Independent Commission for Aid Impact

UK aid to India

Country portfolio review

March 2023

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Overall review scores and what they mean			
GREEN	Strong achievement across the board. Stands out as an area of good practice where UK aid is making a significant positive contribution.	AMBER/ RED	Unsatisfactory achievement in most areas, with some positive elements. An area where improvements are required for UK aid to make a positive contribution.
GREEN/ AMBER	Satisfactory achievement in most areas, but partial achievement in others. An area where UK aid is making a positive contribution, but could do more.	RED	Poor achievement across most areas, with urgent remedial action required in some. An area where UK aid is failing to make a positive contribution.

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AMBER/ RED

The new model of development cooperation that has emerged in India has resulted in a fragmented portfolio without a strong development rationale

In recent years, the UK has transitioned away from funding traditional poverty-focused aid projects in India, but still provides substantial aid in the form of development investment, research partnerships and other activities that support the bilateral relationship. We calculate that the UK provided around £2.3 billion in aid between 2016 and 2021, including £441 million in bilateral aid, £129 million in development investment via the Foreign, Commonwealth and Development Office into Indian enterprises which generates returns, £749 million through multilateral channels, and £1 billion in investments through British International Investment (BII), the UK's development finance institution. We find that, while the portfolio reflects the shared interests of the UK and Indian governments, it is fragmented across activities and spending channels, and lacks a compelling development rationale. BII invests 28% of its global portfolio by value in India, but much of its portfolio lacks strong 'financial additionality' (given India's relatively mature financial markets) and does not have a clear link to inclusive growth and poverty reduction. UK aid has built research partnerships between UK and Indian institutions on global development challenges, but the research is weakly integrated with the rest of the portfolio. The UK's support to India's emerging role as an aid donor lacks a strong focus on results. There is little UK support for Indian democracy and human rights, despite negative trends in these areas.

While we have concerns about the model of development cooperation that has emerged in India, there are areas of strength within the country portfolio. The programming is generally well managed and delivered. The UK has maintained good relationships with the Indian government and has demonstrated that well-targeted technical assistance can have a positive influence on India's policy and investment choices, although this support has been scaled back during recent aid budget reductions. The UK has provided innovative support on climate change and clean energy, showing the value of combining support for policy reforms with well-targeted development investments.

Individual question scores

Question 1
Relevance: How relevant is the UK's evolving model for development cooperation with India? — AMBER/ RED

Question 2
Coherence: How internally and externally coherent has the UK's official development assistance and associated diplomatic activity been in India? — AMBER/ RED

Question 3
Effectiveness: How effective has the UK aid portfolio been in achieving its strategic objectives in India? — GREEN/ AMBER

Contents

Acronyms and glossary

Acronym	Definition
BEIS	Department for Business, Energy and Industrial Strategy
BII	British International Investment (formerly CDC Group)
CDP	Cassa Depositi e Prestiti (Italian investment bank)
CIF	Climate Investment Funds
CTF	Clean Technology Fund
DEG	Deutsche Investitions- und Entwicklungsgesellschaft (German Investment and Development Corporation)
DevCap	Development capital
DFC	United States International Development Finance Corporation
DFI	Development finance institution
DFID	Department for International Development (merged with the Foreign and Commonwealth Office in September 2020)
DHSC	Department of Health and Social Care
ESG	Environmental, social and governance
FCDO	Foreign, Commonwealth and Development Office
FCO	Foreign and Commonwealth Office (merged with the Department for International Development in September 2020)
FMO	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (Dutch Entrepreneurial Development Bank)
GCRF	Global Challenges Research Fund
GDP	Gross domestic product
GGEF	Green Growth Equity Fund
GHR	Global Health Research portfolio (delivered by the UK's National Institute for Health and Care Research)
GIP	Global Innovation Partnership
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (German development agency)
GNI	Gross national income
ICAI	Independent Commission for Aid Impact
IDA	International Development Association
ILO	International Labour Organisation
INVENT	Innovative Ventures & Technologies for Development Programme

Acronym	Definition
JICA	Japan International Cooperation Agency
KPI	Key performance indicator
MFI	Microfinance institution
MSME	Micro, small and medium enterprises
NDC	Nationally determined contributions
NIHR	National Institute for Health and Care Research (UK)
NIIF	National Investment and Infrastructure Fund
NGO	Non-governmental organisation
ODA	Official development assistance
OECD	Organisation for Economic Cooperation and Development
RBI	Reserve Bank of India
SC	Scheduled Castes
SIDBI	Small Industries Development Bank of India
SME	Small and medium enterprises
ST	Scheduled Tribes
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations International Children's Fund
USAID	United States Agency for International Development

Key terms	Definition
Additionality	In respect of development investment, a contribution beyond what is already available from the private sector.
Bilateral aid	Flows from official (government) sources directly to the recipient country.
Central funds	Foreign, Commonwealth and Development Office and other government funds operating on a global and regional basis and managed from the UK.
Debt investment	Financial resources to a borrower over a prescribed period with the expectation that the money will be repaid with interest.
Development investment	Aid-funded investments (usually, loans or equity investment) that are intended to generate development impact along with a modest financial return.
Development finance institution	Specialised institutions set up to provide concessional finance, investment and other support for development in low- and middle-income countries.

Key terms	Definition
Environmental, social and governance	A set of environmental, social and governance principles used to measure the sustainability and social impact of business activities, and by investors to evaluate corporate behaviour.
Equity investment	Investments that involve taking a shareholding in a company, and thereby obtaining the right to receive a share of future profits.
Gross domestic product	A standard measure of the value created through the production of goods and services in a country during a certain period.
Gross national income	The total amount of money earned by a nation's people and businesses. It includes a nation's GDP in addition to the income it receives from overseas sources.
Microfinance	Financial services provided to low-income clients, including households and informal businesses, who traditionally lack access to banking and related services.
Mobilisation	In respect of development investment, the effect of stimulating other investment, typically from the private sector.
Multilateral aid	Core contributions from official (government) sources to multilateral agencies, which use them to fund their own developmental programmes.
Official development assistance	Government aid that promotes and specifically targets the economic development and welfare of developing countries.
Overseas mission	The UK's diplomatic representation in other countries.
Scheduled Castes and Scheduled Tribes	Officially designated groups of people who are among the most disadvantaged socio-economic groups in India and are provided with a range of public support, including protective arrangements, affirmative action and socio-economic development. Scheduled Castes (also known as 'Dalit') are made up of traditionally ostracised groups and those relegated to lower occupations, while Scheduled Tribes are made up of indigenous peoples that have distinct cultures and often live in isolated areas.
Venture capital	Capital investment in early-stage, innovative businesses that offer high risks but strong growth potential.

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.

1. Introduction

1.1 India has become a major economic power, with a growing geopolitical role. Over the past two decades, it has made impressive progress on promoting economic growth, and is projected to become the world's fourth-largest economy by 2030.[7] It still faces major social and economic challenges, and is home to 24% of the world's poor.[8] However, aid is no longer regarded as a significant source of development finance.[9] In fact, according to the Indian government, in recent years, India has given more aid than it has received.[10]

1.2 India's growth has led to a major change in its development partnership with the UK. For many years India was the largest recipient of UK aid, with a wide range of programmes designed to help tackle extreme poverty in its poorest states. In 2012 the UK announced that it would phase out bilateral financial aid to India by 2015 (that is, grants to the federal and state governments),[11] but would continue with other forms of assistance, including technical assistance and development-oriented investment in the private sector ('development investment'). The announcement followed concerns raised by the International Development Committee[12] and in the British media[13] about the merits of continuing with traditional aid. The two governments agreed to recast their relationship as a partnership of equals, based on mutual interests. In 2021 this was formalised in a 'Roadmap', setting out a range of objectives for bilateral cooperation, including trade and mutual prosperity, collaboration on science and technology, and tackling climate change and global health challenges.[14]

1.3 From 2015 the UK significantly reduced its aid to India. From having been the second-largest recipient of UK bilateral aid in 2014, in 2016 India no longer ranked among the top 20. However, the reduction in grant aid was partly offset by a growing development investment portfolio. The UK's development finance institution, British International Investment (BII, formerly CDC Group), has since then invested 28% of its global portfolio by value in India, having made £1.2 billion ($1.5 billion) of new investment commitments between 2017 and 2021.[15] FCDO manages a development investment portfolio in India ('FCDO DevCap') – the only country where it does so. There is also a substantial volume of aid-funded research cooperation, mostly from global research funds. Moreover, during recent reductions to the UK aid budget, the India portfolio was protected to a greater degree than most other countries, causing it to become the 11th-largest recipient of UK bilateral aid, ahead of countries like Nepal, Bangladesh, Kenya and Uganda.[16] Overall, between 2016 and 2021, we estimate that around £2.3 billion in UK aid went to India.[17]

1.4 While there are still substantial volumes of UK aid to India, it is now very different in nature and purpose. It supports a range of Roadmap objectives under the comprehensive strategic partnership, serving as a tool for UK foreign policy, diplomatic and trade objectives. This puts the India country portfolio at the forefront of the vision for UK aid set out in the UK's 2022 *Strategy for international development*.[18]

1.5 This country portfolio review (see **Box 1**) examines the UK's new model of development cooperation with India, as it has emerged since 2016. The review considers its relevance to the objectives of both countries, its coherence across spending channels and departments, and whether it is achieving its intended results. Our review questions are set out in **Table 1**.

7 Nominal GDP, expressed as a percentage of global GDP at time-varying market exchange rates. *Global trade outlook*, Department for International Trade, 2021, p. 10, link.
8 *Half of the world's poor live in just 5 countries*, Katayama, R. and Wadhwa, D., World Bank blog, January 2019, link.
9 *Two birds, one budget: Using ODA for influence and development in the Indo-Pacific?*, Centre for Global Development Policy Paper 247, Calleja, R., Hughes, S. and Cichocka, B., Centre for Global Development, link.
10 Written reply to the Parliament of India, General V K Singh, Indian Minister of State in the Ministry of External Affairs, 22 March 2017, link.
11 *Written ministerial statement by the Secretary of State for International Development Justine Greening on aid to India*, Justine Greening, Department for International Development, November 2012, link.
12 *The future of DFID's programme in India*, Volume 1, International Development Committee, June 2011, HC 616, link.
13 See, for example, "Why are we giving £1bn aid to India? A nation with three times as many billionaires as we have (and its own space programme)", *Daily Mail*, February 2011, link; "India tells Britain: We don't want your aid", *Daily Telegraph*, February 2012, link.
14 *2030 Roadmap for India-UK future relations*, Foreign, Commonwealth and Development Office and Prime Minister's Office, May 2021, link.
15 Please note that commitments made by BII are different to disbursements made by FCDO (see Footnote 17).
16 *Statistics on international development*, former Department for International Development / Foreign, Commonwealth and Development Office, various years, link.
17 This is based on the *Statistics on international development*, Foreign, Commonwealth and Development Office, December 2022, link. The figure includes bilateral and imputed shares of multilateral ODA in India between 2016 and 2021 We have estimated UK aid to India through replenishments to BII using FCDO's budget data (link) and assuming that 28% of this replenishment capital is being invested by BII in India, which is an estimate based on data available on the BII website (link).
18 *The UK government's strategy for international development*, Foreign, Commonwealth and Development Office, May 2022, link.

1.6 The review builds on previous scrutiny of UK aid spending in India, including the 2011 International Development Committee inquiry[19] and a 2016 Independent Commission for Aid Impact (ICAI) review of the former Department for International Development's approach to managing exit and transition, in which UK bilateral aid to India was a case study.[20]

Box 1: What is an ICAI country portfolio review?

An ICAI country portfolio review is a strategic assessment of the totality of UK aid, from all departments, funds and organisations, in a given country. This includes both bilateral and multilateral aid, as well as aid-related diplomacy.

India was selected for a country portfolio review as an example of the new mode of development cooperation signalled in the March 2021 *Integrated review of security, defence, development and foreign policy*, which stated that the UK government "will more effectively combine our diplomacy and aid with trade".[21] The May 2022 *International development strategy* also emphasised the need for the UK to use all its capabilities, including "diplomatic influence, trade policy, defence, intelligence, business partnerships and development expertise" to achieve development objectives.[22]

Table 1: Review questions

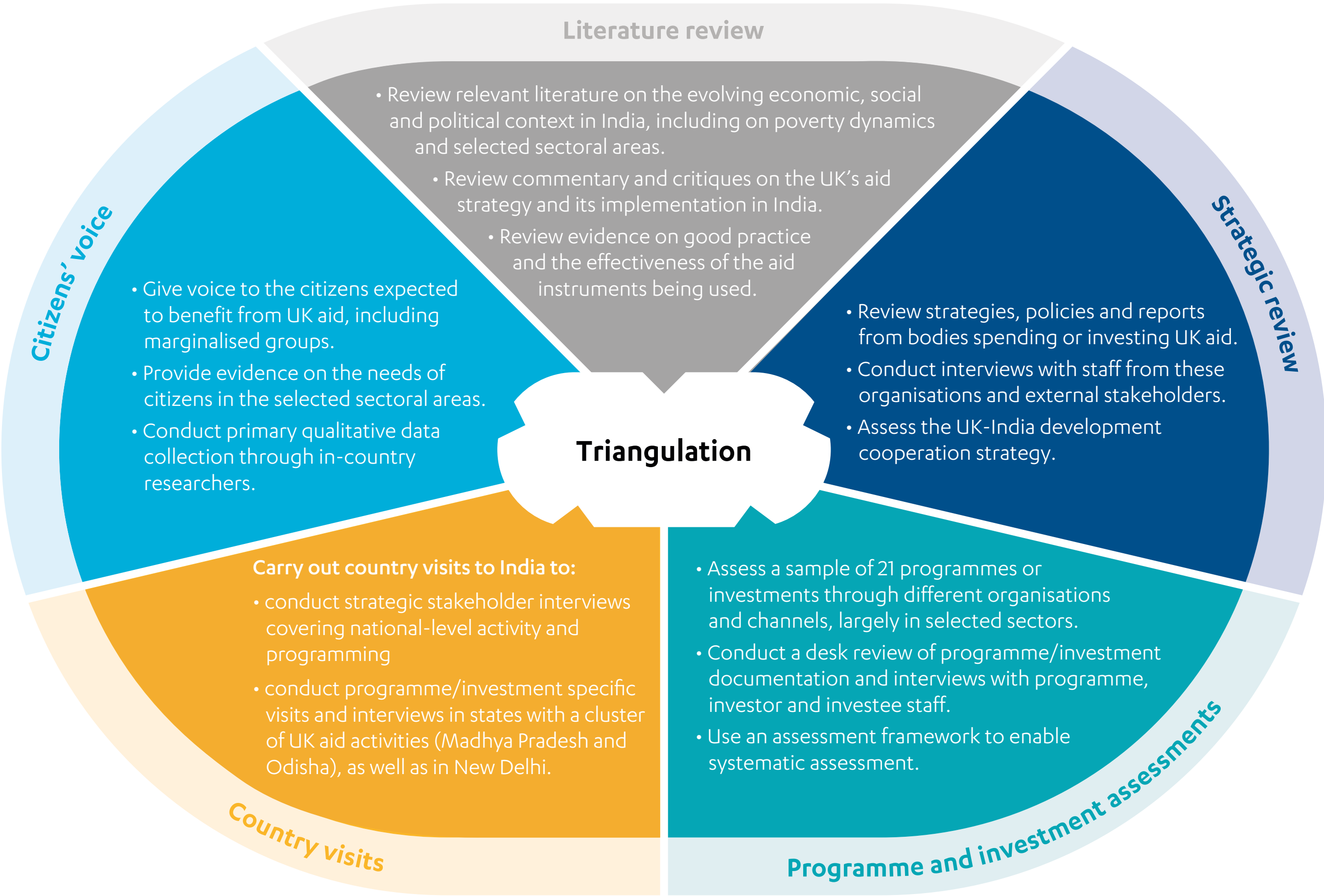
Review criteria and questions	Sub-questions
1. **Relevance:** How relevant is the UK's evolving model for development cooperation with India?	• How well has the UK understood and adapted its development cooperation to the evolving economic, social and political context in India? • To what extent is UK aid to India governed by a clear set of objectives supporting the shared interests of the two countries? • To what extent is UK aid to India guided by a clear understanding of the UK's comparative advantage?
2. **Coherence:** How internally and externally coherent has the UK's official development assistance and associated diplomatic activity been in India?	• How coordinated are the instruments and channels through which the UK provides aid to India? • How well has the UK built partnerships with, and influenced, other bilateral donors, multilateral agencies, national civil society organisations and other actors? • How well do the UK's diplomatic activities support its development objectives?
3. **Effectiveness:** How effective has the UK aid portfolio been in achieving its strategic objectives in India?	• How effectively has UK technical assistance and research funding helped to strengthen Indian institutions and capacities? • How effective have UK capital investments been in promoting inclusive, sustainable and green growth through the portfolio? • How well do UK multilateral aid and partnerships contribute to India's development?

19 *The future of DFID's programme in India*, Volume 1, International Development Committee, June 2011, HC 616, link.
20 *When aid relationships change: DFID's approach to managing exit and transition in its development partnerships*, Independent Commission for Aid Impact, May 2016, link.
21 *Global Britain in a competitive age: The integrated review of security, defence, development and foreign policy*, UK Cabinet Office, 2021, p. 46, link.
22 *The UK government's strategy for international development*, Foreign, Commonwealth and Development Office, May 2022, p. 5, link.

2. Methodology

2.1 The review methodology included the following components, to allow for data triangulation to answer the review questions (see **Figure 1**). Methodological limitations are outlined in **Box 2**.

Figure 1: Our methodology



- **Component 1 – Literature review:** To assess the relevance of the UK's approach to development cooperation with India, we reviewed literature on the changing economic, social and political context, particularly on the themes and sectors that are the focus of UK aid. We reviewed commentary on UK aid to India. To enable us to assess UK aid against good practice, we reviewed literature on the effectiveness of the major aid instruments being used (development investment, technical assistance and research funding), and looked at the approaches taken by other development partners in India (the World Bank, the Asian Development Bank and bilateral donors). The literature review, which is published separately, summarises key issues and conclusions from both academic and 'grey' literature, commenting where appropriate on the quality of evidence underlying the main conclusions.
- **Component 2 – Strategic review:** We examined strategies, policies and plans and interviewed relevant staff from UK government bodies, including British International Investment (BII), that are spending or investing UK aid in India. We also interviewed external stakeholders, including representatives of Indian institutions and civil society, other development partners and academic experts. We assessed the UK government's understanding of the Indian context and its own comparative advantage as a donor, the clarity of the objectives guiding UK aid, how coherently UK development cooperation with India has been implemented (including the use of diplomacy to support development objectives), and how well the UK has built partnerships with, and influenced, others.

- **Component 3 – Programme and investment assessments:** We conducted desk reviews of a sample of 21 programmes and investments through different organisations, channels and instruments (see **Annex 1** for our sampling approach and full details of selected programmes and investments). We reviewed business and investment cases, monitoring results and evaluations, and interviewed the responsible UK officials, implementing partners, investees and counterparts. We developed a framework for systematic assessment of these programmes and investments, to identify strengths and weaknesses across the sample.
- **Component 4 – Country visits:** Visits to India allowed us to engage with a wide variety of stakeholders, visit programme and investment locations, and engage with members of communities intended to benefit from UK aid investments. We visited New Delhi, primarily to meet with strategic stakeholders, and travelled to the states of Madhya Pradesh and Odisha, where there are clusters of UK-funded programmes and investments. We also briefly visited programmes and investments in Maharashtra.
- **Component 5 – Citizens' voice:** Through an Indian research partner, Participatory Research in Asia, we collected feedback from Indian citizens through focus groups and interviews, with a focus on people expected to benefit from UK programmes and investments, including marginalised groups. The research was supported by local civil society organisations in Madhya Pradesh, Odisha, Maharashtra and New Delhi.

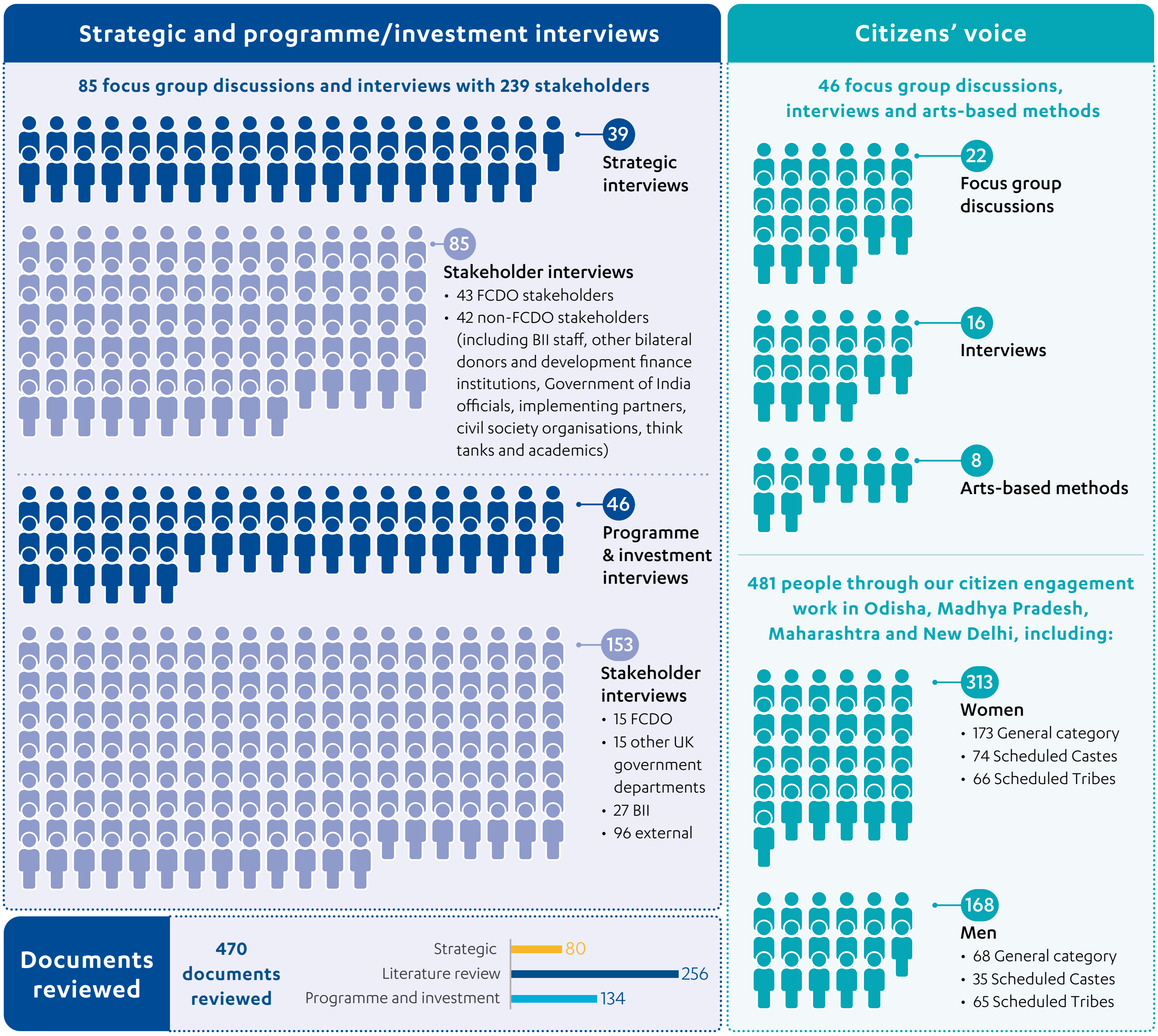
Box 2: Limitations to the methodology

The review period covers a period of considerable change and disruption in the UK aid programme, including from the merger of DFID and FCO, the COVID-19 pandemic and successive large-scale reductions to the UK aid budget. This disruption has affected institutional memory of UK aid since 2016, and also limited the extent to which it is possible to reach firm conclusions on the effectiveness of new approaches.

The India aid portfolio is designed to support various mutual objectives in the bilateral partnership, and these have evolved over the review period and are not always clearly articulated. This makes it difficult to assess aggregate results at the portfolio level.

It is inherently difficult to assess the impact of development investments, due to numerous shifts in investment strategy over the review period, the long-term nature of many of the investments, and the difficulty of measuring key variables such as 'additionality' (see **paragraph 4.21**). We have attempted to fill gaps in the evidence on investment results through our own primary research, but our ability to do so was necessarily limited by time and budget constraints.

Figure 2: Our data collection



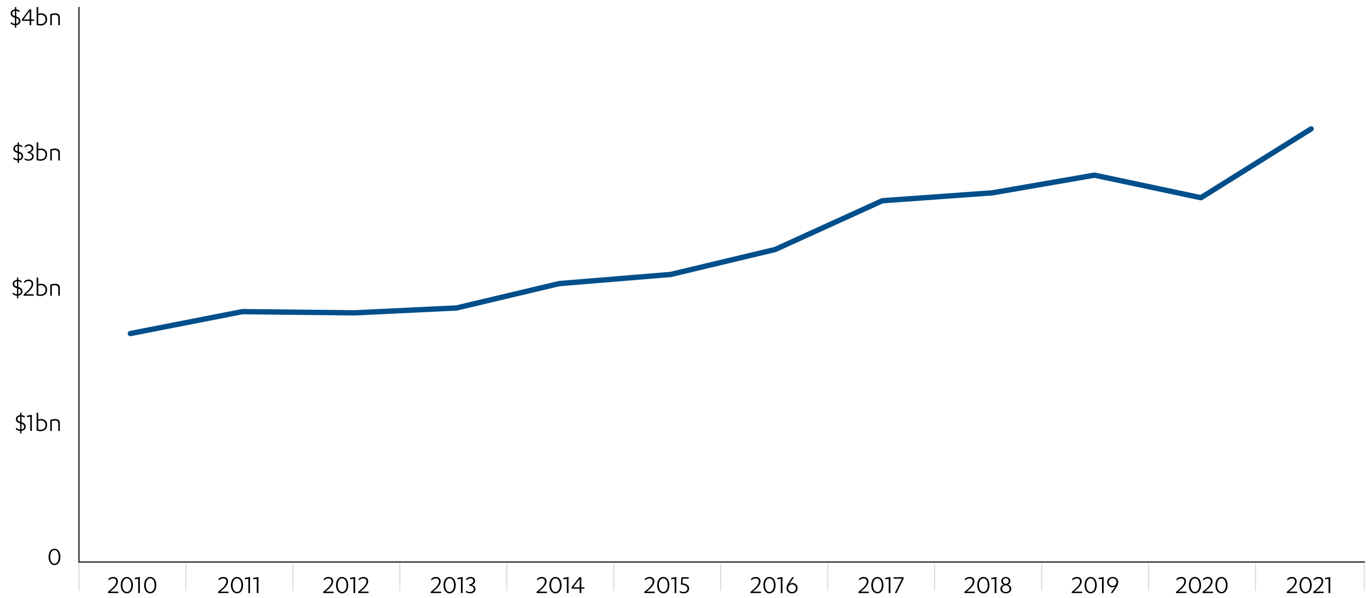
3. Background

India is a major power, but with major challenges still to overcome

3.1 India has undergone an extraordinary economic transformation over the past 20 years. Its economic growth exceeded 7% in each of the ten years before the COVID-19 pandemic, putting it on a path to becoming the world's fourth-largest economy by 2030 (see **Figure 3**).[23] Its economy is increasingly diversified, with a vibrant services sector (including outsourcing and information technology) and rapidly growing industries, alongside a large and more traditional agricultural sector. The economy contracted by 7.3% in 2020-21 with the impact of COVID-19,[24] but has rebounded quickly.

3.2 Economic growth has, in turn, increased the resources available for national development. Government funding for public services and infrastructure has increased, while public debt remains sustainable.[25] India is an attractive market for foreign investment, and its relatively mature banking sector and capital markets help to mobilise domestic resources for private investment. There is a well-developed microfinance sector for small and micro businesses, with small-scale lending increasingly available through commercial institutions.[26]

Figure 3: India's nominal gross domestic product (current $ billions), 2010-21



Source: *India – World Bank data*, World Bank, link.

3.3 Economic growth has delivered impressive gains in poverty reduction. In 2011 some 22.5% of people lived in extreme poverty; by 2019 this had fallen to 10%.[27] On the *Global Multidimensional Poverty Index*, which covers health, education and standard of living, 415 million people exited 'multidimensional poverty' in the 15 years between 2005 and 2020, before the COVID-19 pandemic, including 140 million people since 2015.[28] However, poverty remains a widespread challenge. On the United Nations (UN) Human Development Index, which measures income, education and life expectancy, India still ranks just 132nd out of 191 countries and territories.[29] According to the Global Hunger Index, it faces 'serious' levels

23 *Global trade outlook*, Department for International Trade, September 2021, link.
24 *India: 2021 Article IV consultation-press release; staff report; and statement by the Executive Director for India*, International Monetary Fund, October 2021, link.
25 *India development update*, World Bank Group, July 2020, link.
26 *Consultative document on the regulation of microfinance*, Reserve Bank of India, June 2021, link.
27 *Poverty headcount ratio at $2.15 a day (2017 PPP) (% of population) – India, World Development Indicators*, World Bank Group, December 2022, link. The World Bank's ability to estimate poverty in India has improved since 2015. Five new rounds of survey data for India (2015-16, 2016-17, 2017-18, 2018-19, 2019-20) were conducted. Before this update, the latest data for India were from 2011-12.
28 *Global Multidimensional Poverty Index 2022: Unpacking deprivation bundles to reduce multidimensional poverty*, Oxford Poverty and Human Development Initiative and United Nations Development Programme, October 2022, link.
29 *Human development report 2021/2022. Uncertain times, unsettled lives: Shaping our future in a transforming world,* United Nations Development Programme, September 2022, link.

of hunger, ranking 107th among the 121 countries where data are available, with 17% of the population undernourished. Among children under five, stunting (low height-for-age) and wasting (low weight-for-height) are at 36% and 20% respectively.[30] Poverty is heavily concentrated in the poorest states, in rural areas, among workers in the informal economy, and among marginalised and excluded social groups. Gender inequality is also acute. Although India now has more women than men for the first time in its recorded history, with 1,020 women for every 1,000 men, the sex ratio at birth remains low, with 929 girls born for every 1,000 boys, indicating continued preference for male offspring.[31] Only 20.5% of working-age women are active in the labour force, compared to 76.1% of men.[32]

3.4 India is a key country for global climate action. Given its large and rapidly growing economy, India's ability to transition to a low-carbon development path will be pivotal in determining whether the planet remains within the two-degree global warming threshold.[33] India also faces serious environmental challenges in managing its scarce water resources, modernising its food systems and ensuring its megacities and diverse urban environments remain inclusive and sustainable. Climate change pressures are likely to fall disproportionately on the poorest states and communities, which are vulnerable to both flooding and heatwaves.[34]

3.5 At the COP26 climate conference in 2021, India pledged to reach net zero emissions by 2070 and to produce half of its energy from renewables by 2030. These pledges have since been formalised in India's nationally determined contributions (NDCs, voluntary actions under the Paris climate agreement) in August 2022,[35] and have been followed by a number of new policy initiatives. In November 2022, India released a long-term low-carbon development strategy, which includes actions to promote low-carbon transition in electricity generation, transport, industry, cities, agriculture and forests. The government has also promoted a 'Lifestyle for Environment' movement to encourage citizens to combat climate change.[36] However, India has faced criticism for its slow transition timetable and its commitment merely to 'phase down', rather than phase out, its use of coal. Since COP26, India has backed away from its NDC commitment to installing 500 gigawatts of renewable energy capacity, although this remains a domestic target, and has kept open the option of new coal-based power plants.[37] Currently, 70% of India's power comes from coal. While renewables are growing rapidly, they account for only 18% of generation, leaving the country without a clear pathway to net zero.[38]

3.6 Over the review period, India has fallen significantly on global democracy indices. The *Democracy Index 2021* notes a "serious deterioration in the quality of democracy" since 2016, linked to the government's failure to prevent "increased intolerance and sectarianism towards Muslims and other religious minorities".[39] India's ranking on the index has declined from 32nd in 2016 to 46th in 2021, reaching its lowest ranking of 54th among 167 countries in 2020.[40] India rates well for the quality of its electoral processes, government institutions and political pluralism, but has seen sharp declines in its ratings for political culture in the face of an increasingly polarised discourse, and for civil liberties, with reports of excessive force by security forces against protestors.[41] Protests by Muslims and other minorities have increased, most notably in Kashmir, India's only Muslim-majority state, following the revoking of its autonomous status, and in Assam, where 1.9 million Muslims were stripped of their rights through 2019 amendments to India's national citizenship law. The Bharatiya Janata Party of Prime Minister Modi came to power on the back of pledges to tackle corruption in India's political system, but has faced

30 *Global Hunger Index 2022: India*, Concern Worldwide and Welt Hunge Hilfe, October 2022, link.
31 "More women than men in India, says NFHS, but sex ratio at birth a worry", *The Times of India*, November 2021, link.
32 *Human development report 2020. The next frontier: Human development and the anthropocene,* United Nations Development Programme, December 2020, link.
33 *Country partnership framework for India for the period FY18-FY22*, World Bank Group, July 2018, link.
34 *Mapping India's climate vulnerability: A district level assessment*, Mohanty, A. and Wadhawan, S., Council on Energy, Environment and Water, October 2021, link.
35 *India's updated first nationally determined contribution under Paris Agreement (2021-2030),* Submission to United Nations Framework Convention on Climate Change, Government of India, August 2022, link.
36 *India's long-term low-carbon development strategy*, Ministry of Environment, Forest and Climate Change, Government of India, November 2022, link.
37 "India keeps renewables target flexible, goal of 500 GW green energy by 2030 dropped", *The Economic Times*, August 2022, link; *English rendering of PM's speech at India Energy Week 2023 in Bengaluru, Karnataka*, Prime Minister's Office, Government of India, February 2023, link.
38 *India at COP26 and beyond*, Das, P. and Chaturvedi, V., Institute of South Asian Studies Insights, December 2021, link.
39 *Democracy Index 2021*, Economist Intelligence Unit, pp. 9 and 42-43, link.
40 *Democracy Index 2021*, Economist Intelligence Unit, 2022, link.
41 *Democracy in India*, Price, G., Chatham House, April 2022, link.

major corruption scandals of its own.[42] India ranks 85th of 180 on the Corruption Perceptions Index.[43] Indian democracy is supported by an independent judiciary and a vibrant civil society, but non-governmental organisations face growing government restrictions on their ability to register, operate and raise funds.[44]

3.7 India is seeking to take on a more prominent role in regional and global affairs. In recent years, in the face of growing strategic rivalry with China, it has discontinued its traditional non-aligned stance in favour of strengthening ties with the US and other Western allies, and also with Russia and regional powers such as the United Arab Emirates and Saudi Arabia.[45] It is a member of the Quadrilateral Security Dialogue ('Quad'), with the US, Australia and Japan, created in response to China's increased projection of power in the Asia-Pacific region. It plays an increasingly vocal role in multilateral forums such as the G20, of which it will hold the presidency in 2023. For all these reasons, India is a key strategic partner for the UK, given the 'Indo-Pacific tilt' in UK foreign policy signalled in the 2021 *Integrated review*.[46]

3.8 At the regional level, India has border disputes with both China and Pakistan, and faces growing threats from Islamic terrorism in neighbouring countries. Water is a key strategic issue in the South Asian region. The Ganges-Brahmaputra-Megna basin, where three major rivers converge, spans India, China, Bangladesh, Bhutan, Myanmar and Nepal, and is home to almost 10% of the world's population. Competing demands for hydro-electric power, irrigation and drinking water have the potential to become a source of conflict, as climate change increases water scarcity.[47]

3.9 India is also an emerging donor, supporting humanitarian response in neighbouring countries such as Nepal and Bhutan, and funding aid projects in Africa. It also provides low-interest or 'soft' loans, technical assistance and humanitarian relief. India is not a member of the Organisation for Economic Cooperation and Development (OECD) Development Assistance Committee and does not contribute to global aid statistics. Indian aid is spent by a range of government departments and agencies, and estimates of the total vary widely.[48] In the 2021-22 budget, nearly £2 billion was allocated for foreign aid grants.[49] The Indian Ministry of External Affairs reports that India has extended soft loans totalling around £25 billion to developing countries since it began its aid programme.[50]

The UK's evolving partnership with India

3.10 A decade ago, India was the largest recipient of UK bilateral aid, with annual funding peaking at £421 million in 2010. Aid was concentrated in India's poorest states and focused on relieving poverty through programming to improve basic services like health and education and to promote livelihood opportunities among poor communities. However, as India began to assume a more prominent global role, UK aid to India became increasingly controversial, criticised by sections of the British media[51] and political establishment.[52] A 2011 International Development Committee inquiry found that there was a case for continued support to India in the short term, concentrated in the poorest states, but concluded that the UK should work towards a fundamentally different relationship by 2015, based around the sharing of knowledge. A phasing out of financial aid by 2015 was duly adopted as UK government policy in 2012, by agreement between the two countries.[53]

42 Democracy in India, Price, G., Chatham House, April 2022, link.
43 Transparency International Corruption Perceptions Index website, link.
44 *India: Democracy threatened by growing attacks on civil society*, Civicus, November 2017, link.
45 *An India economic strategy to 2035: Navigating from potential to delivery*, Varghese, P., Report for the Australian government, 2021, p. 376, link.
46 *Global Britain in a competitive age: the integrated review of security, defence, development and foreign policy,* UK Cabinet Office, 2021, p. 66, link.
47 *Paddling upstream: Transboundary water politics in South Asia*, Vishwanath, A., Carnegie India, October 2018, link.
48 *OECD development cooperation profiles: Other official providers not reporting to the OECD*, Organisation for Economic Cooperation and Development, link.
49 *India as an emerging aid donor to debt crisis hit Sri Lanka*, Wignaraja, G., Overseas Development Institute, July 2022, link.
50 *Lines of credit for development projects*, Government of India, Ministry of External Affairs website, link.
51 See, for example, "Why are we giving £1bn aid to India? A nation with three times as many billionaires as we have (and its own space programme)", *Daily Mail*, February 2011, link; "India tells Britain: we don't want your aid", *Daily Telegraph*, February 2012, link.
52 "UK to end financial aid to India by 2015", *BBC News*, November 2012, link; "Fury over UK's 'unjustifiable' £98m foreign aid injection for India", *Sky News*, September 2018, link; "British MP calls on Boris Johnson to cease foreign aid to India over vote on Ukraine: 'Far worthier causes'", *The Independent*, March 2022, link.
53 *Written ministerial statement by the Secretary of State for International Development Justine Greening on aid to India*, Justine Greening, Department for International Development, November 2012, link.

3.11 The transition process was reviewed by ICAI in 2015.[54] We found that it was marred by miscommunication and a lack of clarity about the new relationship, reflecting uncertainty within the Department for International Development (DFID) at the time about its role in middle-income countries. Furthermore, the UK had not done enough during the transition to preserve its strong relationships with Indian stakeholders, across government and civil society. We found that significant aid flows continued after the transition. While financial aid to the Indian government was, indeed, phased out as planned, the reduction was partly offset by increases in development investment, and programming designed to promote mutual prosperity. We recommended greater transparency to UK taxpayers through such transition processes to avoid misunderstanding.

3.12 Since its departure from the European Union, the UK has given more weight to its bilateral relationship with India. It was UK policy to build a more ambitious strategic partnership, in order to strengthen bilateral economic ties and leverage opportunities arising from India's growing regional and global roles.[55] A number of joint statements between the two governments over the 2016-18 period spoke of the need to increase trade and investment for mutual prosperity, to link up people and institutions, to mobilise finance for India's infrastructure development and 'smart' cities, and to address climate change. In September 2021 these objectives were formalised into a 'comprehensive strategic partnership', with the objectives set out in a *2030 Roadmap for India-UK future relations* (hereafter, 'Roadmap'),[56] signed by the two prime ministers, covering both economic and security matters, and designed to deliver benefits for both countries. **Box 3** summarises the main objectives of the Roadmap.

54 *When aid relationships change: DFID's approach to managing exit and transition in its development partnerships*, Independent Commission for Aid Impact, May 2016, link.

55 *The rise of India: UK perspectives*, Scott, D., Chatham House, 2017, link; *The UK shifts to the Indo-Pacific: An opportunity for India-UK ties*, Pant, H. V. and Milford, T., Issue Brief No. 444, Observer Research Foundation, February 2021, link.

56 *2030 Roadmap for India-UK future relations*, Foreign, Commonwealth and Development Office and Prime Minister's Office, May 2021, link.

Box 3: The 2030 Roadmap for India-UK relations

The *2030 Roadmap for India-UK future relations*,[57] agreed by the two governments on 4 May 2021, set out the objectives of the bilateral partnership over the next decade. Here are some of the main objectives, organised under five chapters:

1. Connecting our countries and our people

- Enhance political ties, including through biennial India-UK summits, improved cooperation in the UN and other multilateral forums, and regular exchanges between parliaments, judicial and executive institutions.
- Increase mobility of students and professionals.
- Expand cooperation between universities on research, science and innovation.
- Technology partnerships in areas such as artificial intelligence.

2. Trade and prosperity

- Conclude a comprehensive free trade agreement and eliminate barriers to trade.
- Share experience on regulatory reform, tax administration and trade facilitation.
- Increase cooperation in services sectors, in areas such as IT, healthcare, financial services, transport and tourism.
- Increase trade in financial services and promote infrastructure financing in India.
- Promote smart and sustainable urbanisation.

3. Defence and security

- Tackle cybercrime and terrorist threats.
- Defence and maritime cooperation.

4. Climate

- Reduce carbon emissions and build resilience to climate change.
- Mobilise investment in renewable energy, clean transport, industrial decarbonisation and green business.
- Support small island developing states with disaster-resilient infrastructure.
- Promote nature and biodiversity, including through innovative solutions to tackling plastic and marine pollution.
- Improve waste management and the circular economy.

5. Health

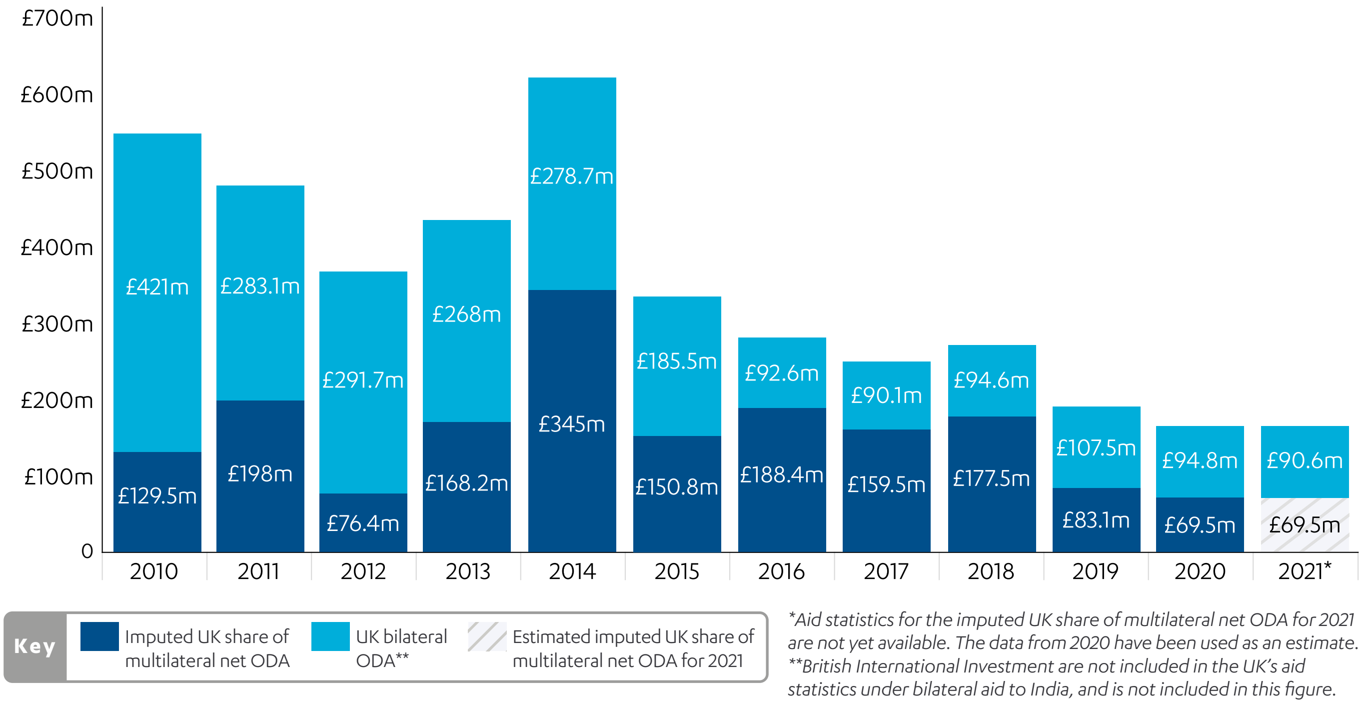
- Promote research and innovation on global health threats.
- Strengthen COVID-19 and other pandemic preparedness.
- Take global leadership on tackling anti-microbial resistance and non-communicable diseases.

The new profile of UK aid to India

3.13 The official aid statistics show a steady decline in UK aid to India, through both bilateral and multilateral channels (see **Figure 4**). This is consistent with the UK government's phasing out of financial aid to the government of India and of traditional aid projects. Bilateral aid fell from £279 million in 2014 (when India was still the second-largest recipient of UK bilateral aid) to £186 million in 2015 (making it 9th), and £95 million in 2020 (16th). However, India was protected during recent rounds of UK aid budget reductions, relative to many other countries. While bilateral aid to India fell to £91 million in 2021, India rose to 11th place, ahead of Bangladesh, Kenya and the Democratic Republic of the Congo.[58]

57 *2030 Roadmap for India-UK future relations*, Foreign, Commonwealth and Development Office and Prime Minister's Office, May 2021, link.
58 *Statistics on International Development*, Department for International Development / Foreign, Commonwealth and Development Office , various years, link.

Figure 4: UK bilateral and multilateral official development assistance (ODA) to India



**Aid statistics for the imputed UK share of multilateral net ODA for 2021 are not yet available. The data from 2020 have been used as an estimate.*
***British International Investment are not included in the UK's aid statistics under bilateral aid to India, and is not included in this figure.*

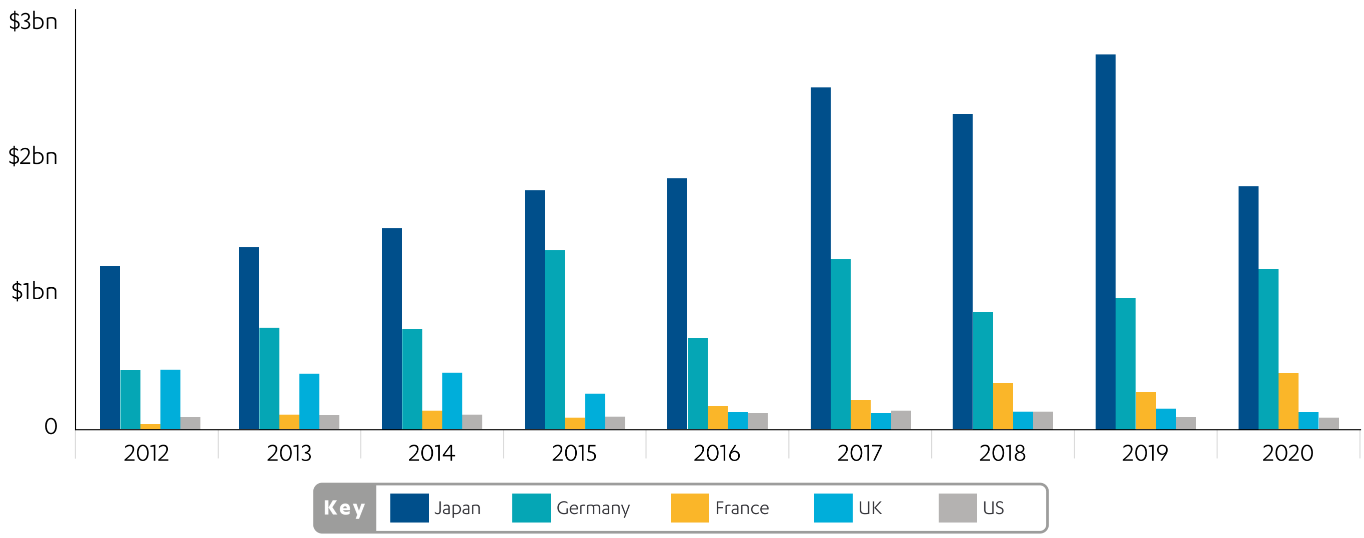
Source: *Additional tables: Statistics on international development: final UK aid spend 2021,* Table A4b and Table A10, various years, Foreign, Commonwealth and Development Office: Aid spend 2021, link; Aid spend 2020, link; Aid spend 2019, link; Aid spend 2018, link; Aid spend 2017, link.

3.14 The UK's imputed share of multilateral aid to India has also declined. Historically, India was the largest borrower from the International Development Association (IDA), the part of the World Bank Group that provides concessional finance to the world's poorest countries. From 2014, it began to graduate from IDA, and it is now the largest borrower from the International Bank for Reconstruction and Development, which lends on more commercial terms to middle-income countries. India is now repaying its approximate £2.5 billion in IDA credits at an accelerated pace, freeing up resources for other developing countries. India has also become a donor to IDA.[59] As a consequence, while India is still borrowing from the World Bank, it is repaying more than it receives. This appears as a negative figure in the aid statistics, and accounts for India's declining multilateral aid receipts.[60] India also receives funding through other multilateral channels, including the Asian Development Bank, UN agencies and international climate funds.

3.15 According to OECD statistics, the UK is the fourth-largest bilateral donor to India, well behind Japan, Germany and France (see **Figure 5**). For each of these donors, a substantial share of their assistance is in the form of loans and equity investments through their respective development finance institutions (see **Box 4** and **Box 5**).

59 *IDA in India: A retrospective*, World Bank Group, 2020, link.
60 *See Development finance data*, Organisation for Economic Cooperation and Development, accessed January 2022, link.

Figure 5: Gross disbursement of official development assistance to India by major bilateral donors



Source: *Additional tables: Statistics on international development final UK aid spend, Table A4f and Table A10*, various years, Foreign, Commonwealth and Development Office: Aid spend 2021, link; Aid spend 2020, link; Aid spend 2019, link; Aid spend 2018, link; Aid spend 2017, link.

Box 4: Development finance institutions in India

Development finance institutions (DFIs) are specialised institutions set up to provide concessional finance and other support for development in low- and middle-income countries. Bilateral DFIs, like British International Investment (BII), are owned by their national governments, making investments in accordance with objectives and policies set by those governments. DFIs are expected to balance development impact and financial sustainability, while promoting high levels of public transparency and environmental, social and governance standards.[61]

In India major bilateral DFIs include the UK's BII, France's Proparco, the Dutch Entrepreneurial Development Bank (FMO), the German Investment and Development Corporation (DEG), and the US International Development Finance Corporation (DFC). BII is the largest bilateral DFI in India and invests a larger proportion of its global portfolio in India than other bilateral DFIs, at 28%.[62]

Over our review period, BII (formerly CDC Group) investments in India have been guided by three different investment strategies:

- CDC's 2012-16 *Investment policy*: This strategy announced a shift of focus away from middle-income countries and towards the poorest countries and the most challenging sectors. This strategy introduced an approach to selecting investments on the basis of their potential development impact, with job creation as the primary objective.[63]
- CDC's 2017-21 *Investing to transform lives*: This strategic framework deepened CDC's approach to development impact, to include addressing market failures and achieving a wider range of objectives under the Sustainable Development Goals and the Paris climate agreement, including women's economic empowerment and low-carbon development. CDC also introduced its 'catalyst' portfolio to facilitate higher-risk investments with greater potential for development impact. Under this strategy, CDC decided to treat Indian states as equivalent to other countries in its portfolio, prioritising the poorest states and populations, as well as helping Indian companies expand their operations in the poorest states. The strategy also posits that some investments (such as in solar panels) outside the poorest states could also promote inclusive growth. In this period, CDC strengthened its presence in India through offices in Bengaluru and Mumbai.[64]

61 *European DFIs: About DFIs, European Development Finance Institutions*, December 2022, link; *Development finance institutions and private sector development*, Organisation for Economic Cooperation and Development, December 2022, link.
62 Drawn from European Development Finance Institutions data and individual DFI annual reports and websites.
63 *CDC investment policy for the period from 1 January 2012 to 31 December 2016*, CDC Group, 2012; CDC's investments in low-income and fragile states, Independent Commission for Aid Impact, March 2019, link.
64 *Investing to transform lives: Strategic framework 2017-2021*, CDC Group, 2017, link.

- BII's 2022-26 strategy on *Productive, sustainable and inclusive investment*: This strategy outlines three strategic objectives: (i) invest in productive development that delivers jobs and growth, with an emphasis on building new markets by demonstrating the potential for successful investment; (ii) promote sustainable development by tackling climate change adaptation and mitigation, as well as natural resource depletion; and (iii) promote inclusive development by tackling gender inequality and other forms of exclusion, and prioritise job creation for marginalised groups. Under this strategy, BII has introduced 'country perspectives', taking account of national development plans and FCDO country plans.[65]

Box 5: Different aid instruments used by the UK and other bilateral donors

The UK uses a number of different instruments for channelling and delivering aid to India. These include:

- **Technical assistance:** The provision of resources, aimed at the transfer of technical and managerial skills or technology, for the purpose of building capacity or supporting the implementation of specific investments.
- **Research funding:** Aid spent on research, mostly in science and technology, resulting in new products, processes and understanding, that promotes the economic development and welfare of developing countries. Research funding is reported in aid statistics as a form of technical assistance.
- **Development investment:** Aid-funded investments (usually loans or equity investments) that are intended to generate development impact along with a modest financial return.

In addition to these aid instruments, donors such as Japan and Germany also provide financial aid to India, which explains their larger aid flows in comparison to the UK. This includes:

- **Concessional loans:** Low-interest (below market rates), long-term 'soft' loans extended by donor governments directly to developing country governments.
- **Grant finance:** Provision of funds to the governments of developing countries without the obligation of repayment.

3.16 The fall in bilateral grants from the UK has been partially offset by a rise in development investment. The UK has two separate development investment portfolios in India. The larger one is managed by the UK's development finance institution, British International Investment (BII, formerly CDC Group). While the Foreign, Commonwealth and Development Office (FCDO) is BII's sole shareholder, it operates at arm's length, with individual investment decisions taken independently of FCDO. BII is the world's oldest development finance institution, established in 1948 as the Colonial Development Corporation with a mission "to do good without losing money".[66] It currently has a global portfolio of over £8 billion, invested in over a thousand businesses across Asia and Africa. It has been active in India for over 30 years, with a portfolio of 389 investments valued at £2.3 billion in 2021 – by far its largest country portfolio, at 28% of the total. The next-largest portfolio is Nigeria, at 7%.[67] Among peer DFIs, this is the highest concentration of investments in India. It includes loans and equity investments provided directly to Indian firms, as well as investments through Indian financial institutions as intermediaries. It seeks to promote productive, sustainable and inclusive development in sectors such as agribusiness, manufacturing, healthcare, infrastructure and financial services.[68] In particular, BII's India 'country perspective' prioritises investments in climate action, including renewable energy, electric vehicles, the circular economy and sustainable agriculture.[69]

65 *Productive, sustainable and inclusive investment: 2022-26 technical strategy*, British International Investment, 2022, link.
66 Our history, British International Investment, accessed 27 January 2023, link.
67 *Key data*, British International Investment, December 2022, link.
68 BII proposes three different pools of investment in India. These include: Growth – investment used to accelerate private sector development at scale; Catalyst – high-risk investment in exchange for pioneering enhanced development impact; and Kinetic, not mentioned in the Productive, sustainable and inclusive investment strategy but in the India country strategy – higher-risk investments in earlier-stage innovative seed capital in nascent markets.
69 *Draft India 2022-26 country perspective document*, British International Investment, internal document.

3.17 In recent years BII has scaled up its global portfolio, receiving £3.7 billion in new capital from the former DFID and FCDO between 2016 and 2021.[70] One of the objectives of the scale-up was to deliver greater development impact in low-income and fragile states. Its financial return targets were reduced, in recognition that this objective would require it to operate in riskier markets.[71] 28% of BII's portfolio by value has been invested in India which, as a large and relatively mature market, has greater capacity to absorb development investment at scale than most aid-eligible countries. These investments do not appear in the UK's aid statistics under bilateral aid to India.[72] BII's average financial return from its Indian investments was higher than the average financial return from the global portfolio throughout the review period,[73] which suggests that the India portfolio helps to balance BII's riskier investments in other markets.

3.18 FCDO also directly manages a development investment portfolio in India ('FCDO DevCap'). Its purpose is to pioneer investments in sectors and regions that are neglected by private investors to scale up access to markets and services for excluded and disadvantaged groups. Since 2013 DFID/FCDO has committed £336 million to DevCap, of which £228 million has so far been invested. These investments have generated a return of £100 million since 2013. DevCap invests in sectors such as renewable energy, infrastructure, financial services, agriculture and healthcare. The investments are directed through 11 intermediary funds, of which two are lending institutions and the other nine are equity funds. In recent years the portfolio has also included 'trilateral' funds, established with the objective of supporting Indian innovators to scale up their activities in other developing countries.

3.19 FCDO's approach to development investment is distinct from BII's in several ways. Since 2014, its focus has been entirely on equity. Unlike BII, it works closely with the Indian government, and has established a number of joint investment funds with government-led financial institutions.[74] The majority of FCDO investments are also accompanied by technical assistance to support institutional, policy and regulatory reforms, de-risk investments and build markets in targeted sectors. FCDO has spent £41 million in linked technical assistance projects since 2013.

3.20 When these additional figures are taken into account, we estimate that the UK disbursed around £2.3 billion in aid to India between 2016 and 2021 (see **Figure 6** for a breakdown by year and spending channel). This figure includes £441 million in bilateral grants in the form of technical assistance and research, and £129 million in bilateral development investments via FCDO which generate a return. The majority has been spent by FCDO (and its predecessor departments) and the Department for Business, Energy and Industrial Strategy (now the Department for Science, Innovation and Technology), which manages most of the research funding. The figures also include an estimated £749 million of aid to India between 2016 and 2021 through an imputed share of core contributions to multilateral organisations.[75] In addition, the UK contributed an estimated £1 billion[76] in India via BII. Returns from these investments are reinvested by BII to help it meet its global financial returns target.

70 Calculated using capital annually managed expenditure figures reported in *Foreign, Commonwealth & Development Office: Annual report and accounts 2021-22*, Foreign, Commonwealth and Development Office, March 2022, link; and *Foreign, Commonwealth & Development Office: Annual report and accounts 2020-21*, Foreign, Commonwealth and Development Office, September 2021, link.

71 *CDC's investments in low-income and fragile states*, Independent Commission for Aid Impact, March 2019, link.

72 The UK reports its capital contributions to BII as an institution in the aid statistics, rather than the individual investments made by BII (both options are permitted under international aid reporting rules). See: Technical note: The reporting of official development assistance from development finance institutions, Department for International Development, 2014, link.

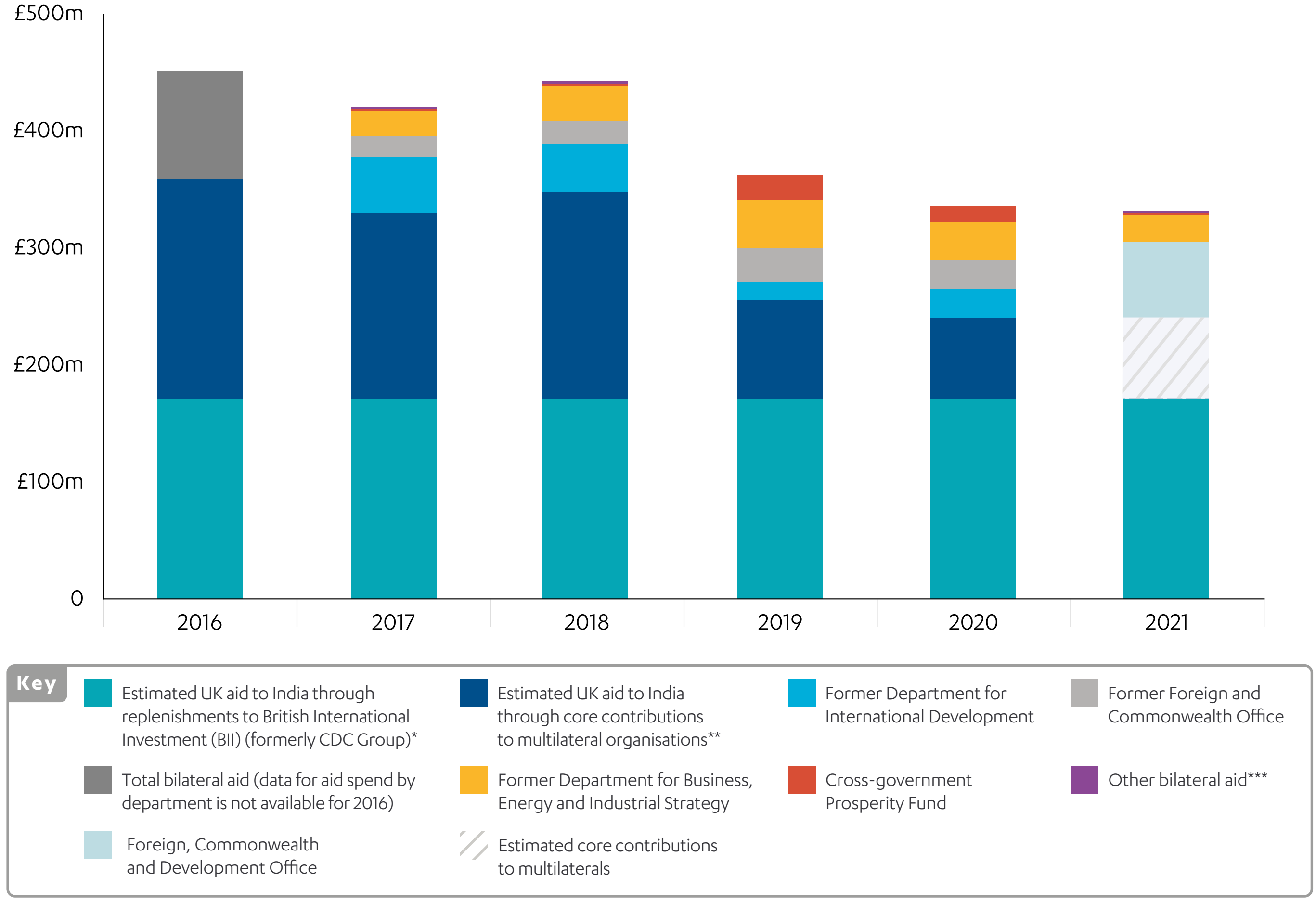
73 However, we note that the data are not comparable with BII's published return targets and BII does not manage returns on a country basis.

74 Apex bodies which co-invest with FCDO DevCap include the Small Industries Development Bank of India, the State Bank of India, the National Investment and Infrastructure Fund and the National Housing Bank.

75 Aid statistics for the imputed UK share of core contributions to multilateral organisations in India for 2021 are not yet available. In corresponding figures, data from 2020 are used as an estimate for 2021.

76 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.

Figure 6: Total estimated UK bilateral and multilateral aid to India by channel, including British International Investment

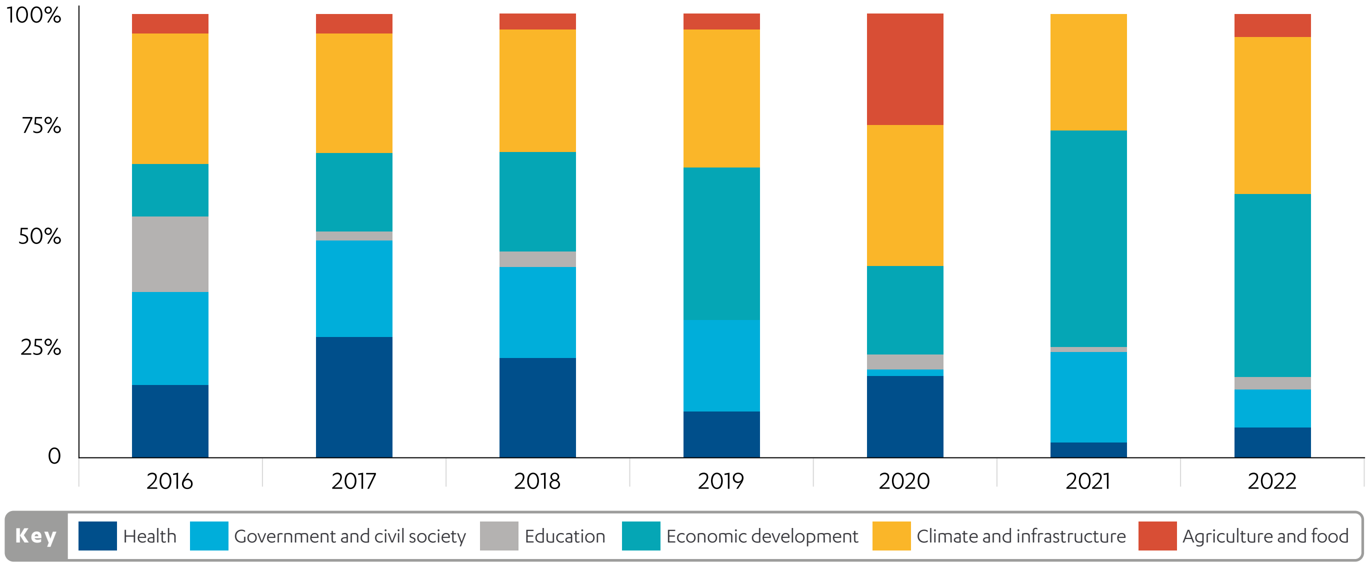


** UK aid to India through replenishments to BII is estimated using FCDO's budget data ([link](#)) and assuming that 28% of this replenishment capital is being invested by BII in India, which is estimated based on data available on the BII website ([link](#)).*
***Aid statistics for the imputed share of multilateral net Official Development Assistance for 2021 are not yet available. The data from 2020 have been used as an estimate.*
**** Other bilateral aid includes other government departments and channels of UK aid, including the Department of Health and Social Care and the Scottish government, although Scottish aid is not within ICAI's jurisdiction.*

Source: *Additional tables: Statistics on international development final UK aid spend 2021*, Table A4f and Table A10, Foreign, Commonwealth and Development Office, 2022, link.

3.21 The sectoral composition of UK aid has also evolved. At the beginning of the review period there was a strong focus on agricultural and rural livelihoods, support to government and civil society, and basic services. Economic development is now the largest programming area, with climate change a consistent priority through the review period (see **Figure 7**).

Figure 7: Sector composition of UK bilateral programmes and investments



Source: International Aid Transparency Initiative data (link) on programmes and investments made by FCDO by sector since 2016 to reflect different sector tags attached to India programmes. As there are often many sectors applied to programmes under this system of categorisation, sectors were aggregated into the six broad categories used above. The specific dataset used for FCDO India has since been removed from the IATI website, so a general link to FCDO IATI data has been provided in place.

3.22 The UK has a Country Plan for India, setting out shared objectives for the UK government as a whole. It aligns with the shared objectives set out in the Roadmap and also outlines UK-specific objectives and outcomes. This is not a public document and it covers areas of activities that are not linked to the aid programme. The main goals of the India Country Plan that are supported by aid programming are:

- mutual prosperity through an enhanced trade relationship
- acceleration of India's clean growth transition
- an innovative UK-India health partnership
- championing of open societies and democratic standards
- leveraging of UK education, research, enterprise and innovation expertise.

3.23 Relevant outcomes in the strategy include: economic, trade and regulatory reforms that enable market-led inclusive growth and poverty reduction; financial sector reform and liberalisation; reform of India's power sector and greater uptake of renewable energy; increased green finance; increased government capacity to deliver smart urbanisation; more evidence-based policymaking by India's federal and state governments; and an open, democratic India that grows inclusively and respects minority rights and civic freedoms. The Country Plan emphasises the use of development investment to support sustainable, pro-poor private sector organisations in areas such as clean energy, waste management, health, education and skills development. On global development issues, it includes objectives around working in partnership with India to drive global climate action, and looking for opportunities to collaborate within the UN and multilateral forums. There are no specific objectives relating to research partnerships which are mainly funded centrally.

3.24 The UK government's representation in India is its largest anywhere in the world, with 830 staff in the UK and in 11 locations across the country, managing both aid and other expenditure. This reflects India's scale and diversity, and the range of UK interests.[77] The size of this network enables the UK to maintain relationships with Indian stakeholders at both central and state levels. Just under a third of the salaries of UK government officials in India are counted as aid (see **Box 6**).

77 Locations include New Delhi, Ahmedabad, Chandigarh, Kolkata, Mumbai, Hyderabad, Goa, Bengaluru and Chennai.

Box 6: Which UK government salaries in India are charged to the aid budget?

In 2021 the UK government charged around a 34% share of the salary and overhead costs of UK staff in India to the aid budget, for a total of £13 million (known as 'aid-related frontline diplomatic activity'). This was a reduction on the £15.4 million charged in 2020, due to a reduced aid budget.[78] In 2022 the proportion of aid-related frontline diplomatic activity charged to the aid budget was 30%.

International official development assistance (ODA) reporting rules permit donor countries to report a share of the salary-related costs of diplomatic staff working on their aid programme as ODA, based on an estimate of the share of their time spent on aid-related duties. FCDO generates its estimate using the following method: Of approximately 820 UK government staff working on India, 91 staff work in FCDO's main 'aid-spending teams', who manage the delivery of ODA but also have other duties. For each goal in the FCDO country plan, an estimate is made of the proportion of activities undertaken in support of the goal that are ODA-eligible. The proportion of time that the relevant FCDO teams spend on that goal is also estimated. For example, FCDO's work on 'climate and investment partnerships' is assessed as 99% ODA-eligible and takes up 47% of the time of FCDO aid-spending teams. Work on 'defence and security' is only 10% ODA-eligible and takes up 7% of the time of FCDO aid-spending teams. When the figures are totalled across the five goals, it yields an estimate of 73% of the time of FCDO aid-spending teams as spent on aid-related duties.[79]

A simpler method is used for staff from other government departments as follows: Officials from the Department of International Trade are assumed to spend 5% of their time on the aid programme, and officials from other departments are assumed to spend 30%.

Goal in the country plan	What percentage of activities under this goal are ODA-eligible?	What percentage of the time of FCDO spending teams goes towards this goal?	Weighted ODA effort
1. Trade, investment and prosperity	50%	28%	14%
2. Defence and security	10%	7%	1%
3. Climate and investment partnerships	99%	47%	46%
4. Science, technology and health	75%	14%	10%
5. Connecting people	50%	5%	3%
Total for FCDO aid spending teams			**73%**

78 Figures taken from data published in support of the 2021 *Statistics on international development (SID): Data underlying the SID publication*, Foreign, Commonwealth and Development Office, accessed December 2022, link.

79 *Converged statistical reporting directives for the Creditor Reporting System (CRS) and the annual DAC questionnaire*, Organisation for Economic Cooperation and Development – Development Assistance Committee working party on aid statistics, May 2018, pp. 21-22, link.

4. Findings

4.1 This chapter of the report sets out the substantive findings of our review, under the three review criteria of relevance, coherence and effectiveness.

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

4.2 In this section we assess the relevance of the UK's new model for development cooperation with India in light of India's evolving needs, the objectives of the two governments, and the UK's comparative advantage as a development partner.

The new approach to aid reflects Indian government preferences, UK strategic interests and the evolving bilateral relationship

4.3 The transition of UK aid away from financial support to government and from the direct financing of poverty reduction was a legitimate response to the Indian government's evolving needs and preferences. India's economic growth over the past two decades has translated into rapid growth in domestic fiscal revenues. With its large economy, India is able to borrow from international financial markets and its maturing domestic financial sector. Given India's access to development finance at scale, UK aid is no longer significant in financial terms. The development case for any further aid rests on it playing a catalytic role, to influence Indian government policies, or to mobilise private finance into key areas for inclusive economic development, such as renewable energy. The International Development Committee made a similar case back in 2011.[80]

4.4 The transition also reflects the Indian government's longstanding preference for a partnership of equals with the UK, based on mutual interests, rather than a traditional donor-recipient relationship. In 2003 it announced that it would no longer accept tied or conditional aid – an apparent reference to donors attempting to influence Indian government policy.[81] It also requested that bilateral donors with smaller aid programmes direct their support through multilateral institutions or non-governmental organisations (NGOs).[82] It declined international humanitarian assistance after a number of natural disasters, including the 2004 Indian Ocean tsunami. India has since become a net donor, giving more aid than it receives.[83] The UK government's 2012 announcement[84] of a transition away from traditional aid was based on an agreement between the two countries, and this is reiterated in subsequent joint statements and agreements.

4.5 The India portfolio also reflects evolving UK government policy on how to use aid to support bilateral partnerships with middle-income countries such as India. The March 2021 I*ntegrated review of security, defence, development and foreign policy* stated that the UK would focus its aid on "those areas which are important to a globally-focused UK", with increasing efforts in the Indo-Pacific region ('the Indo-Pacific tilt'). It stated that the UK would "more effectively combine our diplomacy and aid with trade." On India it stated that, over the next ten years, the UK would "seek transformation in our cooperation across the full range of shared interests", including cultural ties, trade, investment, research collaboration, and global challenges such as climate change, clean energy and global health. It stated that: "Where countries can finance their development, we will move gradually from offering grants to providing UK expertise and returnable capital [i.e. loans and equity investments] to address regional challenges in our mutual interest. This will include support to high-quality infrastructure."[85]

4.6 The 2022 *International development strategy* similarly stresses that aid is part of a coherent UK foreign policy, alongside "diplomatic influence, trade policy, defence, intelligence [and] business partnerships". Its first priority is to "deliver honest and reliable investment", based on the UK's financial expertise

80 *The future of DFID's programme in India*, Volume 1, International Development Committee, June 2011, HC 616, link.
81 "The evolution of India's pragmatic policy on foreign aid", Kumar, M., *Hindustan Times*, 5 July 2021, link.
82 *Managing aid exit and transformation*, Joint Donor Evaluation, Slob, A. and Jerve, A.F., 2008, pp. 160-180, link.
83 Written reply to the Parliament of India, General V K Singh, Indian Minister of State in the Ministry of External Affairs, 22 March 2017, link.
84 *Written ministerial statement by the Secretary of State for International Development Justine Greening on aid to India*, Justine Greening, 9 November 2012, link.
85 *Global Britain in a competitive age: the integrated review of security, defence, development and foreign policy*, UK Cabinet Office, 2021, pp. 46, 62, 66 and 67, link.

(including in climate finance) and the strengths of the City of London as a global financial centre. It cites India (together with Indonesia) as an example of a comprehensive strategic partnership that will help the UK achieve global impact. It notes the importance of collaboration in science and technology to tackle global development challenges, and of joint working in global forums to advance climate and biodiversity goals.[86]

> "We will help countries get the investment they need to grow secure, open, thriving economies. Countries need to avoid loading their balance sheets with unsustainable debt, and mortgaging their future economies against bad loans. We can help, by putting our national economic power at the centre of our development approach: capital markets, investment and growth expertise, independent trade policies."
>
> UK International development strategy, p. 8, link

4.7 The India portfolio has been developed to fit this new paradigm. Aid is being used to support a range of shared objectives agreed under the Roadmap, with the main focus areas being mobilising climate finance for investing in clean energy and sustainable infrastructure, research partnerships on global development challenges and, on a smaller scale, supporting India's emerging global and regional roles.

4.8 While the aid portfolio is broadly relevant to the Roadmap, it does not map neatly onto Roadmap objectives. Not all the objectives are suitable for aid programming, and some which could be supported by aid are not, especially since the recent budget reductions. However, Foreign, Commonwealth and Development Office (FCDO) officials note that this is an evolving picture, as the Roadmap is a 2021 document setting out joint objectives through to 2030. In the period since then, the development of programming in support of the Roadmap has been disrupted by the COVID-19 pandemic, the merger of the Department for International Development (DFID) and the Foreign and Commonwealth Office (FCO), and successive UK aid budget reductions, all of which have reduced FCDO's scope to take on new initiatives.

4.9 Indian government officials noted that the UK was one of the few donors able to maintain a network of relationships across Indian government departments and agencies in its chosen thematic areas, which helps to increase the relevance and responsiveness of UK aid. The shift from grants to development investments elicited mixed views. Some officials were of the view that loans and investments were more appropriate to a partnership of equals than 'free' grant funding. Others noted that grants remained a better instrument for supporting reforms and testing out innovations, which could then be scaled up with development investment. Indian government officials also fed back that the UK had moved away from several sectors where there is still demand for its support, such as vocational training and urban development. The UK's exit from those areas had occurred as a result of UK aid budget reductions, and had not involved consultation with the Indian government. Overall, Indian stakeholders noted that, while India no longer considers itself a traditional aid recipient, it remains eager to learn from the experiences of advanced economies, including the UK.

UK aid to India lacks a compelling development rationale

4.10 The UK's overarching objective is a stronger bilateral relationship with India, and aid is being used in a variety of ways to support that partnership. This results in a fragmented portfolio without a compelling development rationale.

4.11 The UK India Country Plan has 58 outcomes. Of these, we assess that at least 16 have been supported by aid programming over the review period:

- economic reform
- trade and regulatory reform

86 *The UK government's strategy for international development*, Foreign, Commonwealth and Development Office, May 2022, pp. 5, 25 and 26, link.

- financial services
- infrastructure
- evidence-based policymaking
- democracy and institutional partnerships
- UK-India Global Partnership on Development
- global development cooperation
- clean energy
- green finance
- adaptation and resilience
- urbanisation and clean transport
- nature and biodiversity
- health and epidemic preparedness
- crisis preparedness
- finance, enterprise and entrepreneurship.

4.12 FCDO documents do not set out an explicit rationale for which objectives should be supported through aid funding, or what level of investment is appropriate in each area. This results in activities that are not well integrated thematically, and that often lack the scale required for meaningful impact. Individually, each activity is relevant and meets the eligibility criteria for official development assistance (ODA). Collectively, however, it is not clear that they add up to a strategic portfolio of development cooperation. This is particularly the case since recent aid budget reductions have led to the scaling back of many activities. A number of stakeholders, both within and outside the UK government, expressed the view that UK aid to India has become 'transactional', rather than outcome-focused. To achieve strategic outcomes with relatively small budgets would require a concentration of resources (both finance and development diplomacy) into a few areas with the greatest potential for catalytic effect.

> "The UK talks the big talk, but then plays a marginal game."
>
> "When you are small, you need to decide where you can have the greatest probability of strategic impact."
>
> Indian think tank representatives

4.13 We note that stronger bilateral ties with India, while an important UK foreign policy objective, should not be the primary purpose of the aid programme. The internationally agreed definition of ODA specifies that it must have "the promotion of the economic development and welfare of developing countries" as its main objective.[87] The *International Development Act 2002*, which provides the spending authority for most UK aid, further requires that spending departments must be "satisfied that the provision of the assistance is likely to contribute to a reduction in poverty".[88] To meet both these requirements, UK aid must be focused primarily on promoting poverty reduction and economic development, either in India or in other developing countries.

87 *Official development assistance (ODA)*, Organisation for Economic Cooperation and Development website, link.
88 *International Development Act 2002*, Article 1(1), UK government, link.

4.14 We accept that, in the Indian context, there was a clear case for moving away from direct funding of individual development projects towards working at the policy and institutional level. Relatively small amounts of UK aid can potentially have much larger impact by influencing far larger Indian government expenditure and private sector investment flows. However, upstream interventions of this kind must still demonstrate a clear and convincing link to inclusive growth and poverty reduction. In fact, as aid programming moves upstream, our view is that there is a greater onus on spending departments to articulate a clear rationale for how aid will lead to poverty reduction. In the India context, this means not just contributing to India's already high economic growth but identifying bottlenecks that prevent that growth from being inclusive in nature and identifying how to use UK aid in catalytic ways to address them. That rationale has not been clearly set out for the India portfolio. While some of the analytical foundations were set out in diagnostic work done by DFID in 2018 and 2019, such analysis dates quickly, and it is not clear that it has, in fact, influenced the composition of the current portfolio.

4.15 At the level of individual programmes, business cases do, in fact, contain a rationale for how the programme will contribute to poverty reduction and gender equality, as required by the *International Development Act*. However, in the examples we reviewed, the links were often generic and relied on long and, sometimes, unconvincing causal chains, or lacked evidence-based causal analysis. For example, FCDO's support for India's emerging aid programme discussed below in **paragraph 4.34**, supports various UK-India collaborations, but the activities lack a clear link to poverty reduction. The research portfolio lacks a strong focus on policy influence or uptake. Investments by British International Investment (BII) have contributed to job creation (see the results summarised in **paragraph 4.102**), but the job opportunities are not being accessed by India's poor. The BII portfolio has a significant focus on microfinance, but the links between microfinance and poverty reduction are not well evidenced, particularly in the Indian context (see **Box 9**). One of BII's investments was intended to finance affordable housing in India's poorest states for low-income households but, in fact, financed middle-class housing. Similarly, according to a forthcoming[89] Oxfam study, healthcare investments funded by BII were intended (according to the investment case) to improve health services for low-income households but, actually, supported services for middle-class households due to the cost and other non-financial barriers involved in accessing them. We saw similar evidence for one of the BII investments in our sample.

4.16 The lack of a compelling development rationale adds to the concern that the India portfolio is oriented primarily towards strengthening bilateral ties without a strong focus on development impact. This was also the view offered by a range of external stakeholders who described the aid programme as an instrument in service of UK foreign policy rather than India's development. One Indian think tank termed the assistance "quasi-ODA".

> "This is quasi-ODA. There is a clear shift towards British strategic objectives, rather than development objectives."
>
> Indian think tank representative

UK climate finance in India shows a stronger strategic orientation

4.17 Tackling climate change is a shared objective of the two countries included in the Roadmap. Given the global climate emergency, there is a compelling case for working with India on its transition to a low-carbon development pathway. As we noted in our 2019 review of *UK aid for low-carbon development*, it makes sense to focus UK efforts on mitigating climate change in large middle-income countries with rapidly growing economies which offer the greatest potential for avoided emissions. This is also an investment in global poverty reduction, as carbon emissions have a disproportionate impact on the global poor wherever they are produced.[90] India has huge climate finance needs. A recent analysis of its COP26

89 Expected to be published in April 2023.
90 *International Climate Finance: UK aid for low-carbon development*, Independent Commission for Aid Impact, February 2019, p. i, link.

commitment to achieve net-zero emissions by 2070 estimated that India faced an investment shortfall of $3.5 trillion (£2.8 trillion) and would need an additional $1.4 trillion (£1.13 trillion) in concessional finance to mobilise the required resources.[91]

> India and the UK will work together on one of the biggest challenges the world faces, helping to strengthen collaboration between global partners: we will co-lead global climate action, encouraging others to achieve milestone agreements on climate change, enhance bilateral cooperation towards low carbon development and climate resilient pathways, mobilise investment and channel climate finance towards implementation of the United Nations Framework for the Convention on Climate Change (UNFCCC) and the Paris Agreement.
>
> *2030 Roadmap for India-UK future relations*, Foreign, Commonwealth and Development Office and Prime Minister's Office, May 2021, link

4.18 Over the review period, the UK has had a range of relevant activities in the climate area. UK technical assistance helped India's Ministry of New and Renewable Energy develop a transition plan for the electricity sector, including support for the uptake of clean technologies such as solar, offshore wind, and smart meters, and supported reforms to encourage private investment in renewable energy. In partnership with India's National Investment and Infrastructure Fund (NIIF), FCDO invested £120 million and BII invested £60 million ($70 million) in the Green Growth Equity Fund (GGEF) which has invested in green infrastructure companies and platforms working on renewable energy, energy efficiency, energy storage, electric public transport, and waste management. This includes Ayana Renewable Power which BII established with an investment of $100 million and which has, subsequently, mobilised $490 million of equity investment from India's sovereign-linked NIIF, and the GGEF, as well as debt investment across its portfolio of renewable energy projects. BII has provided intermediated finance (that is, investing via Indian financial institutions and funds) for green infrastructure development. FCDO has been working with Indian cities, such as Bhubaneshwar in Odisha, on smart urbanisation, helping to boost domestic and foreign investment for sustainable infrastructure and services.[92] The UK also recently provided a $1 billion guarantee that enables India to increase its borrowing from the World Bank above the standard limit on borrowing, by a single borrower, to fund green infrastructure initiatives (see **paragraph 4.74**).

4.19 There is also centrally funded research addressing climate change. An evaluation of 258 UK-India research collaborations funded through UK Research and Innovation found a significant focus on climate action, including clean energy, environmental protection, sustainable agriculture and wider human-climate interactions.[93] The South Asia Research Hub, funded centrally by FCDO, also commissioned India-focused research during 2021-22 in response to requests from UK teams in India, including on nature-based solutions,[94] climate-compatible growth,[95] climate mainstreaming in urban planning,[96] and collaborative approaches to reducing emissions.[97]

4.20 These are relevant and useful initiatives. There is a distinctive UK approach to green infrastructure, combining technical assistance on national and state energy policy with support for technological innovation and efforts to increase India's access to international climate finance and mobilise private investment. However, as noted below, there is scope for different forms of UK support – technical assistance, research and development investment– to be used, in combination, in support of climate-related goals.

91 *Investment sizing India's 2070 net-zero target*, Council on Energy, Environment and Water and the Centre for Energy Finance, November 2021, link.
92 *Annual review for smart urban development in Indian states (SmUDI)*, Foreign, Commonwealth and Development Office, August 2020, link.
93 *UK-India: Partnerships for growth with research and innovation*, UK Research and Innovation India, September 2021, link.
94 *Nature based solutions – A review of key issues in India*, Foreign, Commonwealth and Development Office, June 2021, link.
95 Overview of *Roadmap for transformation: Towards long-term climate compatible growth for India*, World Resources Institute, Development Tracker, link.
96 Overview of *Understanding opportunities for mainstreaming climate actions within urban planning*, Oxford Policy Management, Development Tracker, link.
97 Delivered by the University of St Andrews under the South Asia Country Research Fund (GB-1-205053-156), link.

UK development investment in India shows a mixed picture on financial additionality and potential for development impact

4.21 Development investment refers to aid-funded investments (usually, loans or equity investments) that are intended to generate development impact along with a modest financial return. To qualify as ODA, development investments must offer something beyond what is already available from the financial markets. Otherwise, they are simply competing with, or even displacing, private investment. This concept is known as 'additionality'.[98] Additionality can be achieved by supporting investments that the market would not otherwise finance, or by providing larger-scale, longer-term or cheaper finance than would otherwise be available ('financial additionality'). It can also take the form of 'value additionality', combining investments with advisory or other support designed to help investee companies improve their governance, promote environmental sustainability or be more inclusive in their operations – commonly referred to as environmental, social and governance (ESG) standards.

4.22 The UK has two distinct development investment portfolios in India: one managed directly by FCDO ('FCDO DevCap') and the other by BII, a development finance institution (DFI) that is wholly owned by FCDO but operates at arm's length, with no FCDO input into individual investment decisions. BII has the larger portfolio, having committed £1.2 billion ($1.5 billion) in investment between 2017 and 2021,[99] while FCDO DevCap has committed £336 million since 2013. Both are small portfolios relative to Indian investment markets. However, BII has invested 28% of its global portfolio by value in the Indian market, giving it the largest country portfolio among bilateral DFIs.

4.23 The two portfolios have different approaches to additionality and development impact. FCDO DevCap aims to achieve additionality in three ways: (i) by providing long-term, patient capital with a high-risk appetite in early-stage sectors or geographies; (ii) by helping investees improve ESG standards, by promoting inclusion of women and marginalised groups, and achieving development impact; and (iii) by leveraging technical assistance to promote systemic impact, de-risk and safeguard investments, build markets and create a level playing field.

4.24 We found that this approach was broadly reflected in the composition of the portfolio. It includes a range of innovative investments in technology and green housing, among other areas, and has a strong focus on green infrastructure, which is an underdeveloped sector in India. In recent years FCDO has chosen to focus on equity investments, which offer greater additionality in the Indian context, given that debt finance is readily available in the Indian markets.[100] While equity investments are riskier, they call for closer supervision of investee companies by the investor, with more frequent performance appraisal. This more active management approach is associated with greater development impact. Equity investments are also well suited to supporting early-stage or nascent market development such as green infrastructure, helping new businesses develop from small into medium-sized enterprises (while debt is more useful for financing the expansion of established firms), and can help investee companies mobilise additional debt funding.[101] Supporting small enterprise development in underdeveloped sectors is one of FCDO's objectives for its DevCap portfolio.

4.25 Compared to BII, FCDO DevCap also works much more closely with the Indian government and government-linked financial institutions, with which it has established a number of joint investment funds and platforms (see **Box 7**). It accompanies its investments with technical assistance to partners to build institutional capacity and, where appropriate, to support the Indian government on financial sector reform. In this way, relatively small FCDO DevCap investments have the potential to influence the investment practices of much larger financial institutions. Overall, we find that the FCDO DevCap portfolio makes a reasonable case for additionality in the Indian context.

98 *Multilateral development banks' harmonized framework for additionality in private sector operations*, African Development Bank et al., September 2018, p. 3, link; *Our approach to investor contribution: 2022-26 strategy period*, British International Investment, undated, p. 2, link.

99 This is based on data received directly from BII.

100 *Evaluating CDC's financial institutions portfolio*, Genesis Analytics and IPE Global, December 2020, p. 43, link.

101 *Evaluation of impacts of the development capital investment intervention of the DFID India's private infrastructure portfolio: Draft final baseline report*, IPE Global, August 2019, link; *Investing for impact in India: Practical thinking on investing for development*, British International Investment, January 2023, link.

Box 7: Examples of FCDO DevCap funds

FCDO has worked with major Indian financial institutions to establish specialist development investment funds.

The Samridhi Fund was a social venture investment fund of approximately £40 million, with a £35 million equity investment from DFID/FCDO, and the remainder from the Small Industries Development Bank of India (SIDBI), the Life Insurance Corporation of India and the United India Insurance Company Limited. The fund operated between June 2013 and March 2022. Its primary objective was to provide venture capital to small but scalable enterprises that provide economic, social or environmental benefits to the poor in eight low-income states, while achieving attractive returns over the long term.[102]

The Neev I and Neev II Funds involved commitments of £39.5 million and £7.5 million respectively from DFID/FCDO, with co-investment from the State Bank of India (SBI) and SIDBI. The Neev I Fund, scheduled to run from April 2015 to May 2026, aims to catalyse investment in eight low-income states with more limited access to finance, to promote private sector development that creates jobs and offers wider social and environmental benefits.[103] Its successor, the Neev II Fund, operating between June 2021 and May 2031, aims to promote the development of small and medium enterprises (SMEs) across India. It targets sustainable development, via enterprises offering promising investments in clean energy, electric vehicles, the efficient use of raw materials, water management and the circular economy.[104]

The most recent FCDO DevCap investment, launched in 2022, is the **Global Innovation Partnership (GIP)** – a 'trilateral' programme between FCDO, the Indian Ministry of External Affairs and third countries. GIP invests in transferring and scaling up climate-smart innovations, from India to third countries, to promote sustainable development and improve the lives and livelihoods of poor populations.[105]

4.26 In its global investment strategy, BII aims not just for additionality, but also what it calls 'contribution' – that is, a distinctive contribution to development outcomes. For each investment, it assesses the scale of the expected development impact (for example, the number of jobs created), the quality of the impact (whether they are quality jobs, and who will get them), and the likelihood of it being achieved without BII's investment. These criteria are used to assess each opportunity before the investment is approved.[106] BII's 2022-26 technical strategy sets out three priority areas for development impact: productive development (including job creation); sustainable development (helping countries respond to climate change); and inclusive development (promoting gender equality and alleviating poverty). Its *draft 2022 'country perspective' strategy for India* identifies all three of these global objectives, as relevant to India, and provides a useful analysis of economic opportunities and challenges where BII investments could make a difference.[107]

4.27 We were less convinced that BII's India portfolio matches its stated goals around financial additionality. India has historically been the largest market for BII by a considerable margin, now accounting for 28% of its global portfolio.[108] As a large and relatively mature market, India is better able to absorb investment at scale than less developed countries, while offering more attractive returns.[109] However, this also means that, given the depth of the Indian financial markets, it is more challenging to demonstrate financial additionality.

4.28 Nearly half of BII's India portfolio (45% by investment value), and 23% of investment transactions during our review period, have been in financial services (see **Box 8**).[110] We did not find convincing evidence that these investments were additional to what is already available from the market. One investment was

102 *Samridhi Fund overview*, Samridhi Fund website, link.
103 *Neev I Fund overview*, Neev Fund website, link.
104 *Neev II Fund overview*, Neev Fund website, link.
105 *UK-India Global Innovation Partnership (GIP) programme: Prior information notice*, Foreign, Commonwealth and Development Office and Ministry of External Affairs, September 2022, link.
106 *Our approach to investor contribution: 2022-26 strategy period*, British International Investment, undated, p. 2, link.
107 *Draft India 2022-26 country perspective document*, British International Investment, internal document.
108 *Key data*, British International Investment, December 2022, link.
109 BII has a target of a 2% financial return on its global portfolio (measured on a seven-year rolling basis), which enables it to be financially sustainable and to recycle financial returns into new investments. *Productive, sustainable and inclusive investment: 2022-26 Technical strategy*, British International Investment, 2022, p. 47, link.
110 Before 2012, CDC only invested indirectly, through other financial institutions as intermediaries. In 2012, its investment policy was changed to allow it to invest directly in individual companies.

channelled via a major national bank (see **Box 14**) which regularly raised funds directly from the public capital markets. BII's financial services investments are primarily in the areas of microfinance, affordable housing and SMEs, and are intended to encourage lending that helps to reduce poverty. However, commercial microfinance is already widely established in India from numerous large commercial banks and specialist microfinance institutions.[111] Furthermore, the evidence suggests that microfinance does not always promote poverty reduction in middle-income countries such as India (see **Box 9**). In fact, one internal DFID document from 2019, based on a review of the evidence underpinning common interventions to promote economic development, lists microfinance as a 'bad buy',[112] meaning that the evidence suggests it is unlikely to work or is not cost-effective.

Box 8: How does BII compare with other bilateral development finance institutions in India?

BII is one of several bilateral DFIs active in India, including the German Investment and Development Corporation (DEG), the Dutch Entrepreneurial Development Bank (FMO), the French institution Proparco, the US International Development Finance Corporation (DFC), the Spanish DFI COFIDES, and Italy's Cassa Depositi e Prestiti (CDP). Of these, BII has by far the largest concentration of investments in India, at 28% of its global portfolio, compared to 7% for DFC and a significantly lower share for the remaining DFIs.

Only Proparco and FMO publish sectoral breakdowns of their Indian portfolios. Compared to BII, they have an even greater concentration of investments in financial services (at 50% and 48% of their 2016-21 investments respectively, compared to 24% for BII). However, in interviews, Proparco informed us that it plans to move away from 'conventional' microfinance investments towards more targeted investments in financial inclusion, such as loans for agricultural smallholders and for the acquisition of solar panels.

Proparco and FMO invest a larger proportion of their portfolio in energy and renewables than BII. For example, Proparco invests 23% of its portfolio in renewable energies and energy efficiency. For its part, BII is more active in information and communications technology (26%) and health services (17%).

4.29 BII informed us that its ongoing investments in financial services are now better targeted towards poverty reduction and inclusive growth. For example, it has recently invested in financial institutions that provide loans exclusively to micro and small businesses or to women entrepreneurs. However, given the size of India's microfinance sector, this reorientation does not necessarily resolve the additionality concern in the India context.

Box 9: Is there a development case for investing in financial services in India?

Financial development is widely considered to be an important driver of economic growth. Financial development is defined as a combination of the depth of financial sector (the number, size and diversity of financial institutions), access to finance (how readily companies and individuals can obtain financial services), and efficiency (how well financial institutions use their capital to provide low-cost services on a sustainable basis).[113] In economies where finance is a 'binding constraint' on economic growth,[114] development finance institutions can play a useful role in alleviating that constraint. One way of doing so is by promoting microfinance – small loans to low-income households. This has been a popular form of development assistance since the 1980s, particularly in South Asia, where it was pioneered in Bangladesh by Professor Muhammad Yunus and the Grameen Bank that he founded.[115]

111 *Consultative document on the regulation of microfinance*, Reserve Bank of India, June 2021, link.
112 *Sector best buys: Economic development*, Department for International Development Chief Economist's Office and Research and Evidence Division, January 2019, unpublished.
113 *Financial inclusion: Can it meet multiple macroeconomic goals*, Sahay, R., Čihák, M., N'Diaye, P., Barajas, A., Mitra, S., Kyobe, A., Mooi, Y. N. and Yousefi, S. R., IMF staff discussion note, September 2015, link; *Introducing a new broad-based index of financial development*, Svirydzenka, K., IMF working paper No. 2016/005, January 2016, link.
114 *Growth diagnostics*, Hausmann, R., Rodrik, D. and Velasco, A., March 2005, link.
115 *The microfinance revolution: An overview*, Sengupta, R. and Aubuchon, C. P., Federal Reserve Bank of St. Louis Review, January 2008, vol. 90, no. 1, pp. 9-30, link.

India's financial sector has developed strongly over the past two decades, and this has helped to drive economic growth, as predicted in the literature.[116] Its development has been supported by regulatory reforms since the 1990s that have encouraged competition, although public sector banks continue to play a dominant role.[117] The Reserve Bank of India (RBI) is widely regarded as an effective regulatory institution, able to manage financial instability risks. In these circumstances, studies have found limited evidence that lack of finance is still a constraint on India's development.[118] In a World Bank survey just 11% of firms rated finance as a key constraint on their businesses – well behind corruption, tax levels and access to electricity.[119] However, access to finance may remain a constraint in specific places (especially rural areas) and sectors (such as smallholder agriculture).

The microfinance sector, in particular, has seen rapid growth over the past two decades, driven increasingly by commercial investment. Microfinance is now widely available from commercial banks, either directly or through intermediaries such as cooperatives, self-help groups and specialised microfinance institutions (MFIs). The rapid growth in the sector has been accompanied by well-publicised problems with high interest rates and aggressive debt collection practices. Our engagement with citizens found that loans offered by MFIs had annual interest rates of between 30% and 36%, which is higher than for loans from regular banks. There has been a range of state and federal legislation to deal with these problems, and the RBI continues to strengthen the regulatory framework, with the aim of reducing interest rates by improving transparency of loan pricing.

> “The bank officials do not behave well with us. They make us run around and unnecessarily delay our work.”
>
> Women self-help group members, Raigad, Maharashtra

> “The bank officials do not give us relevant information about different government schemes, and they also disrespect us. Now we have eventually opened our accounts in [another bank], where we get satisfactory services.”
>
> Women self-help group members, Ratnagiri (Chiplun), Maharashtra

> “I had taken a loan of Rs.30,000 from [a microfinance organisation] with an annual interest rate of 36 per cent... Some of the MFIs like [another microfinance organisation] make groups of women and give loans with 30 per cent annual interest rate for up to 18 months.”
>
> A village woman, Angul, Odisha

Global evidence suggests that the rapid growth of the microfinance sector has not been strongly linked to inclusive growth or poverty reduction. The majority of studies found that access to credit has had a neutral effect on household incomes and welfare, whether through increases in business activities, education, health or women's empowerment.[120] Furthermore, it can be associated with unsustainable levels of debt for low-income households. There is evidence that access to financial services can improve household resilience to shocks, such as health crises or loss of employment, but these effects are strongest in low-income settings where social protection is weak. This is not the case in India, where both national and

116 See *Financial sector development and economic growth in India: Some reflections*, Joshi, S., MPRA paper no. 81201, December 2016, link; (2016), *The impact of financial development, economic growth, income inequality on poverty: evidence from India*, Sehrawat, M. and Giri, A. K., Empirical Economics, 2018, vol. 55, pp. 1585-1602, link; and other sources cited in our literature review: *UK aid to India: Country portfolio review – Literature review*, Independent Commission for Aid Impact, March 2022, p. 7, available on the ICAI website, link.

117 *India: 2021 Article IV consultation-press release; Staff report; and Statement by the Executive Director for India. Country Report No. 2021/230,* International Monetary Fund, October 2021, link.

118 See *The wage-goods constraint on a developing economy: Theory and evidence*, Dutta, A., Journal of Development Economics, 1988, vol. 28, no. 3, pp. 341-363, link; *Is electricity supply a binding constraint to economic growth in developing countries?*, McCulloch, N. and Zileviciute, D., Energy and Economic Growth State-of-Knowledge Paper Series, Paper no.:1.3, Oxford Policy Management, December 2016, link; and other sources cited in our literature review: *UK aid to India: Country portfolio review – Literature review*, Independent Commission for Aid Impact, March 2022, p. 5, available on the ICAI website, link.

119 The most recent enterprise survey data are from 2014. *Enterprise surveys: India country profile 2014*, World Bank and International Finance Corporation, January 2015, link.

120 See *Commercialization and mission drift: The transformation of MFIs in Latin America*, Christian, R., Consultative Group to Assist the Poor, January 2001, link; *Income risk, coping strategies and safety nets*, Dercon, S., The World Bank Research Observer, Autumn 2002, vol. 17, no. 2, pp. 141-166, link; and other sources cited in our literature review: *UK aid to India: Country portfolio review – Literature review*, Independent Commission for Aid Impact, March 2022, p. 6, available on the ICAI website, link.

state governments have well-regarded social protection schemes and where gaps in provision relate mainly to access for some groups such as urban, informal households.[121] Studies specifically focused on India have similarly been unable to confirm that microfinance supports inclusive economic growth (as opposed to overall GDP growth) and poverty reduction. However, there could be a case for lending via financial intermediaries for climate objectives.

4.30 In interviews, officials suggested that BII is in the process of rebalancing its India portfolio away from financial services. However, they noted the weight of legacy investments in the India portfolio, and stressed BII's responsibility to time its exit from these investments carefully to ensure sustainability. Nonetheless, the draft 2022-26 'country perspective' shared with ICAI suggests that BII will continue to pursue investments in the financial sector.

The UK's engagement with India on its global development role is still at an early stage

4.31 One of the objectives of the India portfolio is to support India's emerging role on international development issues, at both regional and global levels.

4.32 At the South Asia level, FCDO's Indo-Pacific Regional Department (which has taken over programming begun by DFID's Asia Regional Department) has a range of programming on regional issues, including the management of transboundary rivers and water systems, climate change and environmental protection, green infrastructure, cross-border trade, energy and telecommunications connectivity, humanitarian support and regional human rights challenges, such as modern slavery and forced labour. It has delivered 22 regional programmes since 2016, ten of which involved engagement with India.

4.33 Stakeholders informed us that, by acting as an 'honest broker', the UK has helped India play a constructive role in resolving regional issues, including those with the potential to become drivers of conflict. One strong example was the South Asia Water Governance Programme (DFID, 2012-21, £27.7 million), which promoted joint governance and management of the three primary Himalayan rivers (the Ganges, the Indus and the Brahmaputra), which are shared by seven countries (Afghanistan, Bangladesh, Bhutan, China, India, Nepal and Pakistan). It created a range of regional cooperation mechanisms and knowledge-transfer platforms, with a view to influencing regional policymakers. It has also reportedly helped to increase the World Bank's focus on the cross-border dimensions of its investments.

4.34 We were less convinced by the UK's approach to supporting India's role as an emerging global donor. India has sought opportunities for 'triangular cooperation' – that is, tripartite arrangements between India, established donors and low-income countries, where India shares its development experience, and the established donor contributes finance and development cooperation know-how. Triangular cooperation was recognised at the 2011 Busan High-Level Forum on Aid Effectiveness as a valuable form of development cooperation.[122] The idea is that lessons from a country such as India, with recent experience of tackling extreme poverty, may be more relevant than those from Organisation for Economic Cooperation and Development (OECD) countries or 'international best practice'. India has triangular cooperation arrangements in place with a number of OECD donors, including France, Germany, Japan, Norway, the UK and the US.[123]

4.35 FCDO's India-UK Global Partnership Programme on Development (2018-23) is one such arrangement, supporting India's emerging development role in Africa and the Indo-Pacific. Its original budget was £18 million but this has been reduced to £7 million. It counts in the aid statistics as global development cooperation, rather than aid to India, because the intended beneficiaries are in supported countries. Its initiatives have included:

121 *India – Strengthening urban safety nets in India project*, World Bank, June 2017, link; *From risks to resilience: Action research into informal workers' health and wellbeing in Indore, India*, Agarwal, S., Kothiwal, K. and Verma, S., IIED working paper, September 2022, link. See also *Saving in developing countries: An overview*, Loayza, N., Schmidt-Hebbel, K. and Servén, L., The World Bank Economic Review, 2000, vol.14, no. 3, pp. 393-414, link; *Portfolios of the poor*, Collins, D., Morduch, J., Rutherford, S. and Ruthven, O., Princeton University Press, 2009; and other sources cited in our literature review: *UK aid to India: Country portfolio review – Literature review*, Independent Commission for Aid Impact, March 2022, p. 6, available on the ICAI website, link.

122 *Busan Partnership for Effective Development Cooperation*, Organisation for Economic Cooperation and Development, December 2011, p. 3, link.

123 *OECD development cooperation profiles – Other official providers not reporting to the OECD*, Organisation for Economic Cooperation and Development, accessed December 2022, link.

- Supporting the India-UK Development Partnership Forum,[124] hosted at Cambridge University, which shares knowledge from India's development experience.
- The Global Development Centre, which has created a knowledge portal on best practices from India in agriculture and health. It has conducted bilateral sessions between financial institutions in India and in ten African countries on how to establish a unified digital payment system.
- The Infrastructure for Resilient Island States initiative, in which the UK is working with India through the Coalition for Disaster Resilient Infrastructure, will support small island developing states to develop and deliver investment-grade infrastructure projects. This aims to strengthen the resilience of their infrastructure and communities to climate and other natural disasters.
- It also supported engagement between UK and Indian partners in the lead-up to the COP26 climate summit in Glasgow.

More recently, the UK and India have established the Global Innovation Partnership, which will support Indian innovators to export successful innovations to third countries through seed funding, grants, investments and technical assistance, with a focus on climate-smart innovations.

4.36 However, we find the UK's programmes on triangular cooperation to be fragmented across many small initiatives without a plan for how the UK can contribute to India's global development aims. The focus of the programming seems, primarily, to be on promoting dialogue between UK and Indian institutions on global development issues, while the benefits to the low-income countries intended to be the primary beneficiaries look remote so far.

The UK's research partnerships with India are building bilateral links but lack a clear focus on uptake

4.37 The Roadmap talks at length about building ties between UK and Indian research communities, which includes promoting personnel exchanges and joint research between research institutions. UK aid accordingly funds a large portfolio of research collaborations between UK and Indian institutions. While precise figures are not available, the former Department for Business, Energy and Industrial Strategy (BEIS) (now the Department for Science, Innovation and Technology and the Department for Business and Trade), reports that the UK invested around £400 million in UK-India research partnerships in the decade to 2021, through over 200 individual projects, involving 175 UK and Indian research institutions and more than 100 industry partners.[125] Most of the funding has come from three large central funds:

- **The Global Challenges Research Fund (GCRF)**,[126] managed by former BEIS and implemented through nine UK delivery partners, was launched in 2016. It aims "to ensure UK science takes the lead in addressing the problems faced by developing countries, whilst developing our ability to deliver cutting-edge research".[127] It provided approximately £1.6 billion in research grants over five years but is now being wound down as a consequence of the 2021 spending review. It provides support to a consortia of global universities and research organisations. There are no figures available on the amount of funding that has gone to Indian institutions.
- **The Newton Fund**, also managed by former BEIS, was designed to promote research and innovation partnerships with developing countries, particularly middle-income countries.[128] With a budget of £735 million between 2014 and 2021, it supports collaborative research between the UK and selected middle-income countries, including India. The UK funding goes to the participating UK institutions, while the partner country provides matched funding for its own institutions. Its India portfolio, known as the Newton-Bhabha Fund, has spent £104 million since 2014.[129] As with GCRF, the Newton Fund ceased making new grants in 2021, but existing projects will continue until their scheduled completion.

124 The website for the India-UK Development Partnership Forum can be found here, link.
125 *UK and India research partnership reaches £400 million*, Department for Business, Energy and Industrial Strategy news story, 18 April 2018, link.
126 GCRF was the subject of an ICAI rapid review in September 2017: *Global Challenges Research Fund: A rapid review*, Independent Commission for Aid Impact, September 2017, link.
127 *UK strategy for the Global Challenges Research Fund*, UK Research and Innovation, June 2017, link.
128 ICAI reviewed the Newton Fund in 2019: *The Newton Fund: A performance review*, Independent Commission for Aid Impact, June 2019, link.
129 *Partner country case study: India – final evaluation of the Newton Fund*, Department for Business, Energy and Industrial Strategy, February 2022, link.

- **The Global Health Research (GHR) fund**, with £451 million in ODA funding since 2017, falls under the Department of Health and Social Care (DHSC) and is managed by the UK's National Institute for Health and Care Research (NIHR). It supports research on public health challenges in developing countries. Its research priorities are to address the shifting global burden of disease, strengthen national health systems, build resilience to future global health threats, and strengthen health research capacity in developing countries. It selects research projects that benefit the poorest and most vulnerable, which involve community engagement. Since 2017 available data show that it has funded 33 projects involving Indian institutional partners, representing 22% of the GHR ODA-funded portfolio, totalling £144 million.[130]

4.38 GCRF and GHR are not organised into country portfolios, and their thematic priorities are set at the global level. They do not have India country strategies and there is limited participation of Indian stakeholders in setting their research priorities.[131] While the research is not targeted specifically at India's development challenges, both funds encourage their grantees to engage with local communities in areas where the research is taking place and seek to deliver local benefits (see **Box 10**).

4.39 The Newton-Bhabha Fund does set research priorities that are specific to India. These are agreed between the two countries in periodic Science and Innovation Council dialogues. The current priorities (referred to as 'grand societal challenges') are sustainable cities and urbanisation, public health and wellbeing, the energy-water-food nexus, and 'understanding oceans', with big data and high-value manufacturing as cross-cutting themes. These are broadly aligned with Roadmap priorities, and the Indian government officials we interviewed considered them a good match with India's needs and priorities.

4.40 All three funds support the UK's objective of deepening UK-India research collaboration. Some Indian stakeholders expressed a concern that Indian institutions were kept in a subordinate position to UK partners, and this was confirmed in one of the GCRF projects that we reviewed, despite equitable partnerships being a core requirement (see **Box 10**). However, the Newton Fund has made some effort to ensure that the partnerships it supports are equitable. Its research projects are jointly designed and delivered, and the principal investigators can come from either side of the partnership. A 2022 evaluation found that its equitable partnership model was one of its strengths, being "highly valued, mutually beneficial, and unique to each partner country and delivery partner" and, thereby, facilitating the exchange of knowledge and skills.[132] Ensuring greater Indian ownership in research is key for equitable partnerships, according to some of the stakeholders we interviewed. An example of good practice in India is the India Alliance, co-funded by India's Department of Biotechnology and the Wellcome Trust. It allows Indian institutions to identify and define research priorities at a local level, rather than just focusing on pan-Indian or global themes, and it gives them more responsibility in funding decisions.[133]

4.41 Looking across the UK's research portfolio in India, some of it matches priorities agreed between the two countries, particularly the Newton Fund. Overall, however, it is a disparate portfolio of research without a clear orientation towards the needs of Indian policymakers. This is partly by design as the funds address global development challenges, with the potential to influence policy in any developing country. Indeed, the Newton Fund website emphasises the global orientation of its work and asserts that India's development experience will have a major influence on other countries.[134] However, the portfolio lacks a strong focus on disseminating findings and maximising uptake.

130 Figures calculated using *NIHR open data on global health research downstream partners*, National Institute for Health and Care Research, December 2022, link; and *NIHR open data on funded portfolio,* National Institute for Health and Care Research, December 2022, link.

131 *Initial appointments made to GCRF Strategic Advisory Group*, archived Research Councils UK webpage, May 2016, link; *Global Challenges Research Fund: Strategic Advisory Group*, UK Research and Innovation webpage, accessed 31 January 2023, link; *Stage 1a: Review of management processes – Evaluation of the Global Challenges Research Fund,* Department for Business, Energy and Industrial Strategy, February 2022, p. xi, link.

132 *The Newton Fund: Final evaluation report*, Tetra Tech, February 2022, p. 10, link.

133 *Four approaches to supporting equitable research partnerships*, ESSENCE on Health Research and UK Collaborative on Development Research, 2022, p. 22, link.

134 *The Newton-Bhabha Fund*, Newton Fund website, link.

Box 10: Examples of UK-India research collaboration

The GCRF-funded SUNRISE network is a research initiative led by Swansea University focused on developing new renewable energy technologies, such as electrical storage devices and biomass energy, in a global collaboration between the UK, India, Mexico, South Africa and Kazakhstan. It involves over 100 scientists as well as industry representatives, and it is connected to the SPECIFIC Innovation and Knowledge Centre at Swansea University and the Engineering and Physical Sciences Research Council's Joint UK-India Clean Energy Centre consortium.[135] The research demonstrates how new technologies, such as solar microgrids, can be implemented in rural India through a strong partnership with Tata, which provided a route for commercialisation and implementation. According to stakeholders we interviewed, it was a strong example of global, interdisciplinary research, and generated a range of scientific and engineering advances in next-generation solar energy materials and devices. It has continued to operate beyond the period of GCRF funding. While the research findings are potentially relevant in India, there were few links made to the UK's wider portfolio of aid-funded activities on renewable energy in India.

The Global Health Research project 'From surviving to thriving' is implemented by a UK think tank and an Indian non-profit organisation and it researches health risks faced by people living in informal settlements in Indore, the largest city in Madhya Pradesh. The project prioritises consultation and knowledge-sharing with communities. As well as generating research, it is designed to identify practical health solutions for people living in slum settlements, with a focus on single women and people living with disabilities. For example, it helped to develop new methods for water management during heat-stressed periods. These solutions are captured in toolkits and publications, which are distributed by the Indian non-profit organisation as part of its wider work. However, representatives of the Indian non-profit organisation informed us that the NIHR funding only covered research activities, not the dissemination of findings. They also noted poor communications with their UK partner.

A project entitled **'Digitisation of Micro, Small and Medium Enterprises (MSMEs)'**, funded by the Newton Fund's Industry-Academia Partnerships Programme, is seeking to identify cost-effective approaches to digitising MSMEs – a significant challenge, given the scale of the informal sector in India. However, in our interviews with project staff, we found the potential links to poverty reduction to be weak as the research focused on identifying economic benefits for established businesses and their workers, rather than job creation.

4.42 FCDO also undertakes some research that is directly relevant to its programming in India through the South Asia Research Hub. The research is undertaken in response to requests from FCDO teams across the region. Its work has covered several thematic areas relevant to the India country portfolio, including green growth, public-private partnerships for infrastructure development, good agricultural practices, human trafficking, and nature-based solutions to tackling climate change. While this is clearly relevant, there was mixed evidence on the application of research findings to programming.

UK aid is not addressing the closing of democratic space in India

4.43 According to global indices, democracy and human rights in India have come under increasing pressure over the review period.[136] Commentators have raised concerns about polarising political rhetoric, intolerance for religious minorities,[137] and growing restrictions on free media, NGOs and human rights groups, including limits on their access to foreign funding.[138] There have also been reports of a rise in human rights abuses, including excessive force against protestors, arbitrary arrests and detention,[139] and infringements on the right to a fair trial.[140]

135 *Strategic University Network to Revolutionise Indian Solar Energy (SUNRISE)*, Gateway to Research, UK Research and Innovation, link.
136 *Democracy Index 2021*, Economist Intelligence Unit, 2022, link.
137 *Freedom in the world 2022: India*, Freedom House, 2022, link.
138 *India: Events of 2021*, Human Rights Watch, 2021, link.
139 *India 2021 human rights report*, US Department of State, 2021, link.
140 *India 2021*, Amnesty International, 2021, link.

4.44 Promoting and protecting democracy and human rights around the world is a longstanding objective of UK aid, reiterated in the 2021 *Integrated review*.[141] FCDO (along with both of its predecessor departments) has a portfolio of aid programmes designed to support democracy and civic space, particularly in contexts where these are under threat, which ICAI covered in a recent review.[142] The UK government has at times used the term 'open societies' to cover democracy, human rights, the rule of law, free trade and property rights.

> "In most cases, the UK's interests and values are closely aligned. A world in which democratic societies flourish and fundamental human rights are protected is one that is more conducive to our sovereignty, security and prosperity as a nation. In pursuing our goals to 2030, we will seek to make steady progress towards the protection and promotion of these values and of democracy around the world."
>
> "In the years ahead we will need to manage inevitable tensions and trade-offs: between our openness and the need to safeguard our people, economy and way of life through measures that increase our security and resilience; between competing and cooperating with other states, sometimes at the same time; and between our short-term commercial interests and our values."
>
> Integrated review, Cabinet Office, 2021, pp. 14 and 17, link

4.45 The UK India Country Plan commits the UK to "champion open societies and democratic standards" as a cross-government goal. Its intended outcomes include promoting transparency, accountability and improved public services, working with like-minded countries to improve the treatment of religious minorities, strengthening India's capacity to tackle modern slavery, promoting gender equality and women's empowerment, and boosting civil society and freedom of expression by supporting human rights defenders and independent journalists. Freedom of religious belief is identified as a key theme.

4.46 The Roadmap states that the bilateral partnership is based on a shared belief "that democratic norms and principles are the mainstay for maintaining a rules based international system and respect for universal human rights."[143] It describes the bilateral relationship as a partnership of two "modern, open and democratic societies".[144] However, it does not include any objectives related to the promotion of democracy or human rights in India. DFID's 2019 country diagnostic contained little analysis of India's political trajectory, noting only that Indian democracy is underpinned by an empowered civil society and partially free media. The closing of civic space is mentioned only in passing.

4.47 Despite the objective in the Country Plan, the UK has not been particularly active in India in this area in recent years, either in its aid programme or in its public diplomacy. There is little or no programming related to democratic space, free media or human rights. UK funding for Indian NGOs working on civil society issues has been largely discontinued. There are regional programmes, including the Asia Regional Child Labour Programme with the United Nations International Children's Fund (UNICEF), the International Labour Organisation (ILO) and the Institute for Development Studies, to tackle child labour,[145] and the Work in Freedom programme with the ILO to ensure safe migration of women in selected sectors.[146] There is no dedicated programming on gender equality, and women's empowerment. Although it is often mentioned in programme business cases, it is not a prominent feature of the programming we reviewed.

141 *Global Britain in a competitive age: the integrated review of security, defence, development and foreign policy*, UK Cabinet Office, 2021, p. 46, link.
142 *The UK's approach to democracy and human rights*, Independent Commission for Aid Impact, January 2023, link.
143 *2030 Roadmap for India-UK future relations*, Foreign, Commonwealth and Development Office and Prime Minister's Office, May 2021, link.
144 *2030 Roadmap for India-UK future relations*, Foreign, Commonwealth and Development Office and Prime Minister's Office, May 2021, link.
145 *Asia Regional Child Labour Programme (ARC)*, International Labour Organisation, link.
146 *Work in Freedom 2 (Tackling modern slavery and human trafficking)*, Development Tracker, Foreign, Commonwealth and Development Office, link.

4.48 To explain the limited activity on democracy and human rights, FCDO officials noted India's acute sensitivity to any external influence in its political affairs, particularly from the UK. They acknowledged that the UK and India have different perspectives in this area and described the Roadmap as being based on shared interests, rather than shared values. They informed us that the UK engages in 'quiet diplomacy' on issues such as freedom of speech and protection of religious minorities but sees little value in taking a more public stance. In fact, internal UK documents reviewed by ICAI suggest that behind-the-scenes diplomacy in this area is also quite limited. A number of Indian NGOs we consulted for this review expressed concerns that the UK was prioritising good relations with the Indian government over human rights.[147]

4.49 The FCDO position draws some support from the literature on pro-democracy aid programming which suggests that support for formal democratic institutions has little impact in the context of rising authoritarianism. However, our review of the UK's approach to democracy and human rights concluded that there can still be value in supporting NGOs, think tanks and independent media working on these issues.[148] There may also be opportunities to support civil society coalitions working on relatively uncontentious issues, such as women's empowerment and, thereby, helping to preserve civic space.

Conclusions on relevance

4.50 We award an **amber-red** score for the relevance of the India country portfolio. We recognise that the aid programme reflects the shared interests of the two governments and the UK's strategic interest in stronger bilateral relations. However, we find that it lacks a clear development rationale or vision for how to use UK aid resources to help catalyse change in the Indian context.

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

4.51 In this section, we examine coherence and coordination in UK aid to India, both internally across different aid-spending departments and channels, and, externally, with other development partners, the Indian government and civil society.

Coordination across the UK government has improved over the review period, but the DFID-FCO merger is still a work in progress

4.52 India is the UK government's largest overseas mission, with 830 staff across 11 in-country locations, as well as a large London-based team. Altogether, 17 UK departments and agencies are represented, including FCDO, former BEIS (now the Department for Science, Innovation and Technology and Technology and the Department for Business and Trade), and the Department for International Trade.[149] This makes coherence and effective coordination a perennial challenge.

4.53 According to UK government officials, there were weaknesses in coordination earlier in the review period, but the situation has improved in recent times, with a new in-country governance structure put in place after the September 2020 DFID-FCO merger. We have confirmed that coordination processes have indeed become more institutionalised, with a cross-government approach to managing the aid portfolio. Since 2021, these structures include:

- The **Country Board**, which is the most senior collective decision-making authority in India. It develops and oversees implementation of the UK government's India Country Plan and associated outcomes and key performance indicators (KPIs).
- A **Country Shadow Board**, made up of staff from across the British High Commission India Network. It supplies the Country Board with a diversity of views, builds an inclusive culture, and helps challenge, advise and influence decisions, recommendations and innovation.

147 See also the views of Indian academics and civil society organisations cited in *India and the UK: Tensions between values and interests*, Ivan Campbell, The Foreign Policy Centre, June 2022, link.
148 *The UK's approach to democracy and human rights,* Independent Commission for Aid Impact, January 2023, link.
149 Other departments or bodies, termed as One-HMG Partners, include the Ministry of Defence, the Home Office, HM Revenue and Customs, the Department for Transport, the Department of Health and Social Care, the Department for Digital, Culture, Media and Sport, the National Crime Agency, UK Research and Innovation, the British Council, Visit Britain, Scottish Enterprise and the Welsh government.

- The **Programme Board**, which oversees all programming (both ODA and non-ODA) and assesses progress against outcome and output-level KPIs on a regular basis. It plays a challenge and quality assurance role on the delivery, timeliness, effectiveness and value for money of programmes, and highlights risks to the spending portfolio.
- The **Delivery Unit**, which supports the Country Board and Programme Board with the coordination, monitoring and reporting of the portfolio (including for centrally managed and regional programmes). It works closely with thematic teams to monitor the KPIs.
- A series of **cross-High Commission thematic teams**, made up of staff from a range of UK departments. These evolved from earlier DFID thematic teams, which included Inclusive Growth and Investment; Urban, Energy and Green Growth; Global Partnerships; Regional Economic Development; and the South Asia Research Hub. After the adoption of the Roadmap in May 2021, these were reorganised to reflect more closely the Roadmap's objectives. They include Infrastructure and Urban; Climate and Energy; Economics and Finance; Open Societies; Technology; and Global Partnerships. 'Capital' is a standalone pillar that links to all the other thematic areas. These are the main ODA-spending teams in the British High Commission.

4.54 We saw evidence that this governance structure was able to respond in an agile way to key events and situations. There was strong cross-departmental working around preparations for the COP26 climate conference in Glasgow in November 2021. There was also good coordination around the response to COVID-19. British High Commission staff worked effectively to reorient technical assistance and aid programming to meet urgent needs emerging from the pandemic and this included repurposing projects; and agreeing cost and time extensions. This was done in close collaboration with the Indian government at both central and state levels. Resources were found to support vulnerable populations and enterprises, and to help Indian authorities cope with the crisis, and prepare for recovery. BII also relaxed some of the financial conditions on its investments and provided additional support to firms to ensure their survival and swift recovery from the pandemic. FCDO also worked closely with Indian financial institutions to help manage the disruption.

4.55 Overall, however, these new governance structures seem to be taking some time to become fully established. This may be a result of the disruption caused by the COVID-19 pandemic, which led to the withdrawal of most UK government staff from India, and successive UK aid budget reductions, which have hampered planning and delivery. In addition, interviewees noted that the DFID-FCO merger is still a work in progress, with the new department yet to fully integrate its systems and processes.

UK aid to India is fragmented across different funding channels, rather than thematically integrated

4.56 While these coordination structures are active, FCDO was only able to demonstrate that they were working at a basic level. There is evidence of information sharing and efforts to avoid overlaps. However, we were not convinced that they were being used to manage at a strategic level, by building complementarities and promoting joint approaches across thematically related programmes. In particular we found a lack of synergy across different aid instruments. This is a missed opportunity as there is considerable scope for development investment, technical assistance and research funding to be combined in pursuit of shared objectives under the India country strategy.

4.57 The best example we found of thematic integration across the portfolio was in the power sector, particularly around promoting private investment in renewables. The UK's Power Sector Reform programme was built on DFID's long experience and established relationships in the power sector. Its management arrangements supported alignment with other programmes and investments in the UK aid portfolio. In particular it established two joint working groups on power and renewable energy, including engagement with the Ministry of Power (coordinated by the former DFID) and the Ministry of New and Renewable Energy (coordinated by the former FCO). Complementing other coordination processes at both central and state levels, these management structures facilitated coordination between UK departments and complementarity with other channels of UK aid. The programme generated useful information on where to target development investment, particularly for FCDO's Neev Fund and Green Growth Equity Fund. The programme supported reforms to the power sector that have been continued and scaled up by the government, helping to create conditions for increased investment in the generation, transmission and distribution of power.

4.58 However, there is scope for the UK to use its research programmes to make its energy sector engagements more inclusive. Our citizen engagement found low levels of access to clean energy among those consulted. Take-up of solar panels by low-income households is low, due to high perceived costs and low awareness of the support that is available. There is scope for the UK to use its research funding to identify barriers to the uptake of solar panels for communal facilities, such as streetlights and water pumps, to better target its technical assistance and investments.

> “We all can benefit from solar panels, but the initial set-up cost is too high for us.”
>
> Community member, Raigad, Maharashtra

> “Earlier we had limited time to study but now because of the 24x7 power supply, I can study even during the night.”
>
> High school-age girl, Ratnagari, Maharashtra

4.59 The UK's two development investment portfolios in India – BII and FCDO DevCap – have distinct roles and approaches. BII provides larger debt and equity investments to established firms to help them scale up their operations. FCDO DevCap focuses on smaller investments, to support new and innovative businesses. According to the stakeholders we interviewed, BII does not actively engage with the Indian government, while the FCDO DevCap portfolio is managed in partnership with banks and financial institutions with links to government.

4.60 Given their distinct approaches, we would expect close collaboration to be beneficial, enabling each portfolio to benefit from the other's strengths. In practice, there is dialogue and exchange of information between the two, and BII participates in some of the governance structures described in the previous section, such as FCDO India's thematic team on development investment (see **paragraph 4.53**). FCDO provided inputs into BII's internal 'country perspective' document, and we are informed that new guidance on collaboration between BII and FCDO at the global level has been developed, outlining principles and channels for engagement, information sharing, investment support and wider communication.

4.61 However, we saw limited evidence that the UK's two development investment portfolios were being managed to identify and develop synergies between them, leading to a range of missed opportunities. For example, young and innovative businesses that have been supported by the FCDO DevCap portfolio with early-stage equity investments could, if successful, move on to larger-scale loan finance from BII when they are ready to expand. Given its stronger relationships with the Indian government, FCDO could help to address problems faced by BII investee firms and financial institutions through its technical assistance on the business environment and financial regulation. FCDO's strong relationships with Indian government institutions should also make it well placed to support BII's wider, market-building objectives. Wherever BII and FCDO are working on different parts of the same market ecosystem, we would have expected to see them looking for opportunities to collaborate. One positive example is the Ayana investment, where BII and FCDO brought together their respective strengths to scale the project, demonstrating what can be achieved through greater coordination (see **Box 11**).

Box 11: BII and FCDO DevCap co-investment in Ayana

Ayana Renewable Power is a solar and wind power generation company. In 2018 BII set up Ayana as a wholly owned investment with an initial commitment of $100 million of equity. FCDO later leveraged its relationships with Indian government entities to help the company secure an additional $320 million in equity from India's National Investment and Infrastructure Fund (NIIF), and $36 million from the Green Growth Equity Fund, both of which are FCDO partners.[150] FCDO, along with NIIF, helped navigate regulatory and governmental challenges in getting regulatory approval for some of Ayana's solar power projects, and helped coordinate with the Indian government stakeholders. FCDO also supported training for local community members at project sites to enable them to benefit from employment opportunities. The expansion will help Ayana develop a portfolio of 4 gigawatts in renewable energy projects, demonstrating the potential for the private sector to contribute to India's plans to build 450 gigawatts in renewable energy capacity by 2030.

4.62 We also note that the existence of two development finance portfolios results in some duplication of function. Both FCDO and BII are required to maintain similar capacities, for example on risk management and financial controls. We did not see any signs that FCDO and BII had explored the potential for cost savings through shared functions.

4.63 Overall, we find that UK aid to India is not being managed as a coherent portfolio across its different delivery channels and instruments. Several of our interviewees, including Indian non-government stakeholders, similarly described UK aid as competing initiatives without a unified set of goals.

The coherence of the portfolio has been undermined by successive budget reductions

4.64 Over the review period the UK aid budget has been reduced on several occasions – first through the impact of COVID-19 on the UK's gross national income (GNI), then by the government's decision to reduce the aid target from 0.7% to 0.5% of GNI, and then because of the increased call on the aid budget to pay for the cost of refugees in the UK. As a result, the India portfolio has faced reductions of 20% to 30% since 2021. While not as severe as those faced by other country portfolios, the reductions have undermined FCDO's efforts to build a coherent portfolio. Key activities have been discontinued or reduced dramatically without an explicit effort to reprioritise the Roadmap or the India Country Plan objectives. In particular, the UK largely discontinued its work on urban development and reduced its technical assistance – an area that Indian stakeholders assessed as core to the UK's comparative advantage in India.

4.65 There was, in any case, no explicit rationale dictating which Roadmap objectives were supported by aid programming, and with what level of expenditure. Since the budget reductions, it is even more difficult to match the portfolio to a set of strategic objectives.

4.66 Implementation of the budget reductions involved lengthy periods of uncertainty, when forward planning was very difficult, and an inability to communicate openly with Indian partners which created delivery and reputational risks. FCDO staff interviewed for this review were concerned that this had damaged their credibility with their counterparts.

The UK has built effective partnerships with the Indian government

4.67 The transition in UK aid to India over the review period towards a focus on mutual interests has had its intended effect of strengthening bilateral ties with the Indian government. Indian officials confirmed that the UK aid programme reflected their preferences and praised the UK for its responsiveness to Indian government needs, although this feedback relates to the period before the aid budget reductions which have reduced FCDO's responsiveness.

4.68 There is frequent dialogue between the two governments at various levels over Roadmap goals, including ministerial dialogues, regular forums such as the UK-India Science and Innovation Council,

150 *Renewable energy platform Ayana hits $721 million in funding as CDC, NIIF and GGEF agree to inject further capital*, British International Investment, December 2020, link.

progress meetings and informal discussions at the working level. There are tripartite review processes involving FCDO, the India Department of External Affairs and other Indian government counterparts, which stakeholders described as helping to deepen engagement and dialogue around UK aid programming.

4.69 At the programming and investment levels we saw evidence of the UK engaging constructively with Indian counterparts through regular dialogues and joint visits to project sites. This helped to raise the visibility of UK aid programming and to clear obstacles to implementation. We saw examples of this with the Green Growth Equity Fund, which the UK co-founded with India's National Investment and Infrastructure Fund (NIIF) to raise funds for green infrastructure. The UK provided technical support and equity to help NIIF manage the initial risks involved in establishing the fund. Stakeholders credit the initiative as enabling NIIF to take up the decarbonisation agenda. One interviewee described it as "one of DFID's most important contributions". The UK also built effective partnerships with Indian counterparts around power sector reform, an area where there had been decades of experience of partnership. The programme had an extended inception period in which UK and Indian counterparts worked on a series of contextual studies to identify opportunities for reform. This collaboration led to the inclusion of a memorandum of understanding between the two governments on working together in the power sector, and the establishment of working groups and coordination processes at both central and state levels, with the ministries responsible for the power sector and for renewable energy (see **paragraph 4.57**). The programme was designed and implemented with the flexibility to respond to emerging opportunities which enabled it to be responsive to Indian government needs.

The UK maintains positive working relationships with multilateral institutions and other bilateral donors

4.70 The Indian government does not operate a formal aid coordination process across its development partners of the kind found in many developing countries. In the absence of a government-led coordination mechanism, the UK's primary engagement with other development partners is with the multilateral institutions it supports, particularly the World Bank. There is also some coordination with other bilateral donors.

4.71 India is the World Bank's largest customer. Historically, it was the largest borrower from the International Development Association (IDA), the part of the World Bank Group that provides concessional finance to the world's poorest countries.[151] Since graduating from IDA, it has become the largest borrower from the International Bank of Reconstruction and Development, which lends to middle-income countries on more commercial terms. The World Bank Group currently has a lending programme of 92 operations in India, totalling $22.8 billion in commitments.[152] It is also an important source of economic analysis and policy advice to the Indian government.

4.72 DFID made a substantial investment in building a partnership with the World Bank. It contributed to a World Bank trust fund for India that supports analytical work and policy dialogue. The agreement governing the trust fund sets out governance structures for the UK-World Bank relationship, including a Partnership Council, Technical Advisory Committee and thematic working groups. It also specifies that DFID/FCDO and the World Bank will work together in a number of thematic areas – economic development; renewable energy, climate and green growth; governance; and human capital development – with joint programming and sharing of research and advisory inputs.

4.73 Stakeholders informed us that the pandemic, the DFID-FCO merger and UK budget reductions have impacted on levels of cooperation with the World Bank. In particular, reduced UK contributions to the trust fund left the UK with fewer avenues to engage with and influence the World Bank. Nonetheless, stakeholders on both sides saw strong value in the partnership. There continues to be regular communication between UK and World Bank officials in areas of programming overlap, and there is some evidence of the UK providing advisory support to the World Bank on areas where it does not have active programming of its own, for example, in urban development where UK programming has been largely discontinued as a result of the latest spending review.

151 *IDA in India: A retrospective*, World Bank Group, 2020, link.
152 *The World Bank in India*, World Bank Group website, accessed 31 January 2023, link.

4.74 The UK has recently agreed to provide a $1 billion guarantee that will enable the World Bank to provide additional climate finance equivalent to this amount to India. Given India's strong record of repaying World Bank debt, the risk that the guarantee will be called upon is low but it is nonetheless recorded as a contingent liability on the UK balance sheet. The guarantee involves no upfront ODA but any actual payments by the UK in the event of India defaulting on World Bank loans covered by the guarantee will count as ODA. The guarantee enables the World Bank to exceed the usual single-borrower limits in its investment policy, thereby catalysing additional World Bank lending for climate-related projects.[153] Stakeholders described the guarantee as a highly strategic investment, helping to strengthen the World Bank's engagement on climate issues in India. The World Bank is working to replicate it with other donors.

4.75 Across our sample of programmes we found instances of cooperation with the World Bank and other development partners. For the Green Growth Equity Fund (GGEF), the UK worked closely with the World Bank Group during the fund's design stage, with inputs from the International Finance Corporation on early engagement with private investors, and there has been continuing engagement with the World Bank and the Asian Development Bank in policy and sector dialogues. The UK also helped to mobilise investment and technical assistance from a major multilateral climate fund, the Green Climate Fund, which proved important when the UK no longer had the resources to provide technical assistance. The design process for the UK's Power Sector Reform programme involved a review of what other development partners were doing or planned to do in the sector, to identify where the UK could most productively engage, and we saw evidence of collaboration with Germany (GIZ), the US (USAID), the World Bank and the Asian Development Bank. DFID concluded a memorandum of understanding with USAID and GIZ on promoting clean energy in the Indian power market, developed a co-financing platform with GIZ, the Ikea Foundation and the Shell Corporation to support women-owned businesses in the power sector, and worked with the United Nations Development Programme (UNDP) on a scoping study for reducing emissions in the Indian railway system.

4.76 FCDO and BII are also active in coordination processes among development finance institutions and the private sector windows of the multilateral development banks. Collaboration ranges from high-level discussions and knowledge-sharing through to co-investment. FCDO succeeded in attracting other investors into the funds it supported, including the Neev Funds and the GGEF. There is also some evidence that the UK helped to influence the investment approach taken by the Japan International Cooperation Agency (JICA), which is a relatively new entrant into private sector investment in India and has now joined FCDO as co-investor in equity funds such as the Neev II Fund, committing over $28 million into the Neev II Fund in 2022.[154] However, we heard mixed feedback on BII's collaboration with other development finance institutions in India. One bilateral DFI informed us that BII prefers not to engage in joint investments, and that practical cooperation and knowledge-sharing are limited.

Like many other donors, the UK no longer works closely with Indian civil society

4.77 The 2016 ICAI review of transition in DFID's development partnerships found that transition in India had led to the UK significantly reducing its support for and engagement with Indian NGOs.[155] This pattern has continued. All former DFID programmes with an explicit focus on NGOs ended in 2017. While the UK provided nearly £10 million in aid to India through NGOs in 2016, representing 11% of bilateral aid, this had fallen to £3 million in 2021 (3%). This reflects a general trend across bilateral donors in India, which as a group now provide significantly less funding to NGOs, in relative and absolute terms.[156] Despite this, OECD data on ODA spend show that Germany remains more active in financing governance activities on democratic participation and civil society compared to the UK and other bilateral donors in India.[157]

153 The guarantee would add £1.56 million to the annual risk-adjusted exposure of FCDO to contingent liabilities, taking the total exposure at the time the guarantee was approved to £20.87 million, below the limit at the time of £50 million set by FCDO's Management Board.

154 *Declaration of strategic partnership between Japan International Cooperation Agency (JICA) and SBICAP Ventures Ltd (SVL) for private sector,* Japan International Cooperation Agency, March 2022, link.

155 *When aid relationships change: DFID's approach to managing exit and transition in its development partnerships*, Independent Commission for Aid Impact, May 2016, link.

156 *The new development diplomacy in middle-income countries: the changing role of traditional donors in India*, Gulrajani, N., Mawdsley, E. and Roychoudhury, S., Overseas Development Institute, February 2020, p. 23, link.

157 See sub-sector data on government and civil society using *Creditor reporting system: Official development assistance flows*, Organisation for Economic Cooperation and Development, accessed 30 January 2023, link.

4.78 Internal DFID strategy documents from 2017 noted that the UK would move from direct funding of NGOs towards a partnership model, based on sharing knowledge and experience, and helping them to access other sources of finance. However, we were not able to find any evidence of the UK actively pursuing partnerships with Indian NGOs after 2017. This is despite analysis in the UK's 2019 country diagnostic assessment recognising the problem of shrinking civic space, and that there were opportunities for the UK to support NGOs to become more influential voices on the development of Indian social policy. We also found through our citizen engagement that some NGOs have trusted relationships with communities and are considered to be effective agents of development.

4.79 Given the political sensitivities around working directly on the closing of civic space, UK officials say they have chosen to focus on gender equality, an area where there is more political space to operate. In 2020 the British High Commission launched the 'Pledge for Progress'. Over 100 partners, including in business, education, the arts and civil society, made commitments to "empower people of all genders to break down gender norms and together build a gender-equal society".[158] Partners committed to using their platforms to amplify the voices of women leaders, and to promoting gender diversity in their work and their own organisations.

4.80 While a focus on gender equality could, in principle, provide an entry point for protecting civic space, in practice, we found very little engagement with women's organisations across the aid portfolio.

Conclusions on coherence

4.81 There have been positive efforts to institutionalise coordination mechanisms across the UK government over the review period but there is limited effort to manage the aid portfolio at a strategic level and promote complementary efforts towards overarching objectives. Budget reductions have further undermined the coherence of the portfolio. The UK has maintained positive relationships with the Indian government and the World Bank and, to a lesser extent, with other development partners but no longer works with Indian NGOs. We, therefore, award an amber-red score for coherence.

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

4.82 In this section, we assess how well UK aid to India has delivered against its strategic objectives, both at the portfolio level and across its key channels (research, technical assistance and development investment). We also examine whether UK investments have helped to promote inclusive, sustainable and green growth.

The UK has put in place processes for monitoring the country portfolio, but it is too early to measure progress against the Roadmap objectives

4.83 Earlier in the review period, DFID put considerable effort into developing a results framework for its India country programme. A country results strategy committed the country team to reporting 'consistently and accurately' on results achieved, to inform portfolio management and enable the team to communicate the results it was achieving to both internal and external stakeholders. As result frameworks at the country portfolio level were not standard practice for DFID, this is commendable.

4.84 For the period from 2017-2020, DFID reported against the following result targets or KPIs.[159]

- **Access to services:** DFID exceeded its objectives on health and education, helping 5.3 million people against a target of 3 million.
- **Skills and entrepreneurship:** DFID supported training for 659,000 young people, against a commitment of 400,000, and supported over 4,000 entrepreneurs and start-ups.
- **Financing, financial inclusion and economic policy:** DFID programmes mobilised £1.2 billion in additional finance which was short of a commitment of £1.6 billion. They created jobs and income opportunities for 93,000 people, supported 8.3 million people with financial services, and had 20 policy suggestions incorporated by the Indian government (out of an anticipated 34).

158 *UK in India Pledge for Progress*, UK government, accessed January 2023, link.
159 *DFID India country results framework 2016/17-2019/20*, Department for International Development, 2020, unpublished.

- **Energy and resilience:** The portfolio failed to make much progress on its target of 20 million tonnes of avoided emissions, achieving only 1 million, but interviewees informed us that many of the DFID (and now FCDO) investments were still in the construction phase, and further results are expected.
- **Trade and ease of doing business:** DFID enabled 45 new technologies and innovations to be taken to market, most facilitated by the Innovative Ventures & Technologies for Development (INVENT) programme, against a forecast of 57.

4.85 The portfolio performed best in DFID's traditional areas of strength (basic services and rural livelihoods) – areas that were phased out over the review period. Its newer areas of engagement, on economic development and climate, were underperforming against their targets.

4.86 FCDO has also developed a results management strategy for India that measures progress towards objectives in the India Country Plan and the Roadmap, covering not just the aid programme but all UK government activities. The framework has 108 KPIs. The 20 most important of these are presented to the Country Board. The remainder are used for routine monitoring purposes by the Delivery Unit (see **paragraph 4.53** for a description of the architecture).[160]

4.87 We find it difficult to extract a meaningful picture of development results from the UK aid portfolio from this results framework. This is partly because they cover the full range of the UK's engagement in India, and not just the aid programme. But there are also weaknesses with the approach to tracking development results. The KPIs do not meaningfully distinguish between activities, outputs and results. Some are process indicators (for example, tracking the holding of particular events such as ministerial dialogues). Others monitor developments in India (such as human rights) that are not causally linked to UK activities. Only a minority of the indicators meaningfully measure development results for India, and most of these are yet to generate data.

4.88 Of the 108 KPIs, 61% are reported to be on track or achieved, 24% are off-track, 6% were not achieved, and 9% are yet to report any data. Some selected results as of March 2022 that relate to aid programming include:

- **Trade and regulatory reform:** There has, reportedly, been some success in reducing the cost and time involved in trading across borders and in reducing regulatory burdens on business across five states.
- **Climate and clean energy:** FCDO reports success in encouraging India to use the COP26 climate summit to showcase its climate commitments and leadership. On clean energy India is reportedly on track to achieve its target of installing 500 gigawatts of renewable energy generation capacity, with 103 gigawatts installed by the time of COP26. Progress in supporting policy and regulatory reforms on clean energy at state level has been delayed by UK aid budget reductions.
- **Green finance:** FCDO reports that it is on track to mobilise £5 billion in private finance for green infrastructure over the next five years and also reports on the successful completion of the World Bank guarantee.
- **Adaptation and resilience:** The UK has supported nearly 100,000 households to cope with climate change through livelihood initiatives and is on track to achieve its target of one million people by the end of 2024.
- **Democratic and institutional partnerships:** Efforts to create peer-to-peer partnerships between UK and Indian legal and civil service institutions remain at an early stage but FCDO reports effective cooperation with India on international tax reform within the G20.
- **Development cooperation:** The UK and India are yet to agree on a list of global development challenges on which the two countries have aligned positions and actions. The framework notes progress in putting in place various triangular cooperation platforms and initiatives.

160 *FCDO India Country Plan results framework*, Foreign, Commonwealth and Development Office, 2022, unpublished.

Technical assistance elements in our sample programmes generally delivered on their stated goals

4.89 The majority of UK programmes and investments we reviewed in detail delivered well on their intended outputs and outcomes. We saw many examples of programmes being managed competently and flexibly, and their choice of aid instruments and delivery arrangements were in most cases well aligned with the best practices identified in our literature review.[161]

4.90 Over the review period there has been a wide range of technical assistance programming, shifting away from an earlier focus on health and education towards employment and skills, urban development, energy and climate. The programmes supported the Indian government to address policy and institutional challenges, with potential long-term impact on inclusive growth. DFID India had a technical assistance strategy that prioritised working with the poorest Indian states. Technical assistance was also provided in association with development finance, particularly in the FCDO DevCap portfolio, designed to strengthen the capacity of investee firms, financial institutions or regulatory agencies.

4.91 Of the 13 programmes in our sample with technical assistance components ten had largely delivered their intended results, two had succeeded to a limited degree and one had insufficient results data to reach a conclusion. We found that the approach to technical assistance was generally sound. It included measures to promote the sustainability of knowledge and skills transfer, and was generally implemented with the flexibility to respond to emerging opportunities. Indian government officials gave positive feedback on the programmes, noting the value of building lasting relationships between UK and Indian institutions. Overall, we found reasonable evidence that the programming had contributed to lasting gains in the capacities of Indian institutions.

4.92 A strong example is the Power Sector Reform programme, which supported policy, regulatory and market reforms in the power sector, with broad objectives around increasing the financial sustainability of Indian power companies, increasing the share of renewables in energy generation, and creating job opportunities for women. Stakeholders confirm that, for a relatively small programme (£14 million), it was able to achieve catalytic impact. The programme built on, and helped to extend, deep UK knowledge of the sector and relationships with key stakeholders. Examples of its results include:

- Regulatory reforms designed to remove barriers to private investment into renewables.
- Support to Indian railways to develop a strategy for moving to net zero by 2030.
- Support for the Ministry of Renewable Energy to develop a flagship programme delivering solar pumps to women farmers. While the UK supported implementation only in Jharkhand state, the Indian government, with support from GIZ, has extended the initiative to another 13 states.
- Building capacity across Indian power regulators, which includes establishing a certification programme for regulatory agencies, and the development of tools and technical solutions to support planning.
- Support for women-led micro-enterprises that are promoting clean energy.

4.93 Many of BII's investments are accompanied by technical assistance for investee firms and financial institutions to help strengthen their ESG standards. We heard from a range of stakeholders that BII has been influential in persuading other development finance institutions to adopt high ESG standards, creating new industry norms.[162] For example, the Aavishkaar Emerging India Fund, where BII was an anchor investor, has continued to promote ESG best practices to its investee companies. However, we did not find that such contributions to ESG (or non-financial additionality) were a convincing case for investment where financial additionality was weak or absent.

4.94 We found that some technical assistance programmes in FCDO's DevCap portfolio were discontinued or greatly reduced following UK aid budget reductions which undermined the business case for the investments. The Green Growth Equity Fund and the Financing Liveable Habitats for the Poor programmes were two examples of this in our sample. There was a consensus among Indian key

161 *UK aid to India: Country portfolio review – Literature review*, Independent Commission for Aid Impact, March 2022, available on the ICAI website, link.
162 This finding is also supported by a previous review on *CDC's investments in low-income and fragile states*, Independent Commission for Aid Impact, March 2019, link.

stakeholders, both within and outside government, that the UK's objectives around knowledge transfer had been undermined by the removal of the technical assistance element of its investment projects.

The UK is delivering finance and innovative approaches to tackle climate change but more needs to be done to mobilise private finance and take successes to scale

4.95 The climate and environment sector has been a priority for both BII and the FCDO DevCap portfolio. The UK seeks to mobilise private finance for green infrastructure and encourage investee businesses to take up new, more sustainable business processes and technologies. FCDO reports that its DevCap portfolio and associated technical assistance, from its inception in 2013 to January 2022, have contributed to the installation of 413 megawatts of clean energy, provided more than 311,000 people with access to clean energy, and reduced or avoided 1.14 million tonnes of greenhouse gas emissions.

4.96 The UK has contributed to some strong examples of climate-related development finance (see **Box 12**). There is good evidence that UK investments have increased renewable electricity generation capacity in central and state-level grids. They have contributed to reducing emissions during energy generation and distribution, with some suggestive evidence of indirect contributions to reducing air pollution. Both BII and FCDO DevCap have made early-stage investments in innovative green initiatives, such as circular waste management and technology-based models to boost productivity and climate resilience in smallholder agriculture.

4.97 However, we find that both BII and FCDO DevCap could do more to mainstream climate objectives across their investment portfolios. We noted that some recent projects had no green element to them. These include specific investments in housing (for example, one of BII's affordable housing investments was financing construction with no significant green features), and in financial services where SME and microfinance initiatives had no green lending criteria.

Box 12: Successes for FCDO DevCap and BII in climate and energy

FCDO's Green Growth Equity Fund (GGEF) seeks to mobilise more private investment into green infrastructure projects, often in community-level environmental services such as clean water and waste management. The projects are also intended to contribute to wider development benefits, through inclusive growth and job creation. We saw good evidence that the GGEF portfolio is helping to demonstrate the viability of private investment into projects that contribute to environmental sustainability, including in renewable energy, clean energy transmission and distribution, clean transport and the management of waste from industry.

BII launched **Ayana Renewable Power** in 2018 as a renewable energy company. The initiative has subsequently mobilised $490 million in equity from other sources, including India's state-owned NIIF and GGEF, assisted by FCDO leveraging its relationships with these institutions. Ayana has so far installed 1 gigawatt of renewable energy operational capacity, and is developing an additional pipeline of 2.4 gigawatts through wind and solar projects.

BII's **India Infrastructure Fund II** has invested in Vector Green Energy – a solar park that currently generates around 50 megawatts of electricity and transmits this to the national grid, while supporting 690 direct jobs in 2021.

FCDO's contributions to the multilateral **Clean Technology Fund (CTF)**, totalling $850 million in concessional loans and complementary technical assistance, have contributed to the scaling up of low-carbon technologies (especially solar technologies) in India. The CTF seeks to attract private capital by using its resources to offset high upfront costs and reduce risks to investors. It also promotes public-private partnerships. According to the World Bank, the CTF has been effective, but was initially slow in its implementation. Overall, the CTF leveraged over $9 billion in additional co-financing, with 65% flowing from the private sector.[163] This has helped to establish large-scale solar parks and roll out rooftop solar installations for commercial, industry and residential usage.

163 *India overview*, Clean Technology Fund, accessed December 2022, link.

4.98 Across the sample of investments that we examined, only a few had made progress in scaling up their results by mobilising other investment. However, there were positive exceptions where progress has been made, although not at the scale needed. At closure, FCDO's Green Growth Equity Fund had mobilised £588 million, exceeding its target of £500 million. It had thereby leveraged approximately £3 for every £1 spent, making it India's largest climate impact fund. However, the majority of this was from development finance institutions or quasi-public funds, and the Fund only attracted funding of around £170 million from private sector investors. Overall, FCDO has fallen short of its ambitions to mobilise large-scale funding from international institutional investors, including those in the City of London. However, this also needs to be put in the context of similar weak private finance mobilisation at other development finance institutions.[164]

FCDO DevCap and BII investments have supported economic growth and job creation

4.99 Of the seven BII and six FCDO UK development investments we reviewed, seven had at least largely met their objectives in promoting economic growth (four FCDO, three BII); five had met their expectations to a limited degree (two FCDO, three BII); and one had insufficient information to make a judgment (BII). We observed UK investments contributing to economic growth in a number of ways, including through livelihood creation and improved incomes for poor communities, job creation and access to services (including finance, housing, healthcare and infrastructure); and making contributions to innovation in certain sectors. For example, the Samridhi Fund, under FCDO's Poorest States for Inclusive Growth programme which began in 2008, had created new employment opportunities for over 17,000 people (20% women), and provided access to financial services for 7 million borrowers; improved access to low-cost and quality healthcare for 2 million patients; access to clean drinking water for 1.8 million households; agriculture services to 29,000 farmers; and skills development training to 125,000 people (70% women) across India's poorest states.

4.100 Data provided to ICAI by BII suggest that its investee firms created 170,380 jobs between 2017 and 2021 as a result of BII investments (direct job creation). Of these, 21% are held by women, which is approximately the same as the proportion of jobs held by women across the Indian economy. BII reported that its investments generated an additional $4.1 billion in tax revenues for the Indian government. In addition, BII's modelling suggests that its investments indirectly supported the creation of an additional 944,000 jobs within the supply chains of its investee companies with 877,000 jobs through increased consumption via workers' wages; 133,000 jobs through increased power access; and 1.9 million jobs through increased bank lending. BII recognises that modelling of these indirect effects depends on assumptions that cannot be verified and is, therefore, less certain than direct results. However, models and assumptions used by BII follow common practice among DFIs.[165]

4.101 However, we find that the UK's development investments are not necessarily concentrated in the sectors that are most important for economic transformation (that is, the shift from low-productivity work, such as traditional agriculture, towards commercial agriculture, manufacturing and modern services). Successful investments in these areas would offer greater potential for reducing poverty at scale, especially in agriculture, which is increasingly vulnerable to climate change impacts. Such an approach is also supported by BII in its 2022 report on Investing for impact in India. However, much of BII's portfolio is in financial services, including microfinance, where additionality and the link to poverty reduction are weak.

164 *Development finance institutions: the need for bold action to invest better*, Attridge, S. and Gouett, M., Overseas Development Institute, April 2021, link.

165 These issues are discussed in: *Measuring the indirect impact of businesses in an investment portfolio: a job estimation tool*, MacGillivray, A. and Lelijveld, A., CDC Group, July 2019, link.

> Today the cost of hiring labour for cultivation has gone up. People are gradually losing interest in farming because we cannot even cover our costs. Earlier it used to cost us less and we used to make profits but due to inflation, these days farming is no longer viable. Because of the lack of water throughout the year, we farm only rice during monsoon because there is enough rainwater, so we farm for four months a year. Even our children want to go out and work in companies because the pay is better than what we make as farmers.
>
> Male farmer, Raigad, Maharashtra

4.102 There is some evidence of FCDO DevCap investments helping to build new markets, which is potentially transformative, but limited evidence from the BII portfolio. FCDO DevCap pursues market building by combining its investments with technical assistance, to promote reform, and targeting capital-starved, high-risk sectors to demonstrate to private investors that profitable investments are possible. There is some evidence of FCDO-supported funds stimulating market growth and innovation, particularly in green infrastructure (see **Box 13**). However, FCDO's ability to accompany its investments with technical assistance, which is important in market-building interventions, has been curtailed by recent budget reductions. In its strategy documents, BII sets out its approach to support the scaling up of innovations but the only example we found of successful scaling up was the Ayana renewable energy company, which also enjoyed support from FCDO's Green Growth Equity Fund (see **Box 12**).

Box 13: Achieving impact at scale on green infrastructure and services

FCDO's DevCap portfolio has demonstrated its potential to achieve results at scale in the waste management sector. For example, FCDO's Neev Fund(s) invested in a company called **Blue Planet**, which is active in waste collection and transport, segregation, distributed waste management, waste to energy, and the recycling of plastic, bio-medical and electronic waste. The Indian waste management sector is currently underdeveloped. Blue Planet provides finance and technical assistance across the sector to promote waste-management value chains. It has also collaborated with the UK's Department for International Trade to bring technologies from India to the UK, including in managing electronic waste, recycling construction debris and decentralised waste processing.

FCDO's Green Growth Equity Fund has also made some pioneering investments into clean transport. One such investment was in **GreenCell Mobility**, which operates 630 electric buses and plans to expand to 5,000, and is setting up charging infrastructure on major bus routes.

The Neev II Fund also invested in **Chakr Innovation** which has developed technology to capture diesel emissions and convert them into an ink by-product. Chakr worked with India's Centre for Research on Excellence in Clean Air to support policy work on retrofitting vehicles and devices such as generators to reduce pollution. The Indian Ministry of Housing and Urban Affairs has recommended the use of such devices.

DFID/FCDO's Financing Liveable Habitats programme enjoyed some success in mobilising other investment in affordable housing in low-income states, raising £143 million between 2013 and 2022, against a target of £120 million. However, FCDO was forced to cut the technical assistance component following UK aid budget reductions. This sharply limited its ability to pursue a joined-up approach to market building, combining investment with support for political and institutional reforms at the state level. Indian stakeholders told us that significant additional value could have been achieved with the technical assistance component.

BII investments have not demonstrated a clear contribution to poverty reduction and inclusive growth

4.103 In its strategy documents for India, the UK commits to promoting the equitable distribution of benefits through all its aid programming, including development investments. BII has increased the focus on inclusivity in its 2022-26 strategy and in its draft India strategy.[166] It conducted a study (unpublished) on gender impact that examined 25 investments from its 300-plus portfolio, and collected over 3,500 survey responses from affected populations. Women respondents reported experiencing the greatest benefits when investee companies introduced products or services that women could not otherwise access. BII informs us that the findings were used to refine the approach to inclusivity in its 'country perspective' and to improve its impact scoring methodology. However, the study also found that only 30% of people affected by BII investments belong to the bottom 60% of India's population by income, indicating weak links to the poorest.[167]

4.104 One of the three objectives in BII's 2022-26 technical strategy is to promote inclusion through its investment. In its impact scoring methodology, BII uses a $5.50 per day poverty line (investments in business where more than 50% of employees or customers below this line are rated high for inclusion), rather than the international extreme poverty line of $1.90 per day or the lower-middle-income country poverty line of $3.20 per day.[168] BII argues that those below the $5.50 poverty line remain at risk of falling back into poverty, and using the $1.90 extreme poverty line as the benchmark would "vastly limit the number of investable businesses".[169] However, this decision facilitates BII in making investments that are not targeted towards those who would be defined as poor by the most commonly used benchmarks.

4.105 For example, BII has committed around £170 million (circa $200 million) to investment in a well-established, midsize bank listed on the Mumbai Stock Exchange with assets of nearly £7 billion. The investment case was that it would support inclusive growth through microfinance. However, BII's investments have not been ringfenced for microfinance. Instead, they helped finance the expansion of the bank's business as a whole, which is dominated by lending to corporations, government entities and consumer credit cards (which alone accounted for 36% of loans), with only 9.8% supporting microfinance (see **Box 14**). Furthermore, BII made a further equity investment of nearly £10 million ($11 million) in 2020 at a time when the bank was under financial stress, leading to an intervention by India's banking regulators. BII's 2020 equity investment subsequently lost around 60% of its value, although this loss may be recovered. BII has informed us that it would no longer provide similar core support to a major bank.

Box 14: BII's investments in a midsize Indian bank

BII has invested around £170 million (circa $200 million) in a midsize Indian bank, which we cannot name because of BII's commitment to commercial confidentiality. The first investment was made in 2014, with subsequent investments in 2017 and 2020. The original investment case was to support inclusive growth through the expansion of the bank's microfinance lending. However, BII's investments were not ringfenced for microfinance, but instead used to fund expansion of the bank's entire business. BII did set some targets for microfinance lending and other priority sectors, but these were under-ambitious and easily achieved. To illustrate this, between 2017 and 2022, the bank's total loan portfolio more than doubled, but the share of finance going to 'priority sectors' declined from 31% to 27%. By March 2022, microfinance accounted for just 9.8% of loans. This meant that the growth spurred by BII's investment was concentrated in non-priority sectors, most notably credit cards, which by March 2022 accounted for 36% of loans. This is an example of an investment without a convincing link to poverty reduction.

We also have concerns about the additionality of the investment. The bank in question describes itself as 'one of India's leading private sector banks', active in corporate and institutional banking, commercial banking, branch and business banking, retail assets, and treasury and financial markets operations. It has hundreds of branches across India and a large customer base. It is listed on both the Bombay and New Delhi stock exchanges. Its initial public offering in 2016 was oversubscribed 70 times, indicating a huge interest from private investors. The bank also raises substantial finance from capital markets on a regular basis.

Even if BII's initial investment in 2014 was justified as additional, we find it difficult to understand why it made two further investments after the bank became a publicly listed company with significant access to private

166 *Draft India 2022-26 country perspective document*, British International Investment, internal document.
167 *India sprint impact study*, British International Investment, unpublished.
168 International poverty lines are adjusted for 'purchasing power parity' when converted into national currencies and as stated by the World Bank in 2022.
169 *Letter from BII to the International Development Committee,* International Development Committee, 22 April 2022, link.

capital. We would have expected BII to use the 2016 initial public offering as an opportunity to exit from its initial investment.

Furthermore, BII's 2020 investment of $11 million in 2020 was made at a time when the bank was under financial stress, leading to an intervention by India's banking regulators. BII has not provided us with a convincing explanation of why the investment went ahead in these circumstances. The bank went on to make a net loss for the year to March 2022. By the end of 2021 the share price of the bank had fallen significantly, leading to substantial potential losses.

4.106 Effective targeting of low-income and marginalised groups also requires investment in impact monitoring that is fine-grained enough to identify how different groups are affected by investments. This emerged from our literature as a key success factor for development investment, and is important in the context of India where female labour force participation and informal sector jobs remain a challenge.

> "About 80 per cent of men go out for work in nearby companies or factories. Women do not get jobs. We do not have many job opportunities."
>
> Self-help group members, Raigad, Maharashtra

> "Most of the members felt that there is very little job security as contractors can fire them whenever they feel like it."
>
> Views of self-help group members, Ratnagiri, Maharashtra

4.107 We found mixed practices across BII's portfolio. For some investments in our sample there were gaps in the data collected, including a lack of disaggregated data in relation to gender and socio-economic status. For example, BII staff from one investment team noted the difficulties in obtaining disaggregated data, saying that "the best you can do is have a clear geographic focus and infer based on the region affected by the investment which groups are most likely to benefit". While we are not convinced that this approach is sufficient, BII informs us that its targeting practices have improved.

Conclusions on effectiveness

4.108 While it is too early to judge progress at the portfolio level towards Roadmap objectives, most of the programmes and investments that we reviewed were delivering well against their main objectives. In particular, FCDO is delivering some innovative results in the climate field. BII investments have helped investee companies expand their operations and create jobs although we were not convinced that they are sufficiently focused on inclusion and reaching poor and marginalised groups. FCDO DevCap shows positive results on market building and targeting low-income groups, but recent budget reductions have led it to curtail potentially impactful technical assistance. Overall, the portfolio is delivering well against the objectives set for it, meriting an **amber-green** score for effectiveness.

5. Conclusion and recommendations

Conclusion

5.1 The UK's aid to India is now very different to that provided a decade ago. The UK no longer offers financial support to the government, nor does it fund direct poverty reduction interventions in the poorest states. It has largely discontinued its support for Indian civil society, and technical assistance to government agencies was reduced during recent budget reductions.

5.2 India is nonetheless still a substantial recipient of UK bilateral aid, ranking 11th in 2021. When BII investments are taken into account, we estimate that India received approximately £2.3 billion in UK aid between 2016 and 2021 although it should be noted that the £129 million of Foreign, Commonwealth and Development Office (FCDO) investments within this figure have generated some returns to the UK taxpayer. The largest areas of expenditure are development investment, which includes a growing focus on climate change, and grant funding of research partnerships between the UK and India. There is also a set of smaller activities that support elements of the UK's comprehensive strategic partnership with India, as set out in the 2021 Roadmap.

5.3 Many stakeholders may be surprised to see UK aid to India continuing at this level, a decade after the UK announced its transition away from its traditional development partnership. While the UK government stated at the time that development investment and technical assistance (which. in the aid statistics, includes research funding) would continue, the clear expectation was that overall aid volumes to India would decrease faster than they have.

5.4 FCDO describes the current India portfolio as reflecting India's preference for an equal partnership based on mutual interests and, as an exemplar of the approach set out in the 2022 *International development strategy*, where aid is used alongside diplomatic influence, trade policy and business partnerships in support of an integrated UK foreign policy.

5.5 However, it is not clear that the pattern of UK aid to India that has emerged from this transition represents best use of the UK aid budget. Rather than a coherent portfolio focused on India's most pressing development challenges, it consists of a set of activities that is fragmented across objectives and spending channels, and lacks a clear development rationale. Not enough consideration has been given to the scale of support required for strategic impact, or how to use UK aid most effectively to help catalyse change. While the aid portfolio may be helping to support UK-India bilateral relations, it lacks a strong link to poverty reduction, which remains the statutory purpose of UK aid.

5.6 We are also concerned that the UK has, since 2017, largely chosen not to engage with the growing challenges in the areas of democracy, human rights and civic space in India, as identified in global indices. While we appreciate this is a sensitive area for the UK in India, it is clearly important both for India's continued development and for the bilateral partnership. FCDO informs us that new programming in this area is being actively considered.

5.7 There are also areas of strength to build on within the India country portfolio for as long as aid to India continues. The programmes we reviewed were generally well managed and delivered. The UK has constructive relationships with a wide range of Indian government stakeholders and has demonstrated that well-targeted technical assistance can have a positive influence on India's policy and investment choices. The use of development investment in support of India's transition to green infrastructure has been innovative. There is also important knowledge being generated through the research portfolio that could be better harnessed.

5.8 The following recommendations are designed to help the UK government to build on these strengths, for as long as it continues to provide official development assistance to India.

Recommendations

Recommendation 1: The UK should focus its aid 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.

Problem statements

- The UK aid programme in India lacks an explicit rationale linking its priorities to the reduction of poverty, which is the statutory purpose of UK aid.
- The UK aid portfolio is currently fragmented across a range of activities and delivery channels, rather than thematically integrated behind a set of strategic objectives.
- Reductions in the UK's technical assistance and policy dialogue during recent aid budget reductions have reduced the potential for impact.
- The British International Investment (BII) investment portfolio lacks a compelling approach to financial additionality.

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.

Problem statements

- There is a lack of complementarity across different strands of UK aid to India.
- The UK's strong legacy of support to India on green infrastructure, including deep knowledge of the power sector and networks of relationships with Indian stakeholders, risks being lost.
- The UK is not making enough use of its substantial investment in research partnerships to inform its efforts in priority sectors, especially climate change.
- The research portfolio lacks a strong focus on dissemination and uptake of findings.

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.

Problem statements

- BII has had only limited success, so far, in scaling up or replicating the results of successful early-stage climate projects through mobilising further investment from private investors.
- There has been limited success in mobilising funding at scale from large institutional investors or other private investors in the City of London.

Recommendation 4: British International Investment should reassess its approach to ensuring additionality in its India portfolio.

Problem statements

- BII's India portfolio lacks financial additionality given the relative maturity of India's financial markets.
- BII has substantial capital tied up in legacy investments in financial services that could be reinvested more productively.
- BII's India portfolio adopts too broad a definition of 'inclusion' and has not effectively targeted low-income or marginalised groups or, convincingly, linked its investments to the reduction of poverty.
- While BII has recently introduced measures to align its portfolio with the Paris climate agreement, its portfolio includes early investments that do not have climate and environmental objectives well integrated.

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.

Problem statements

- India's decline on global indices of democracy and human rights risks undermining the Roadmap partnership.
- The UK has been largely inactive in response to the closing of civic space in India.
- While the UK has identified some social issues where there is political space to engage, it is not doing enough in these areas to build civil society coalitions and advocacy capacity.

Annex 1: Our sampling approach and list of sampled programmes and investments

Sampling approach

Sampling Indian states

We identified Madhya Pradesh, Odisha and Bihar as states which have high levels of poverty and substantial UK development cooperation in a range of sectors and through different channels. However, we considered that Bihar would be less practical to visit, given particular challenges to accessibility during the monsoon season, when our visits were scheduled. We, therefore, selected Madhya Pradesh and Odisha.

Sampling programmes and investments

To select a sample of UK aid-funded programmes and investments in India for detailed assessment, we collated information on spending and investment of UK aid through all channels from publicly available sources and information provided to ICAI by the Foreign, Commonwealth and Development Office (FCDO), British International Investment (BII, formerly CDC Group) and other government departments. Using this information, we estimated what the UK spent and invested in India between 2016 and 2021 through the largest channels.

We selected a sample of 21 programmes and investments. The sample size balances the need to reflect the diversity of the UK's aid portfolio in India with what is feasible in a single ICAI review. We considered larger programmes and investments for inclusion in the sample and purposely selected a sample that is broadly reflective of the level of aid flowing through different organisations and different types of spending, and to different sectoral areas. We sampled ten bilateral programmes, two World Bank programmes, one Climate Investment Fund programme and eight BII (formerly CDC Group) investments. Of the BII investments sampled, two are part of its catalyst portfolio, which makes higher-risk investments with the potential for greater development impact in poorer communities and places, and six are part of its main growth portfolio.

We carried out:

- Ten assessments of UK bilateral programmes or funds operating in India, including:
    i. Five funded by FCDO, two by the former Department for Business, Energy and Industrial Strategy (BEIS) (now the Department for Science, Innovation and Technology and the Department for Business and Trade), two by UK International Climate Finance; and one by the Department of Health and Social Care (DHSC).
    ii. Five development investment programmes, three research and innovation programmes and two technical assistance programmes.
    iii. Nine focusing on the identified core bilateral portfolio themes of climate and infrastructure (five) and economic development (four), with one focusing on health.
    iv. Four operating in multiple countries, including India.
- Three assessments of multilateral programmes, including:
    i. Two lending operations indirectly funded by FCDO contributions to the World Bank, focusing on economic development.
    ii. One development investment fund indirectly funded by UK International Climate Finance contributions to the multilateral Climate Investment Funds, focusing on green energy investments.
- Eight assessments of BII investments in India, including:
    i. Four direct investments and four in investment funds.

ii. One investment in a multi-sector fund, two in financial services, three in infrastructure, one in health and one in construction.

iii. Six investments as part of the growth portfolio and two as part of the catalyst portfolio.

Sampled programmes and investments

Programme / investment	Type of aid instrument(s)	Sector	Year / Original budget	Programme description
UK government programmes and investments				
Green Growth Equity Fund (FCDO)	• Development investment • Technical assistance	Climate and infrastructure	2018-2029 £130 million	The National Investment and Infrastructure Fund sub-fund uses UK government finance to catalyse private sector investments to infrastructure projects in India to help India address a key constraint to inclusive growth by boosting investment into infrastructure which will lead to growth, job creation and poverty reduction in India. The fund primarily invests in sectors like renewable energy, clean transportation, water treatment and waste management. The success of this intervention is intended to lead to follow-on private investment and have a transformational impact on India's economic development.
Financing Liveable Habitats for the Poor in Low-Income States (FCDO)	• Development investment • Technical assistance	Climate and infrastructure	2013-2022 £50 million	The project, in partnership with the National Housing Bank, aimed to stimulate the growth of the affordable housing market by providing loans to build 17,000 housing units and 10,000 home loans for low-income families. This was expected to result in 27,000 construction jobs for the poorest people in low-income states in India by 2020.
Supporting Structural Reform in the Indian Power Sector (FCDO)	• Technical assistance	Climate and infrastructure	2016-2024 £14.3 million	This programme aims to improve the efficiency, reliability and sustainability of the electricity supply in India through technical expertise. It provides world-class expertise to support market reforms, and the scaling up of the renewable energy supply that the Indian power sector needs to support growth and create jobs. The programme is due to be completed in 2024 subject to further funding.

Programme / investment	Type of aid instrument(s)	Sector	Year / Original budget	Programme description
UK government programmes and investments				
Poorest States Inclusive Growth Programme (FCDO)	• Development investment • Technical assistance	Economic development	2008-2024 £65 million	The aim of this programme is to ensure poor and vulnerable people in low-income states benefit from economic growth through better access to financial services. The programme invests in private sector projects that are intended to benefit the poor as producers, consumers and employers.
UK-India Tech Start-up Fund (FCDO)	• Development investment • Technical assistance	Economic development	2019-2032 £38 million	This programme is in partnership with the government of India. The fund provides investment capital to under-funded job-creating technology-driven start-up enterprises. The funding is directed towards climate action, clean technology, agricultural technology, manufacturing technology and health technology.
Newton-Bhabha Fund (former BEIS, now the Department for Science, Innovation and Technology and the Department for Business and Trade)	• Research and innovation	Climate and infrastructure	2014-2021 £735 million globally, £105 million in India	The Newton Fund uses science and innovation partnerships to promote the economic development and social welfare of partner countries, including India. The primary objective of the Newton Fund overall is to reduce poverty by generating and putting into use knowledge and technology to address development challenges and advance development for the poorest people and countries. In India the Newton-Bhabha Fund covers four joint priority areas between the UK and India, including sustainable cities and urbanisation, public health and wellbeing, the energy-food-water nexus, and understanding oceans. It funds a wide spectrum of activities, from capacity-building programmes and research projects through to the translation of research into innovation.

Programme / investment	Type of aid instrument(s)	Sector	Year / Original budget	Programme description
UK government programmes and investments				
Global Challenges Research Fund (former BEIS, now the Department for Science, Innovation and Technology and the Department for Business and Trade)	• Research and innovation	Economic development	2016-2021 £1.5 billion globally, no estimate for India	The Global Challenges Research Fund supported cutting-edge research to address challenges faced by developing countries. It aimed to build UK and global development research capacity and capability by forging strong and enduring partnerships between academic communities in the UK and the Global South and by enhancing the research and innovation capacity of both.
Global Health Research (DHSC)	• Research and innovation	Health	2017-present £451 million since 2017 globally, £144 million in India	This programme funds a portfolio of high-quality global health research that directly addresses the diverse health needs of people in low- and middle-income countries. National Institute for Health and Care Research Global Health Research Units, with a high level of Indian representation, aim to address unmet global health needs through equitable health research partnerships.
UK Climate Investments (former BEIS, now the Department for Science, Innovation and Technology and the Department for Business and Trade)	• Development investment	Climate and infrastructure	2015-2021 £96.7 million budgeted, but £114.7 million spent globally. £67 million in India	This bilateral UK programme provides equity finance for renewable energy and energy efficiency projects across sub-Saharan Africa and India. This is a joint venture between the Green Investment Group and BEIS. The fund provides late-stage minority equity investments on a commercial basis to get projects off the ground that would not otherwise reach financial close.

Programme / investment	Type of aid instrument(s)	Sector	Year / Original budget	Programme description
UK government programmes and investments				
Harnessing Innovation for Financial Inclusion (FCDO)	• Technical assistance	Economic development	2014-2025 £75.1 million	This programme aims to provide access for poor people to a broad range of financial services such as payments, savings, loans and insurance by continuing to support piloting new ideas and approaches, as well as supporting technical assistance regulators and commercial players to enhance industry knowledge and practice about business models, pricing and design of financial products.
National Rural Livelihoods Project (World Bank via FCDO)	• Multilateral	Economic development	2011-2023 $1 billion in India	The aim of this project is to establish efficient and effective institutional platforms for the rural poor to enable them to increase household income through sustainable livelihood enhancements and improved access to financial and selected public services. Key sectors include public administration, agricultural markets, agribusiness and banking institutions.
Creating a Coordinated and Responsive Indian Social Protection System (World Bank via FCDO)	• Multilateral	Economic development	2021-2022 $500 million in India	This funding aims to strengthen the capability of the state and national governments in India to respond to the needs of informal workers through a resilient and coordinated social protection system.

Programme / investment	Type of aid instrument(s)	Sector	Year / Original budget	Programme description
UK government programmes and investments				
Clean Technology Fund	• Multilateral	Climate and infrastructure	2011-present $794 million in India	The $8 billion Climate Investment Funds (CIF) accelerates climate action by empowering transformations in clean technology, energy access, climate resilience and sustainable forests in developing and middle-income countries. In 2020, the UK contributed £3.5 billion to the CIF, 34% of total donor contributions. The Clean Technology Fund (CTF) is one of the CIF programmes, which uses concessional financing to support fossil fuel-dependent countries to deploy low-carbon technologies in large-scale renewable energy, energy efficiency and sustainable transport. India is one of 14 countries with a CTF investment plan, which accounts for $794 million (15%) of the overall CTF's $5.3 billion approved funding.
BII investments				
Our sample of BII investments consists of eight investments in India, including four direct investments and four via investment funds. Six of our sampled investments are part of BII's Growth portfolio, and two investments are part of BII's catalyst portfolio. Our sample includes new investments made between 2017 and 2020, which is within our review period, and investments made in 2013-14 but still operational during the review period. The sampled BII investments cover the following sectors: (i) financial services; (ii) infrastructure; (iii) health; (iv) construction and real estate; and (v) multi-sector (including financial services and infrastructure). Investments range from $25 million to $200 million and represent BII's main investment types including a mix of direct equity, intermediated equity, and debt.				

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