

Peanuts to India? The controversy over British aid

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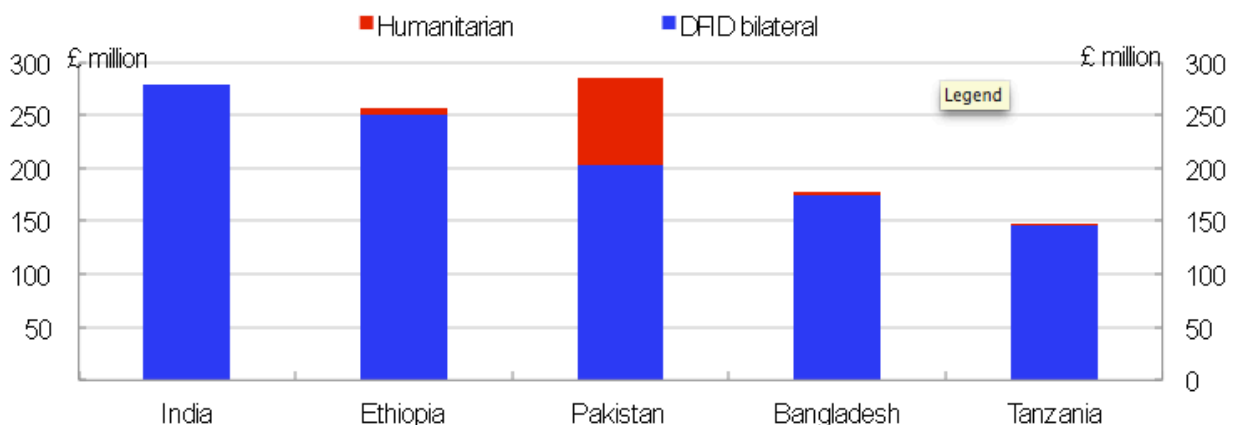


The recent diplomatic row over Britain’s bilateral aid program with India has revealed several inconsistencies with the government’s aid policy and has led to a reconsideration of whether aid to India should continue. [British newspapers](#) recently reported that in a leaked memo India’s then foreign secretary, Nirupama Rao, proposed that India should decline British aid from 1 April 2011 due to the ‘negative publicity of Indian poverty promoted by DFID’ (Department for International Development). However, DFID’s subsequent insistence that foreign aid to India should continue and any cancellation would, according to Delhi sources, cause ‘grave political embarrassment’ suggested a deeper layer of complication.

Although the events occurred back in 2010, the revelations have come to light at a particularly sensitive time. Last month, India chose French-made Rafale fighter jets over the more expensive European consortium that includes the British company that produces the Eurofighter Typhoon. The Development Secretary, Andrew Mitchell, further inflamed the controversy by [stating](#) that the focus of British development aid to India was ‘also about seeking to sell Typhoon’.

Britain’s aid program to India amounts to an average payment stream of £280 million per year for the five years to 2015. As shown in the chart below, this is not exactly ‘peanuts’ as described by the Indian Finance Minister in 2010 who related it to total Indian development spending. India has traditionally been the single largest recipient of UK aid. In 2010/11 India received 6.5 per cent of the total DFID bilateral program (excluding humanitarian aid). Ethiopia was the second largest recipient, receiving around £250 million. Obviously, given the prominence of the Indian aid program in the DFID budget, it would be embarrassing politically for Britain to cancel the program.

Chart 1: Top recipients of British bilateral foreign aid, 2010/11



Source: DFID

The revelations have called into question the commitment by Britain to delink aid from national interest and commercial objectives. UK aid is officially untied, and aid is only meant to be given to reduce poverty. Moreover, linking aid to trade may be deemed as 'potentially illegal' in Britain. This follows a legal ruling in 1994 whereby Britain's use of aid funding to build a dam in Malaysia in return for future trade deals was called 'unlawful'. However, since the controversy Secretary Mitchell has stated that all 'British aid, including aid to India, is untied from UK commercial interests'. Furthermore, the Secretary clarified that his initial comments were to mean that British aid to India is part of a wider bilateral relationship, which also includes trade.

Critics of British aid to India point out two economic realities: India has its own foreign aid budget (although its size is unknown due to lack of statistical reporting) and India is one of the fastest growing major economies in the world. As such, the argument goes, it would seem reasonable to reduce, if not terminate, Britain's assistance.

However, it may be not so simple.

India is still an incredibly poor country, home to around one-third of the world's poorest population. The scale of India's poverty is profound. DFID reports that the state of Bihar alone has double the number of people living in extreme poverty compared to Ethiopia. In comparison to the UK which enjoyed a GDP per capita of US\$35,059 on a PPP basis in 2010, India's per capita GDP amounted to only US\$4,058. British aid to India focuses on India's three poorest states (Madhya Pradesh, Bihar and Orissa), on health and education for women and girls, and on promoting pro-poor private sector investment. India is also a country which, for all its weaknesses, can make reasonably good use of aid funding.

As argued by [Andy Sumner](#), there is a new 'bottom billion', whereby around three-quarters of the world's poor (or 960 million) live in stable, middle-income countries, such as India and China. This is in contrast to around 20 years ago where 93% of the poor lived in low-income countries. Given the new nature of global poverty, Sumner suggests that the focus of poverty reduction should be on poor people rather poor countries.

So India appears to be a worthy recipient, and perhaps even worthy of being the UK's largest aid recipient. And yet the fact that India appears to be a reluctant aid recipient speaks to the difficulty of managing aid in a world in which the poorest people no longer live in the poorest countries.

Aid to India might be a good idea, but how long will it last? The recent controversy suggests that its days are numbered.

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