

# India

JICA Country Analysis Paper (JCAP)  
FY 2017 English Version  
(Summary of Japanese Version)



March, 2018

Division 1, South Asia Department  
Japan International Cooperation Agency (JICA)

# 1. Background and Reasons for Revision

## (1) Scale and Priority of New ODA Loan Commitment

### 1) Japan–India Special Strategic Global Partnership

- Prime Minister Abe expressed his intention to realize 3.5 trillion Yen (roughly 35 billion USD) of public and private investment and financing from Japan, including Official Development Assistance (ODA), to India in five years, to finance appropriate public and private projects of mutual interest (2014).
- Prime Ministers meet annually and confirm priority area of cooperation in Joint Statements.

### 2) Japan's Country Assistance Policy for India and India's Development Policy

- Japan: GOJ Country Assistance Policy for India (March 2016), JICA has not updated JICA Country Analysis Paper for India since March 2012
- India: Decision to replace 5-year plan with 3-year Action Agenda (2017–19), 7-year Strategy (–2023), and 15-year Vision (–2031)

# 1. Background and Reasons for Revision

## (2) Implementation Bottlenecks and Aid Coordination

### 1) Need for Response to Implementation Bottlenecks

- Noticeable implementation bottlenecks (i.e. delay due to environmental and social consideration issues, lack of domestic funds for land acquisition, delay in land acquisition including removal of existing facilities, delay in payment against construction) particularly in large infrastructure projects
- Traditional public sector infrastructure projects sometimes face service delivery problems after completion, resulting in some projects opting for PPP that includes O&M concession to the private sector, over ODA Loans that are financially more generous.

### 2) Opportunities for Aid Coordination

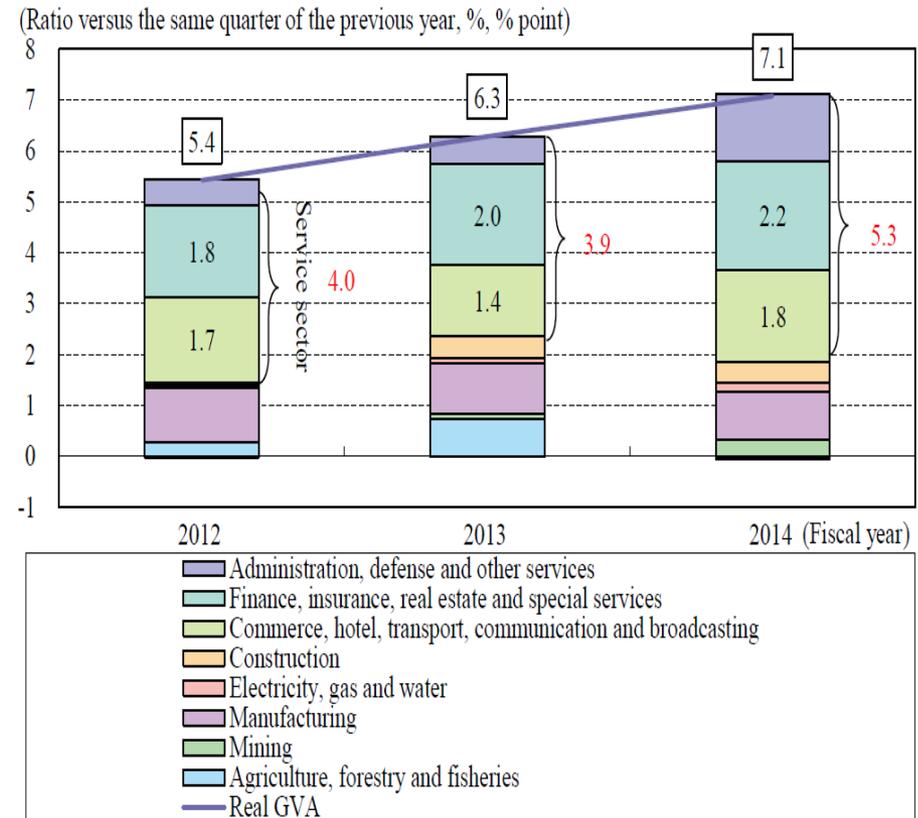
- To date, external concessional development finance to India was largely provided through JICA, World Bank and ADB. Recently AIID, NDB and EIB started development finance to India. Aid coordination activities were not active in the past, but co-financing among IFIs are now being allowed in India.
- GOI expresses interest in working with Japan/JICA to provide support to third countries, utilizing the rich experience of Japan/JICA.

## 2. Status Quo and Review

### (1) Economic Situation

- In recent years, growth is accelerated by contribution from the tertiary sector. Prime Minister Modi introduced policies to promote manufacturing, such as Make in India, resulting in rapid increase in FDI and growth in manufacturing sector.
- On the contrary, non-performing loans are accumulating in financial institutions, especially in state banks. Ratio of investment to GDP is on the declining trend. Non-performing loans and declining investment is the most crucial issue for India's economy in the short-term.

Figure I-1-2-3-18 India's growth rates by industry



Note: Fiscal year is based on financial year (April to March).

Source: Census of India and CEIC Database.



# 2. Status Quo and Review

## (2) Poverty and SDGs

- Lately, poverty ratio has decreased to just over 20% as a result of rapid decline in the poor population over the past decade. The absolute number of the poor is still at 270 million (2011).
- On the other hand, economic disparity is widening. Gini coefficient has increased both in urban and rural areas. Undernourishment remains at a high level. The level of achievement of SDG goals is low at 116<sup>th</sup> among 157 countries.

Poverty headcount ratio at \$1.90 a day (2011 PPP) (% of population)

All countries (most recent values, hover for year) - India shown in blue



India  
South Asia, Lower middle income

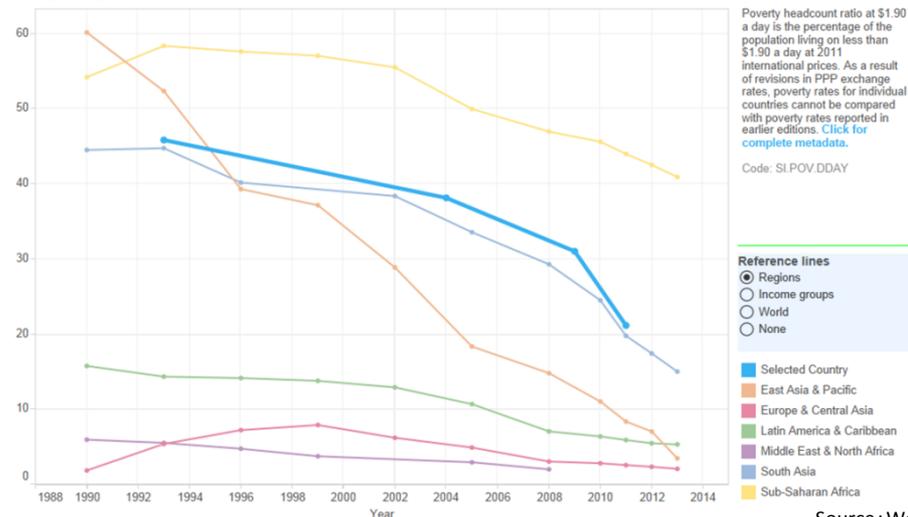
Prevalence of undernourishment (% of population)

All countries (most recent values, hover for year) - India shown in blue

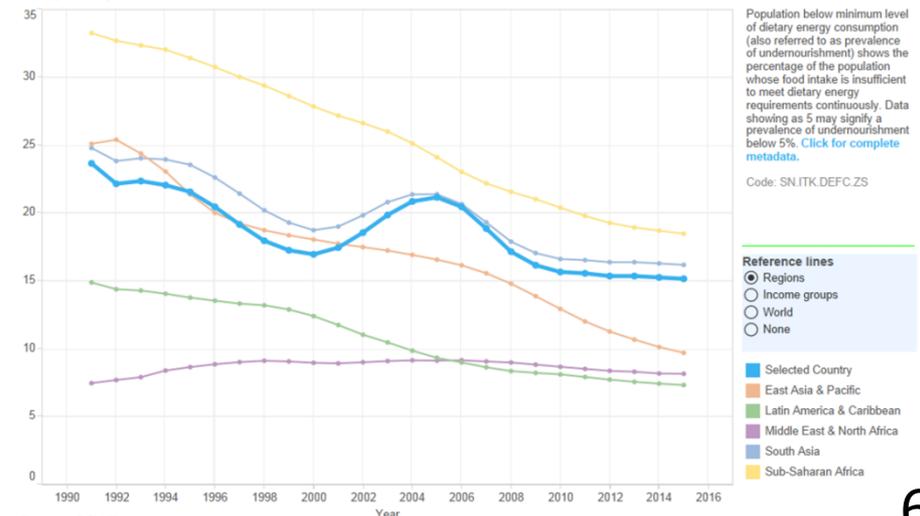


India  
South Asia, Lower middle income

Indicator value over time



Indicator value over time



Source: World Bank (2017)

# (Reference) Income Level and Inequality

## High Per Capita Growth, but Expanding and High Gini Coefficient

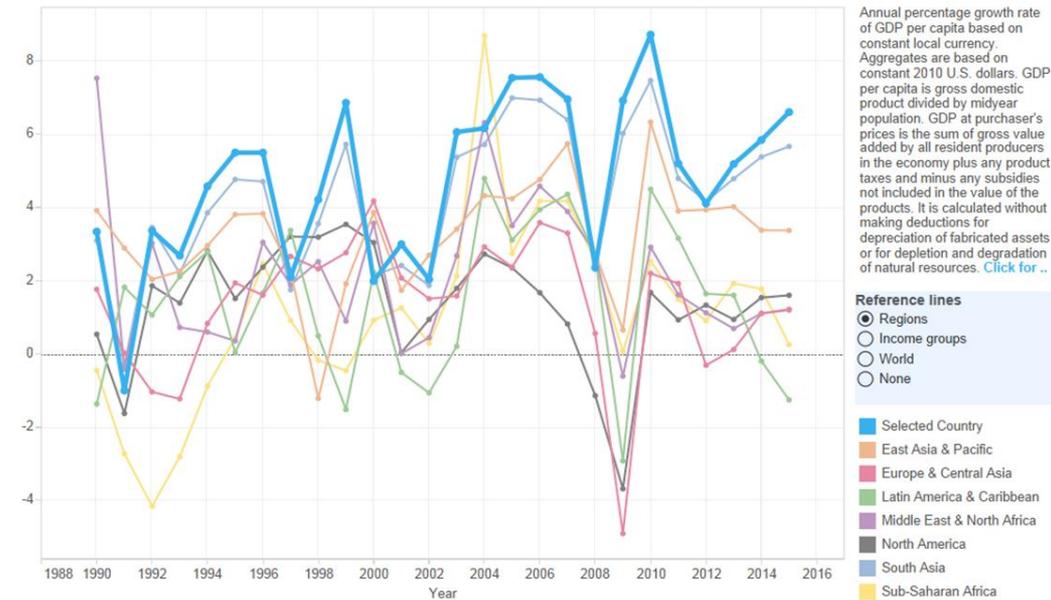
GDP per capita growth (annual %)

All countries (most recent values, hover for year) - India shown in blue



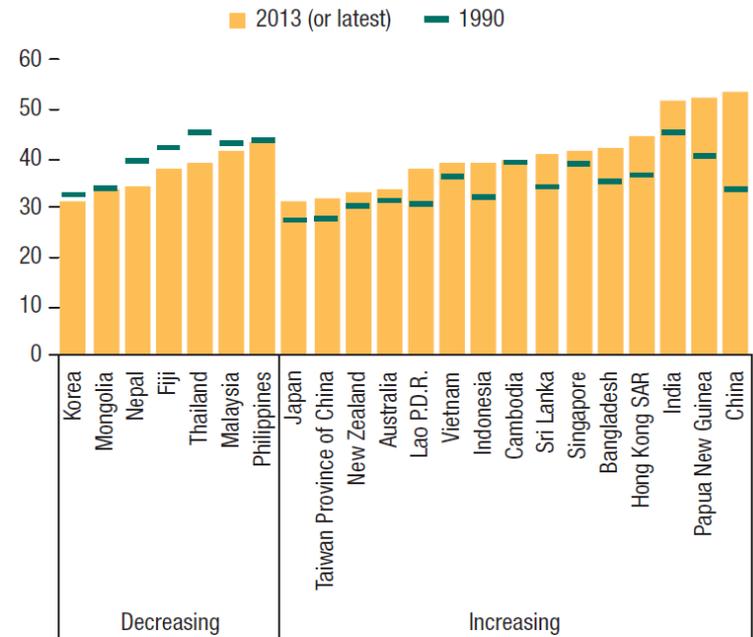
India  
South Asia, Lower middle income

Indicator value over time



Source: World Bank (2017)

Figure 4.6. Selected Asia: Net Gini Index (Gini points)



Sources: SWIID Version 5.0; and IMF staff calculations.

Source: IMF (2016)

# (Reference) Situation of SDGs Indicators

## Distance to Goal and Comparison among East, Southeast, South Asian Developing Countries

- Red indicates indicators far from achieving the goal. Green indicates achieved, and yellow represents those in the middle.
- In India, the following indicators are marked “Red”: (2) Zero Hunger, (3) Health, (5) Gender, (7) Energy, (9) Industry and Infrastructure, (11) Cities, (14) Ocean, (16) Peace and Justice

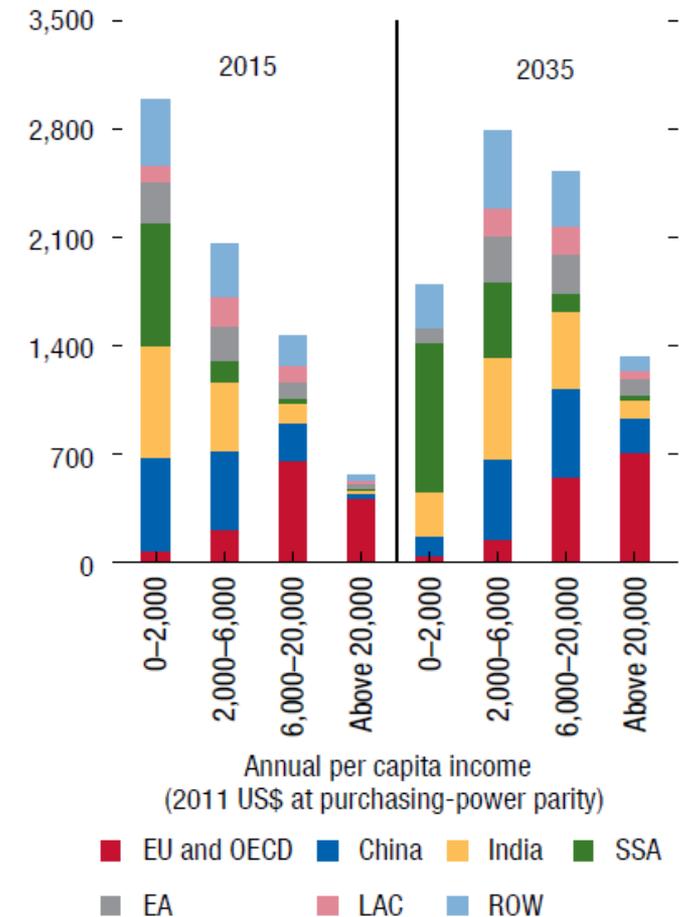


# (Reference) Income Classes in India

Rapid Decrease of Low Income Class and Rapid Expansion of Middle Income Class

- In India, decrease of low income class and expansion of middle class began in around 2000. The trend accelerated in the next decade. It is predicted that low income class will continue to decrease, and middle class with higher income will increase.

**Figure 1.1.2. Population by Individual Income Level and Region, 2015 and 2035**



Source: IMF(2017)

## 2. Status Quo and Review

### (3) GOI: Three Year Action Agenda (FY 2017–19)

- GOI decided to replace the 5-year development plan regime with 3-year Action Agenda, 7-year Strategy, and 15-year Vision. The objective of the new regime is to 1) meet the needs of open and liberalized economy, 2) aim for “Sabka Saath, Sabka Vikas (participation by all and development of all), and 3) accelerate yearly growth to 8% in the mid-to-long term to contribute to poverty reduction,

Section	Main Points of Three Year Action Agenda
Three-year Revenue and Expenditure	<ul style="list-style-type: none"> <li>● <u>Proposed Changes</u>: Increase in subsidies and salaries to be curbed. Reducing investment to machinery, fertilizer, steel, etc. which should be conducted by the private sector. Expanding greatly capital expenditure by the public sector such as infrastructure.</li> </ul>
Economic Transformation in Major Sectors	<ul style="list-style-type: none"> <li>● <u>Agriculture &amp; Rural Development</u>: Doubling farmer income (FY2015 to FY2022)</li> <li>● <u>Manufacturing</u>: Following success of Korea, Taiwan, Singapore and China, to aim for high productivity, high wage thru Make in India policy to promote manufacturing industry with global competitiveness</li> </ul>
Regional Development	<ul style="list-style-type: none"> <li>● <u>Urban</u>: Housing, Public Transport, Swachh Bharat (Clean India), etc.</li> <li>● <u>Rural</u>: Increasing income, and enhancing basic services (education, health, drinking water, sanitation)</li> <li>● <u>Reducing Disparities</u>: Supporting North East, Coastal Areas &amp; Islands, North Himalaya, Deserts, etc.</li> </ul>
Growth Enablers	<ul style="list-style-type: none"> <li>● <u>Transport and Connectivity</u>: One of the most important enablers for economic reform</li> <li>● <u>Others</u>: Digitalization, Electricity for All, Renewables, etc.</li> </ul>
Government	<ul style="list-style-type: none"> <li>● <u>Role of Government</u>: Less intervention in areas led by the private sector, focus on health and education</li> </ul>
Social Sectors	<ul style="list-style-type: none"> <li>● <u>Utilization of World’s Largest Labor Force</u>: Making India the hub of skilled workers</li> <li>● <u>Education, Health</u>: Improving overall quality &amp; higher education / Promoting public health &amp; prevention</li> <li>● <u>Minorities and Groups</u>: Supporting Scheduled Tribes, Scheduled Castes, etc.</li> </ul>
Sustainability	<ul style="list-style-type: none"> <li>● <u>Pollution, Natural Environment</u>: Proper conservation &amp; use of air, water, forest</li> </ul>

## 2. Status Quo and Review

### (4) GOI: Response to SDGs

- NITI Aayog is leading preparatory works by GOI to achieve SDG Goals by 2030, following acceptance by Prime Minister Modi in 2015.
  
- Funding required by GOI for achieving SDG Goals is estimated at around 1.44 trillion USD. The finance gap that cannot be filled by existing sources is estimated at around 850 billion USD (56.5 billion USD annually, roughly 25% of India's GDP in 2014 at 2.3 trillion USD). Mobilizing financial resources from both the public and the private sector, in addition to smooth implementation of project activities, is likely to be the major challenge. (Estimate is from 2015 Study by UNDP and Ministry of Environment, Forest and Climate Change, India)
  
- Among the 17 Goals of SDGs, large financial gaps are found in the following.
  - Goal 8 (Growth and Employment):  
SME financing, etc. (1.7 trillion USD)
  - Goal 11 (Sustainable Cities):  
Housing, public transport, etc. (1.2 trillion USD)
  - Goal 12 (Sustainable Production and Consumption):  
Low carbon energy and transport (1.0 trillion USD)
  - Goal 9 (Infrastructure and Industry) :  
Infrastructure development (1.0 trillion USD)

## 2. Status Quo and Review

### (5) MOFA, Japan: Country Assistance Policy (March 2016)

#### Basic Policy ; Long-term Objectives

- Cooperation toward realizing faster, more inclusive and sustainable growth based on the shared values between Japan and India

#### Priority Areas; Medium-term Objectives

##### (1) Enhancing Connectivity

With a view to de-bottleneck the infrastructure constraints to investment and growth, Japan will support development of transportation hub and network infrastructure in the areas of railways (including high speed railways and metros) and national highways (including express ways) as well as electricity and other infrastructure to strengthen connectivity among major industrial cities and economic zones as well as regional connectivity. Realization in concrete terms of regional economic development initiatives such as the Delhi-Mumbai Industrial Corridor (DMIC) and the Chennai-Bengaluru Industrial Corridor (CBIC) will also be promoted. In addition, Japan will promote cooperation on the enhancement of regional connectivity including in the Northeast region, which has been confirmed at the bilateral summit meeting.

## 2. Status Quo and Review

### (5) MOFA, Japan: Country Assistance Policy (March 2016)

#### (2) Strengthening Industrial Competitiveness

Strengthening of the industrial competitiveness, especially in the manufacturing sector, is the key to secure sustainability of India's economic growth. Manufacturing will create new jobs to absorb the young productive population, enhance the technological foundation of the economy and increase productivity. From such viewpoint, Japan will support key infrastructure development including power generation, transmission and distribution, energy efficiency, quality highways, port and water supply and sewage in order to contribute to strengthening industrial competitiveness including manufacturing sector. Japan will also provide assistance to promote foreign direct investment and to strengthen human resource development in such areas as business management, higher education and practical skills.

#### (3) Supporting Sustainable and Inclusive Growth

Although high growth is an imperative, it has to become sustainable and the fruit of growth needs to be shared and enjoyed by the society on a broad and equitable basis. Japan will work on the provision of assistance which contributes to poverty reduction and social sector development such as improvement of basic social services (including health, sanitation, water supply and sewage), infrastructure development addressing urbanization, and income generation programmes for the poor (including improvement of small-scale infrastructure, enhancement of agricultural productivity and establishment of food value chain). Japan will also promote cooperation in such areas as water supply and sewage, afforestation, and disaster management to tackle environment and climate change issues.

## 2. Status Quo and Review

### (7) Portfolio Analysis (Nov 2016)

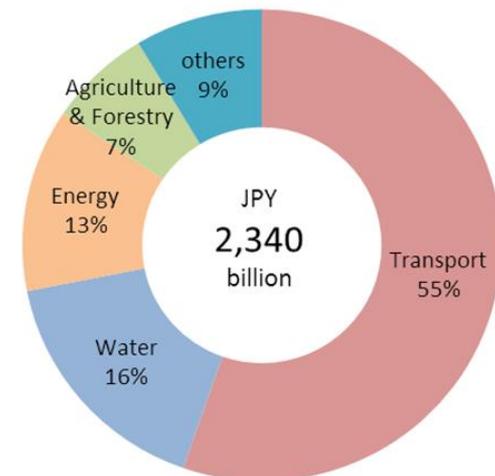
#### ➤ JICA's Cooperation in India

Supporting diverse sectors including economic growth, poverty reduction, environmental protection and human resource development. Transport sector has high share in terms of loan amount. In comparison with other major IFIs such as the World Bank (WB) and ADB, the share of forestry and agriculture is relatively high.

#### ➤ Activities by Major Development Partners

Japan is the top bilateral development partner, close to the size of WB and ADB. Major sectors of support by WB is transport, water and energy. For ADB, energy, transport and urban development are the major support areas. France (AFD) mainly supports urban transport and energy, and Germany focuses on energy, industrial development and urban development.

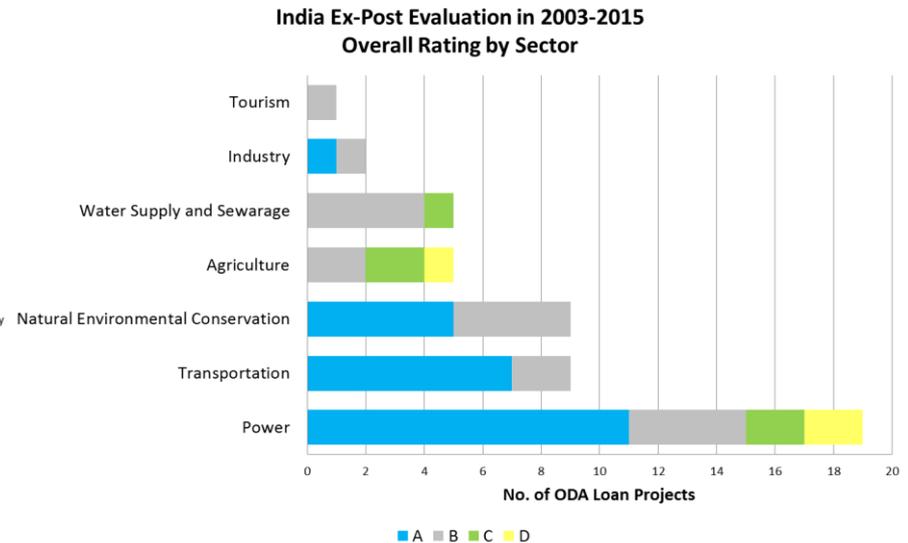
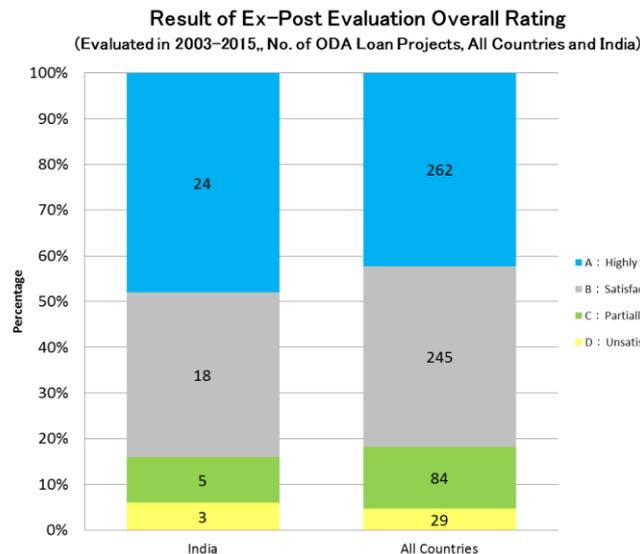
Distribution of Sectors  
Japanese ODA Loan  
(FY 2006-2015)



## 2. Status Quo and Review

### (8) Analysis of Ex-Post Evaluation of ODA Loan to India (Evaluated between FY 2003 to 2015)

- Ex-post evaluation for 50 ODA loan projects to India indicates that their overall rating is collectively better than results for all borrowing countries.
- Out of the 50 evaluated projects to India, power projects top the list with 19, followed by transportation and natural environmental protection with 9 each. The number of projects in these 3 sectors occupy around 75% of the total share. The overall rating for projects in transportation, natural environmental protection, industry and tourism sectors are either “A” or “B”, As for power sector, hydro received “C” and “D” due to issues such as obtaining sufficient amount of water, choosing appropriate technologies, but other sub-sectors received good ratings. Agriculture received low marks (C and D) due to low marks for sericulture projects.
- Lessons learned include; securing funds for O&M through appropriate price setting, participation of construction companies in O&M, creative ways to provide incentive to farmers to participate in farmer associations.



# (Reference) Project Evaluation of World Bank Loan to India

## Independent Evaluation Department Analysis

### (Project Completion in 2000 to 2016)

#### Overall Rating

India (region:South Asia (SAR))

Total # Projects rated in Dates from 2006 to 2016: 88

Projects rated Moderately Satisfactory or Above: 78 (87%)

Projects rated Highly Satisfactory:	1 (1%)
Projects rated Satisfactory:	36 (40%)
Projects rated Moderately Satisfactory:	41 (46%)
Projects rated Moderately Unsatisfactory:	9 (10%)
Projects rated Unsatisfactory:	3 (3%)
Projects rated Highly Unsatisfactory:	0 (0%)

Region: South Asia (SAR)

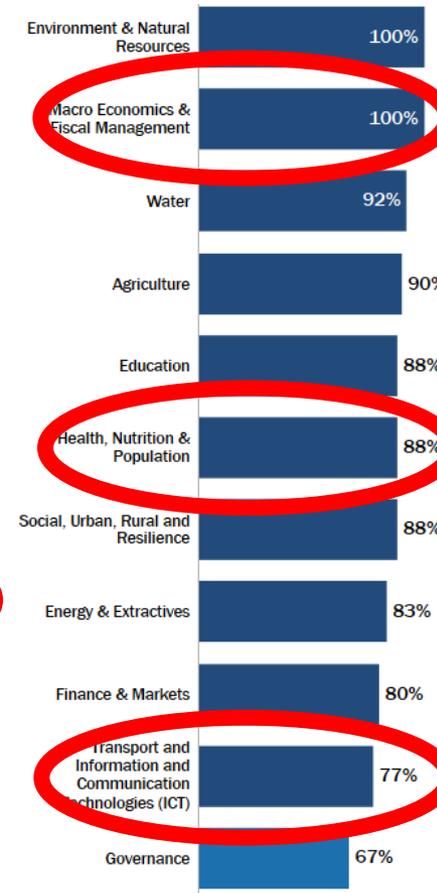
Total # Projects rated in Dates from 2006 to 2016: 290

Projects rated Moderately Satisfactory or Above: 222 (76%)

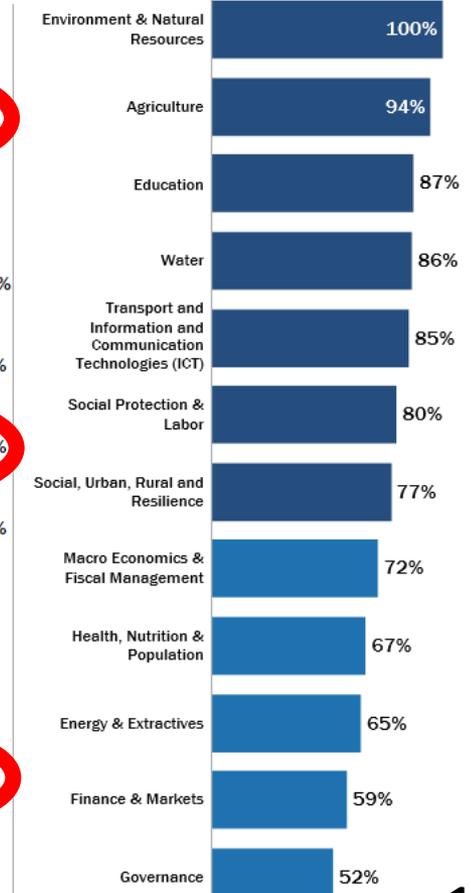
Projects rated Highly Satisfactory:	6 (2%)
Projects rated Satisfactory:	88 (30%)
Projects rated Moderately Satisfactory:	128 (44%)
Projects rated Moderately Unsatisfactory:	40 (14%)
Projects rated Unsatisfactory:	25 (9%)
Projects rated Highly Unsatisfactory:	3 (1%)

#### Sector Ratings

##### 【India】



##### 【South Asia】



# 3. JICA's Contribution to Development Agenda

## (1) Major Development Issues

While offering comprehensive support in India's quest for achieving SDG Goals, Japan/JICA can place emphasis on the following issues in need of large amount of funds and knowhow of Japan/JICA.

### 1) Response to Rapid Urbanization

- Additional 200 million will join urban population towards 2030. They require provision of urban public services (mass transit system like metro, water supply and sewage, etc.).

### 2) Nurturing Productive Industries

- Considerable amount of population is expected to move up to middle-income class towards 2030. In order to cope with corresponding increase of demand in consumption, etc. without excessively relying on imports, enhancing supply capacity of domestic industries is crucial. Increasing income also requires industry with higher productivity.
- Key responses for nurturing industry with higher productivity include; improvement of physical and institutional investment climate, development of skills for workforces, and strengthening of connectivity through economic corridor development.

### 3) Inclusive Rural Growth

- For sustainable and inclusive development in remote rural areas where many low-income households are located, promotion of appropriate measures to increase income is crucial. Such measures include; utilization of forest and other natural resources, improvement of market access through road development, enhancing efficiency through rural production activities.

# 3. JICA's Contribution to Development Agenda

## (2) Connectivity and Regional Cooperation

According to the Japan-India Joint Statement (Sep 2017), it was confirmed that both countries “work together for a better connected world,” including the following initiatives.

### 1) Cooperation for Development of North East Region and Smart Islands

- Development cooperation for India's North East Region including key infrastructure such as road connectivity, electricity, water supply and sewage, to social and environmental sustainability such as afforestation and community empowerment, as well as people-to-people exchanges, and accelerating consultations for development of Smart Islands that contribute to enhancement of regional connectivity

### 2) Cooperation to Enhance Connectivity with Asia

- Enhancing connectivity in Indo-Pacific region, strengthening cooperation with ASEAN
- Ensuring the development and use of connectivity infrastructure in an open, transparent and non-exclusive manner based on international standards and responsible debt financing practices

### 3) Cooperation to Enhance Connectivity with Africa

- Exploring the development of industrial corridors and industrial network for the growth of Asia and Africa, which will benefit various stakeholders in the Indo-Pacific region including Africa

# 3. JICA's Contribution to Development Agenda

## (3) Advantages and Instruments of JICA

### 1) Active Role in Infrastructure Development (such as Railway) and Forest Conservation

- Over the past decade, JICA played active role in supporting railway sector development (metro, dedicated freight corridor (DFC), high speed rail (HSR)), utilizing Japanese knowhow and technology, particularly for HSR.
- JICA is the dominant development partner in India's forestry conservation. Ex-post evaluation of completed ODA Loan projects receive good ratings. Numerous projects have received JICA's support in energy, road, water supply and sewage, and agriculture sectors. A huge pool of lessons learned is available when developing new projects.
- In recent years, JICA has been extending financial and intellectual support through program loans regarding policy and institutional improvement for investment promotion, skill development, development infrastructure to facilitate industrial development and SME development.

### 2) Strong Relationship with Japanese Public and Private Sectors

- In 2014, Japan-India relationship was upgraded to "Special Strategic Global Partnership." In recent years, Prime Ministers visit each other's country every year.
- Japanese FDI to India increased rapidly since the later half of 2000's. Under the Make in India policy, GOI is promoting the development of manufacturing industry. Both the public and private sectors of Japan can contribute to GOI's initiative in this regard.

### 3) Integrated Use of ODA Loans and Technical Cooperation

- India has been the largest recipient country of Japanese ODA Loans for the past decade, although provision of grant aid to India is limited.
- JICA has dispatched experts and received trainees from JICA in many sectors. However, procedures for sending experts and welcoming trainees from India is very complicated and time consuming.

# 3. JICA's Contribution to Development Agenda

## (4) Possible Contribution by JICA

