human rights report*, US Department of State, 2021, link; *India 2021*, Amnesty International, link.

In particular, research activities are rarely linked to the rest of the portfolio. While the UK's two development investment portfolios in India have distinct roles and complementary approaches, there is scope for them to collaborate more effectively. Technical assistance is not always combined with investment to maximise impact. There were, however, some positive exceptions. The UK's work in the power sector, for example, shows the value of coordination across technical assistance and development investment.

The coherence of the portfolio has been further undermined by recent UK aid budget reductions. While the reductions to the India programme were not as severe as those faced by other countries, they led to key activities being discontinued or scaled back abruptly, leaving little space for strategic reprioritisation of the aid portfolio. Long periods of uncertainty and poor communication have also put relationships with Indian counterparts at risk.

The UK's partnership with the Indian government is generally positive, and the UK is seen as responsive to Indian priorities although this has reduced with lower budgets. There is frequent dialogue between the two governments at multiple levels, and we saw good examples of collaboration across the programmes we reviewed. The UK has also prioritised building a strong relationship with the World Bank, which is a sound choice in the Indian context. It has agreed to provide a $1 billion guarantee that will enable the World Bank to provide additional climate finance equivalent to this amount to India. Partnership with other development partners is more limited but constructive. Like most other bilateral donors, the UK no longer works closely with Indian civil society due to political sensitivities and government restrictions on NGOs' ability to accept foreign finance.

We award an **amber-red** score for coherence. While we welcome the efforts made to strengthen internal coordination, and recognise the good partnerships with the Indian government and the World Bank, we find limited evidence that the portfolio is being managed as a coherent whole, making the most of the investment, and note that the budget reductions have had a negative impact on coherence.

Effectiveness: How effective has the UK aid portfolio been in achieving its strategic objectives in India?

There have been commendable efforts to put in place a results framework for the UK government in India, with monitoring and reporting against 108 key performance indicators (KPIs). However, the KPIs do not meaningfully distinguish between activities, outputs and results. Some are process indicators (for example, tracking the holding of particular events like ministerial dialogues). Of the few that measure development results for India, most are yet to generate data.

In the 2017-20 period, the former Department for International Development delivered well against its objectives on basic services and financial inclusion, but these programming areas have now been discontinued. FCDO reports positive results in the areas of climate, clean energy and green finance, and some successes in promoting trade and regulatory reforms, but the data do not provide a clear picture on development results for India.

We did, however, find that most of the programmes we reviewed in detail were well managed and aligned with good development practice. We found good results from UK technical assistance programmes at federal and state levels, with a particularly strong UK contribution in the area of power sector reform, where relatively small UK expenditure (approximately £14 million) has been able to achieve catalytic impact, on the back of many years of investment in building up relationships and a deep knowledge of the sector. However, much of the UK's technical assistance work was discontinued or cut back during recent budget reductions.

We also found good results on climate change, where the UK has helped India scale up its clean energy generation, while supporting private sector-led green initiatives in areas such as waste management and sustainable agriculture. However, progress towards the goal of mobilising large-scale private finance into green infrastructure remains at an early stage and new funds, while promising, remain nascent.

The two development investment portfolios report positive results on economic growth and job creation. BII data suggest that, between 2017 and 2021, its investments created over 170,000 jobs in investee firms, and over 3 million jobs through their wider economic effects (the latter figure is estimated through modelling, using a method common among development finance institutions, rather than a direct measurement). We found some evidence of the FCDO DevCap portfolio having transformative impacts by helping to build new markets and promoting innovation, particularly in clean energy. However, we were not convinced that BII's large India portfolio is making a strong contribution to inclusive growth and poverty reduction, with many of its investments providing benefits to middle-class consumers, rather than the poor. One BII study found that only 30% of those benefiting belong to the bottom 60% of India's population by income.[6] One major investment in an Indian bank, intended to expand financial services for the poor, in fact, led mainly to expansion of the bank's credit card business and corporate lending.

Overall, despite weaknesses in the results data, we find that UK aid to India is generally delivering well against the objectives set for it, meriting an **amber-green** score for effectiveness.

Recommendations

We have a number of concerns about the model of development cooperation that has emerged in India, which we find lacks a strong development rationale. However, there are also clear areas of strength in the country portfolio. The following recommendations are intended to help the UK government build on those strengths.

Recommendation 1

The UK should focus its aid portfolio to India on a limited number of areas where UK aid can help make India's economic growth more inclusive and pro-poor, with clear theories of change to guide the design of aid programming and development diplomacy.

Recommendation 2

The UK should build on its emerging success story in climate finance and green infrastructure, looking for opportunities to combine technical assistance, research partnerships, development investments and multilateral partnerships for greater impact and value for money.

Recommendation 3

UK development investments should have a greater focus on mobilising private finance at scale to address climate change, particularly from large institutional investors based in the City of London.

Recommendation 4

British International Investment should reassess its approach to ensuring additionality in its India portfolio.

Recommendation 5

The UK should look for opportunities to support coalitions of Indian research institutions and non-governmental organisations working on social issues, in support of the UK India Country Plan goal of championing open societies and democratic standards.

6 *India sprint impact study*, British International Investment, internal document.