IPPR

REPORT

IN AID OF INDIA?

DEFINING A POSITIVE ROLE FOR THE UK

Will Straw and Alex Glennie

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Institute for Public Policy Research

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IDEAS to
CHANGE LIVES

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EXECUTIVE SUMMARY

Official development assistance (ODA) from the UK to India has become increasingly controversial in recent years. A number of commentators and politicians have been opposed to Britain giving any further development assistance to a country which has its own space, and indeed aid, programmes. While cutting down on the number of countries supported by UK development spending, the Coalition government had, until recently, continued to support aid to India.

In November 2012, international development secretary Justine Greening announced that the UK's financial aid programmes to India would end completely in 2015. Programmes already underway are to be completed by the end of 2015 as planned, but the Department for International Development (DfID) will not sign off any new programmes. The UK's technical assistance presence in India will continue to cost around £30 million per year after 2015, but the other changes are expected to save around £200 million between 2013 and 2015, equivalent to less than 1 per cent of UK ODA over the same period.

These sudden and unexpected changes represent a missed opportunity to reshape the UK's political debate on aid. Instead of setting out a timeline for exit, the secretary of state should have reasserted the development objectives necessary before an exit, re-examined the focus of existing aid to India, and set out other roles that the British government can play in relation to Indian development.

In this report, IPPR seeks to address this failure by putting Britain's aid flows in context, in comparison with the much greater flows of remittances and investment from the UK to India. We examine all three flows and recommend new approaches that the British government, British businesses, British investors and non-resident Indians based in Britain should adopt in order to enhance their impact.

Prior to Ms Greening's announcement, DfID's operational strategy for India set out its country plans for 2011–2015. This confirmed that it would continue to spend £280 million annually over the period, making India the second-largest recipient of UK aid after Ethiopia (although on a per capita basis it is by the far the lowest of any of the top 10 recipient countries). In order to ensure that its resources were effective, DfID concentrated on three of India's poorest states. Meanwhile, it reduced the number of sectors it prioritised and was committed to delivering 50 per cent of its budget through the private sector by 2015. Overall, the focus was increasingly on wealth creation, education, governance and security, and reproductive health.

This appeared to be justified, given that India continues to face a series of considerable social challenges. Despite an impressive annual GDP growth rate in recent years and success across some of the 'millennium development goals', India has slipped back on both the Human Development Index and the Multidimensional Poverty Index. India is still home to one-third of the world's people living on less than $1.25 per day – more than all the poor in sub-Saharan Africa. Indeed, although it was falling, the poverty rate in India was still 37 per cent in 2008 (the most recent year for which figures are available).

Since 2007, India has been the world's largest recipient of recorded remittances from overseas. These inflows were worth at least $54 billion in 2010 alone, with official data likely to underestimate the true size. According to one nationally representative survey, remittances from family members made up about 6 per cent of household income in rural areas, and about 3 per cent in urban areas in 2004–05. But some states appear to depend more on remittances than others. For example, remittances made up around 21 per cent of state income in the state of Kerala during the 1990s.

The UK is the fourth-largest sender of remittances to India, and sent a total of $4.1 billion in 2010. This is about 10 times the size of DfID's annual budget to India. In recent years the number of remittance services between the UK and India has increased, while the fees attached to sending remittances have fallen. Together, these developments have made it cheaper and more attractive to send money to India from the UK and other major migrant destinations.

Since a series of economic reforms in the early 1990s, foreign direct investment (FDI) to India has followed a broadly upward trend (although it fell back during the global financial crisis). The stock of FDI to India increased by a factor of 20 from 1996 to 2011 and currently stands at $201.7 billion. Annual FDI inflows to India have been more volatile but have increased from just $75 million in 1991 to a peak of £43.4 billion in 2008, and were still $31.6 billion in 2011. Nonetheless, FDI inflows to India on a share of GDP basis are smaller than those to other rapidly growing countries such as China, Brazil and Russia.

Britain's own contribution of FDI to India has risen both in relative and in absolute terms. In 2001, Britain contributed just £135 million of FDI to India. By 2010, this had risen to £1.8 billion, which made up 7.7 per cent of all UK FDI outflows. Recent developments in India, such as the partial liberalisation of the retail sector to foreign investment, are likely to increase these flows, although concerns have been raised about continuing barriers in the insurance and pharmaceutical sectors. Meanwhile, in 2006 the British trade and industry select committee found some evidence that British investors were less 'adventurous' than those in the US and Europe and tended to focus on markets 'closer to home'.

Flows of Indian investment to the UK are increasing. Particularly notable deals have included the purchase of Corus Steel by Tata for £6.2 billion in January 2007, the purchase of Jaguar Land Rover by Tata for £1.15 billion in March 2008, and more recently the acquisition by India Hospitality Corp of Adelie Food Holding for $350 million (£220 million) in April 2012.

Given that the annual flows of remittances and FDI from the UK to India both dwarf DfID's India budget, the decision to terminate British aid to India should have considered the totality of British flows in the round. There is much more that Britain can do to guide non-resident Indians and investors who are sending funds back to India or looking to invest. But it is important to understand where these funds end up and where they do not. Remittances – unsurprisingly – go to the states of origin of British Indians, primarily Punjab and Gujarat. Investment, meanwhile, tends to be concentrated in big urban areas such as Bangalore, Mumbai, Chennai, New Delhi and Pune. This means that poor states have missed out on this support.

So long as significant numbers of poor people live in India, there is a principled case for Britain continuing to devote aid resources to India's poorest states. The World Bank projects that India will still have a poverty rate of 23.6 per cent in 2015. This is far higher than China (to which Britain no longer provides ODA), where the poverty rate had fallen below 13 per cent in 2010 when the aid programme ended.

Rather than ending or arbitrarily cutting the DfID funding programme in 2015, the UK government should continue to support India until there has been further progress in reducing poverty and achieving other development objectives. Nonetheless, DfID should set out a clear 'exit strategy' for aid to India, specifying the development

outcomes that it would regard as consistent with an end to providing ODA and when it expects those outcomes to be achieved. This exit strategy should be effectively and positively communicated to the UK public as part of a wider effort to demonstrate both that aid works and that it is not an open-ended or permanent commitment.

DfID should then work alongside other parts of government to ensure a well-managed exit from aid programming in India, in favour of a more balanced approach to the UK's relationship with India that places more emphasis on other financial flows. In the meantime, the government should focus its resources on community health programmes such as those to combat the spread of HIV/AIDS (where India has actually regressed over the period 1990–2010) and on addressing extremely high rates of malnutrition. DfID should also maintain its focus on supporting good governance in the poorest states.

In relation to remittances, the British government and financial sector should do more to engage with the substantial Indian population living in the UK. As part of this process the UK Remittances Task Force should be revived. Its tasks should include collecting more systematic and comprehensive data on the character of remittance-senders living within the UK's borders, and using this information to help create remittance products and services that are tailored to their needs, simple to use, and do not impose costs in a way that makes the transfer of remittances through informal *hawala* systems more attractive. The task force could also consider working with non-resident Indians in the UK, particularly those well placed in the investment management industry, to develop new mutual funds focused on infrastructure and possibly also social development projects. If just 10 per cent of remittances from the UK to India were instead channelled through mutual funds then that would more than offset the termination of DfID's development programme in India.

In relation to investment, the Indian government has prime responsibility for continuing to attract FDI. High levels of corruption and ambivalence in some quarters towards liberalising India's manufacturing and service sector have contributed to India being 132nd on the World Bank's 'ease of doing business' list, behind Brazil, China and Russia. But the UK government also has a role to play. It should convene a separate taskforce to examine institutional reasons why British investors are insufficiently focused on opportunities in India. This should consider how the British pensions industry is missing opportunities for significant returns that institutional investors from other countries are enjoying. DfID should continue to refine the role of the CDC Group[1] as a vehicle for government capital to flow to India and ensure that it focuses on effective private sector projects which are creating permanent jobs.

Given the outstanding development challenges facing India, the UK government's decision to end aid in 2015 looks both premature and politically motivated. Any arbitrary reduction or sudden stop in ODA which would jeopardise much of the hard work already undertaken should be rejected. But with the right framework in place the country can become an exemplar for how Britain eventually ends its direct overseas aid operations as countries grow and develop. Ensuring that all stakeholders (including the British public) are clear about the rationale for exit is critical to this. So too is ensuring that, during the transition, DfID works with other parts of government and increasingly focuses on the important role that non-resident Indians and investors can play.

1 The CDC Group is a development finance institution owned by the UK government. It has an investment portfolio valued around £2.8 billion. It was established in 1948 as the Colonial Development Corporation and became the Commonwealth Development Corporation in 1963.

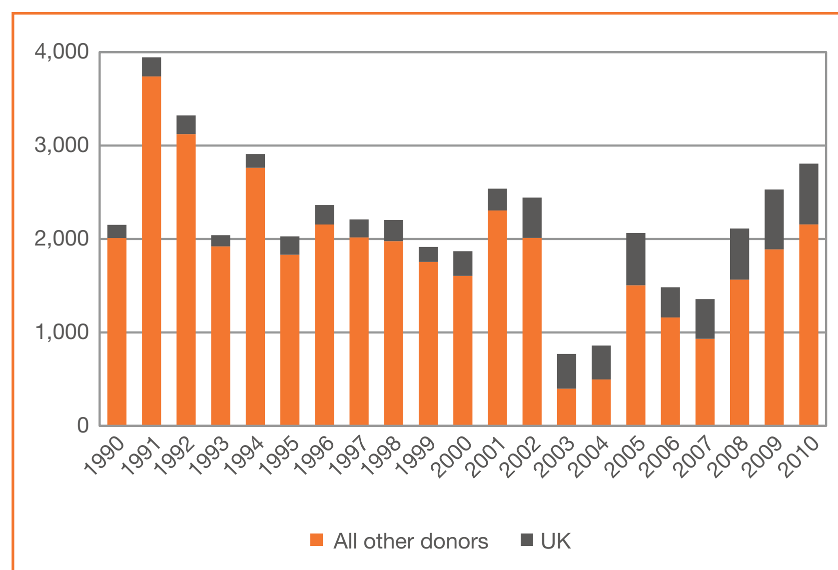
1. UK AID FLOWS TO INDIA

DfID has gradually been cutting down on the number of countries it supports through bilateral aid. The previous Labour government cut a number of programmes, including in Latin America, prior to losing power in 2010. Since then, programmes have been scrapped in 20 countries, including China, Russia, Vietnam, Cambodia, Serbia and Moldova. India was the latest country to join this list when Justine Greening announced in November 2012 that 'financial aid programmes to the country will end completely in 2015' (DfID 2012a). This chapter gives an overview of current UK development spending in India and considers different arguments in the debate about whether and how this programme should be changed.

UK aid to India

As OECD data on official development assistance (ODA) shows, the UK has consistently been one of the largest bilateral donors to India, largely due to the historic ties between the two countries that persisted after Indian independence in 1947. Figure 1.1 shows the total amount of aid disbursed to India over the past two decades and the proportion which came from the UK.

Figure 1.1
Total aid to India in constant (2010) prices ($ millions)



Source: OECD, DAC database (accessed 20 June 2012)
Note: The sharp drop in aid levels in 2003 reflects India's decision to restrict the number of bilateral donors it received development funding from at that time.

Since 2003, the UK's share of aid to India has increased. This is a result of India's decision to restrict the number of bilateral donors from which it would accept development assistance to five (Japan, UK, Germany, the US, and Russia). However, while aid flows have been increasing in absolute as well as relative terms in recent years, recent policy changes have started to shift this trajectory. Table 1.1 gives a breakdown of the different types of DfID expenditure in India between 2007 and 2012, showing the increases that have taken place in different categories of assistance over this period (see DfID 2012b for full descriptions of each type of expenditure).

As the table shows, most UK assistance was in the 'other financial aid' category, which includes funding for 'sector-wide programmes' that do not fall under the heading of direct 'poverty reduction budget support'. Sector-wide programmes are processes that involve all significant donor funding for a sector (such as education or health) being channelled

through a single, comprehensive sector policy and expenditure programme, under recipient government leadership. DfID's priorities during this spending period were to support projects in the health and education sectors. Data for 2009/10 shows that 48 per cent of the overall budget went to the health sector, 19 per cent went to education, 13 per cent was spent on governance, 10 per cent was spent on growth and 10 per cent was spent on other programmes, including support for social services (DfID 2010).[2]

Table 1.1
Total DfID gross public expenditure on development (GPEX) in India, 2007–2012 (£'000s)

	2007/08	2008/09	2009/10	2010/11	2011/12
Sector poverty reduction budget support	54,000	54,000	52,000	46,000	0
Other financial aid	142,888	194,292	177,152	185,226	220,451
Technical cooperation	16,905	17,871	19,360	26,016	29,469
Bilateral aid delivered through a multilateral organisation	53,722	27,673	42,023	15,802	30,269
Bilateral aid delivered through an NGO	6,874	2,807	4,584	5,892	4,170
Other bilateral aid	0	0	0	0	0
Humanitarian assistance	1,013	386	0	0	0
Total DfID bilateral programme	**275,402**	**297,028**	**295,119**	**278,936**	**284,359**
Aid from other UK official sources*	***37,349***	***105,211***	***61,371***	***149,148***	***87,030***
Total bilateral gross public expenditure	**312,751**	**402,239**	**356,490**	**428,084**	**317,089**
UK imputed multilateral shares	***89,414***	***73,974***	***35,761***	***273,161***	–

Source: DfID 2012b
Notes: A more detailed description of what each category of aid expenditure includes is available here: http://www.dfid.gov.uk/About-us/How-we-measure-progress/Aid-Statistics/Statistics-on-International-Development-2011/SID-2011-Section-2-Understanding-Aid-Expenditure-Statistics/
*Aid from other UK official sources includes funds from government departments and bodies like the Foreign and Commonwealth Office, the Department for Environment, Food and Rural Affairs and the UK Border Agency. For a full list, see DfID 2012b: 135–138.

Prior to Ms Greening's announcement, DfID's most recent operational strategy for India set out its country plans for 2011–2015. It has made significant changes to its programme by concentrating its resources in three of India's poorest states (Bihar, Madhya Pradesh and Orissa), reducing the number of sectors it prioritises, and committing to deliver 50 per cent of its budget through the private sector by 2015 (House of Commons IDC 2011). The plan confirmed that DfID would continue to spend £280 million annually over the period (DfID 2011) although this is now likely to be lower since DfID have announced that they plan to save £200 million from 2013 to 2015, equivalent to less than 1 per cent of UK ODA over the same period (DfID 2012a). In terms of aid per capita, India will receive the least of any country in the top 10 as table 1.2 shows.

Table 1.2
Aid per capita to the top 10 recipients of DfID bilateral aid

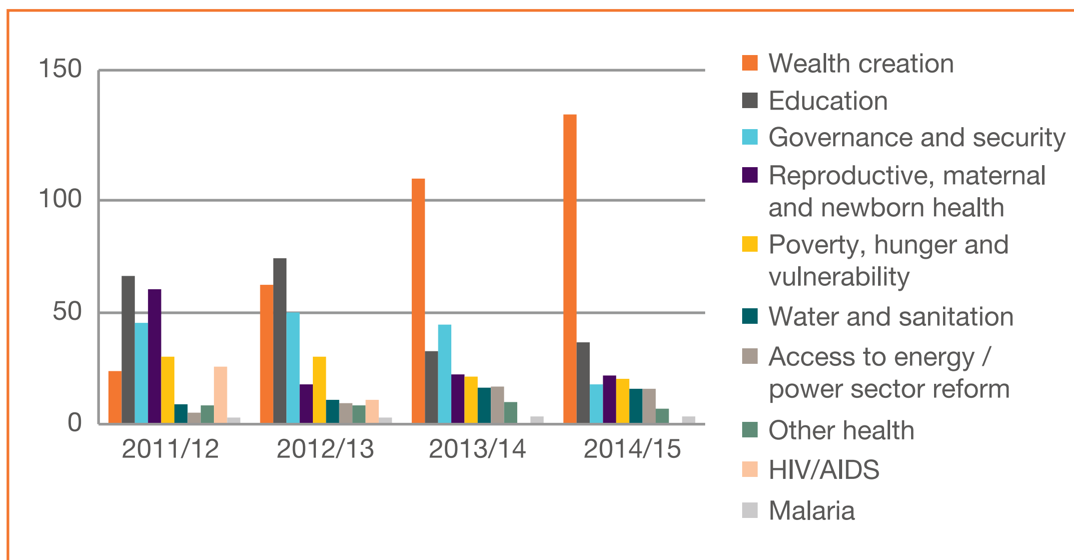
	Country	Aid (£m)	Population (m)	Aid per capita (£)
1	Ethiopia	324	87	3.72
2	India	284	1,264	0.22
3	Bangladesh	219	153	1.43
4	Pakistan	212	181	1.17
5	Nigeria	162	168	0.96
6	Afghanistan	146	34	4.29
7	DR Congo	146	70	2.09
8	Tanzania	139	48	2.90
9	Somalia	101	10	10.10
10	Kenya	98	43	2.28

Source: DfID 2012b, Geohive.com

2 For a full list of DfID's operational projects in India, see: http://projects.dfid.gov.uk/Default.aspx?countrySelect=IN-India

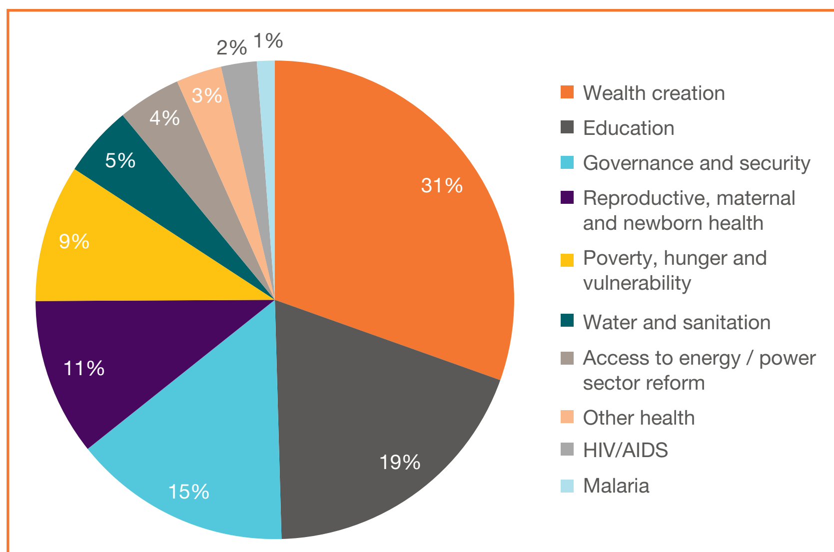
Figure 1.2 shows DfID's plans for the allocation of spending in India up to 2015 prior to Ms Greening's announcement, while figure 1.3 outlines the overall percentage of funds that will be given to its various strategic priorities. Together, they highlight the increased focus on four sectors: wealth creation, education, governance and security, and reproductive health. The focus on wealth creation includes a scaling up of DfID's support for pro-poor private investment in small and medium-sized enterprises (SMEs), agri-business, energy, infrastructure and financial services aimed at the poorest people in low-income states. It also intends to target women and girls in the delivery of its financial literacy, education and health programmes, which it sees as key to breaking cycles of poverty and oppression (DfID 2011).

Figure 1.2
DfID delivery and resources to India, 2011–2015 (£'000s)



Source: DfID 2011
Note: Totals include both capital and resource spending in each sector.

Figure 1.3
Proportional spending on DfID strategic priorities, 2011–2015



Source: DfID 2011

Is there still a case for aid to India?

The Coalition in the UK has come under considerable pressure from Conservative backbenchers over its decision to ringfence the development budget until 2014 (Newton Dunn 2012). Although the amount in question currently represents just 0.5 per cent of the UK's gross national income (GNI),[3] it has still been a difficult sell to the public at a time when almost every other area of public spending in the UK is experiencing cuts (Glennie et al 2012). Indeed, a recent report from the House of Lords economic affairs committee called for an abolition of the plan to legislate the target of spending 0.7 per cent of GNI every year on aid (House of Lords 2012).

The UK's aid programme in India has acted as a lightning rod for popular discontent on this issue. Some have challenged the idea that India needs outside assistance at all, arguing that a country with a space programme and a foreign aid budget of its own clearly has the resources to spend on its own development (Martin 2012). Others are critical of the fact that the UK's aid programme has not delivered much by way of quid pro quo, with elements of the press having been particularly exercised by India's decision to grant France a major contract to supply them with fighter jets, despite the large flow of UK aid to India (Shipman and Reid 2012). However, both of these arguments miss the critical question about the UK's role in promoting development in India, which is whether the financial and technical resources that Britain provides are making a real difference and can continue to do so.

India has achieved an impressive rate of annual GDP growth in recent years even though it is expected to fall to 4.9 per cent in 2012 and 6.0 per cent in 2013. Against the eight millennium development goals (MDGs), the United Nations Development Programme identifies four areas where India is on track or nearly on track. Particular progress has been made towards the goal of ensuring that 'by 2015 children everywhere, boys and girls alike, will be able to complete a full course of primary education'.[4]

This qualified success means that India is falling behind on four other areas including reducing hunger, under-five mortality, maternal mortality, and the incidence of malaria and other major diseases. Worryingly, India seems to be falling back on a number of key social indicators relative to other developing countries. As Dreze and Sen (2011) note, only **five** countries outside Africa (Afghanistan, Cambodia, Haiti, Myanmar and Pakistan) have a worse record than India in terms of child mortality, while only **three** have lower levels of access to improved sanitation (Bolivia, Cambodia and Haiti). It is estimated that a third of the world's malnourished children live in India, with a recent report finding that 43 per cent of Indian children are underweight for their age, compared to an average of 22 per cent across sub-Saharan Africa (HUNGaMA 2011).

There has been a drop in India's position on both the Human Development Index (HDI) and the Multidimensional Poverty Index (MPI) in recent years.[5] Indeed, all three of the states that DfID has worked most closely with over the last decade – Madhya Pradesh, Bihar and Orissa – are among the 20 lowest-ranked countries or states for the number of poor on the MPI index. Amongst Indian states alone, they are ranked first (Bihar), third (Madhya Pradesh) and sixth (Orissa) for poverty intensity (GHA 2012).

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3 GNI is a measure of economic output similar to GDP.

4 For a full report card see: http://www.undp.org/content/india/en/home/mdgoverview.html

5 The MPI is an international measure of poverty for 109 developing countries that identifies deprivations across health, education and living standards, and shows the number of people who are 'multidimensionally' poor. http://www.ophi.org.uk/policy/multidimensional-poverty-index/

In absolute terms, it is the country with the largest number of people living on less than $1.25 a day (and is only outstripped in relative terms by Madagascar, Nigeria, Mali, Bangladesh and Swaziland). According to World Bank data[6] nearly 30 per cent of Indians live below the national poverty line, while more than 500 million have no electricity and less than a third have access to basic sanitation (Bidwai 2012). There are also high levels of inequality in terms of income, wealth and access to essential services. In 2010–2011, income per capita in Delhi (India's richest state) was Rs135,814 (around $2,425 in current prices), while income per capita in the poorest state (Bihar) was just Rs20,000, or about $365 – a factor of seven (Government of India 2012). Reducing poverty in India is greatly complicated by the fact that the poorest tend to be lower caste and belong to the most marginalised groups within society (Sumner 2011).

It seems clear that rapid economic growth alone cannot solve the deep-rooted problems that these statistics highlight. But is external development assistance, including from the UK, part of the solution?

In 2011, the House of Commons international development committee released a report on the future of DfID's aid programme in India. Based on an assessment of the effectiveness of UK aid in contributing to poverty reduction in its target regions, it argued that there was still justification for providing India with strategic and targeted development support until at least 2015. However, it also recommended that there should be a fundamental change in the nature of the UK's relationship with India after this point, with DfID scaling down its funding commitments and concentrating more on providing technical assistance and strategic advice (House of Commons IDC 2011). This message has been reinforced by the findings of a study by the new Independent Commission for Aid Impact on the UK's health and education programmes in the state of Bihar, which concluded that DfID's main contributions to improving development in India were 'its knowledge, skills, networks and its critical yet supportive approach' (ICAI 2012).

British aid and expertise has contributed to the success of many national and local development projects in India over the past few decades, and the government should not risk undermining the sustainability of its work by prematurely cutting off this funding. And while it would never be said explicitly in any official DfID documents, aid to India serves an important secondary purpose of strengthening the bilateral relationship with one of the UK's most significant partners on the international stage (Bunting 2011).

Nevertheless, there are a number of pressing factors that call for a re-evaluation of the way that the UK 'does' aid in India, including rising levels of public scepticism about the effectiveness and impact of overseas aid, as well as the fact that £280 million a year will only ever be a fraction of what is needed to ensure that India meets its MDG targets (Malik 2012). Nonetheless, so long as significant numbers of poor people live in India, there is a principled case for Britain continuing to devote resources to India's poorest states. The World Bank projects that India will still have a poverty rate of 23.6 per cent in 2015 (quoted in Chandy and Gertz 2011). This is far higher than China (to which Britain no longer provides ODA), where the poverty rate had fallen below 13.1 per cent in 2010 when the aid programme was cancelled.

Rather than ending or arbitrarily cutting the DfID funding programme in 2015, the UK government should continue to support India until there has been further progress in reducing poverty and achieving other development objectives. Nonetheless, DfID should

6 http://data.worldbank.org/country/india

set out a clear 'exit strategy' for aid to India, specifying the development outcomes that it would regard as consistent with an end to providing ODA, and when it expects those outcomes to be achieved. This exit strategy needs to be effectively and positively communicated to the UK public as part of a wider effort to demonstrate both that aid works and that it is not an open-ended or permanent commitment. DfID should then work alongside other parts of government to ensure a well-managed exit from aid programming in India, in favour of a more balanced approach to the UK's relationship with India that places more emphasis on other flows of finance.

This would help allay concerns that aid to India is driven more by political imperatives than by genuine necessity, and would reflect the fact that the Indian government has made some progress in meeting many of its own development targets. India remains home to the largest number of people living in absolute poverty, but it is also better placed than many other governments of developing countries to generate the growth that will help secure better livelihoods for the poorest individuals and communities. Here, the UK should use its development relationship with China (where the two countries now work together as partners on shared global development objectives including global public goods and poverty reduction) as a model for how it could work with India – a country with ambitious international development objectives of its own – in the future.

Rather than ending the DfID funding programme in India at this point, the government should reduce its spending on the actual implementation of development projects. This is something better led by Indian national and state-level bodies. Instead, DfID should focus on scaling up its strategic and technical cooperation on issues where it has expertise and where development needs are greatest. In contrast to the current emphasis on projects directed towards wealth creation, DfID should prioritise those areas where the Indian government is struggling to meet its MDG targets (see India scorecard in CGD 2011). In particular, **DfID should focus its resources on community health programmes such as those to combat the spread of HIV/AIDS (where India has regressed over the period 1990–2010) and on addressing extremely high rates of malnutrition.**

DfID should also maintain its focus on supporting good governance in the poorest states. One of the main criticisms concerning international aid is that it does not always reach its target recipients due to corruption and waste (Glennie et al 2012). The House of Commons international development committee (2011) report acknowledged that while India suffers from corruption, serious efforts have been made to tackle this problem in the parts of the country, such as Bihar, where DfID has directed the bulk of its efforts. DfID has contributed to anti-corruption programmes, and should continue to do so in order to increase the effectiveness and value-for-money of aid. It is likely that this kind of link would be much more acceptable to British and Indian policymakers and publics alike and would protect the legacy of a longstanding and mutually beneficial relationship.

2. UK REMITTANCE FLOWS TO INDIA

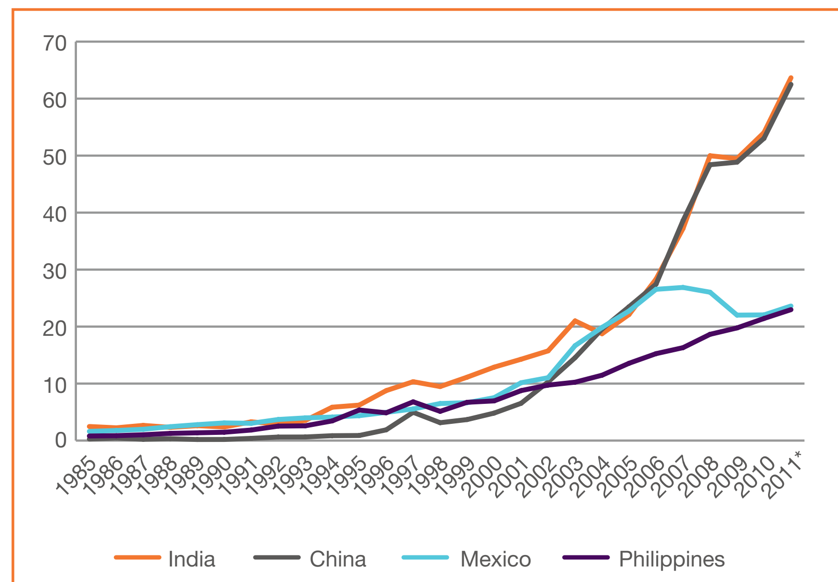
Since 2007, India has been the world's largest recipient of recorded remittances. These inflows, which were worth $54 billion in 2010, are nearly 20 times the size of overseas development assistance to India and greater even than inward flows of FDI. Official data is likely to underestimate the scale of the phenomenon, since a huge proportion of remittances are sent home through more informal channels, such as with family or friends. In some countries, it has been suggested that the actual scale of remittances may be more than double the officially recorded figures (see Freund and Spatafora 2005).

Evidence suggests that these transfers are an important source of income for many individuals and families. They are considered to be a relatively stable source of foreign exchange (with the most recent statistics suggesting that they have not fallen much as a result of the global financial crisis), and are widely assumed to play an important role in household poverty reduction. What is less clear is the extent to which they are contributing to the sustainable development of communities and regions, and the policies that are needed to ensure that they are used most effectively. This section gives an overview of what is known about remittance flows to India, including details of scale and where they are concentrated. It also considers the available evidence on remittances sent between the UK and India, and suggests how the benefits of these transfers could be maximised.

Remittance flows to India

In official Reserve Bank of India (RBI) statistics, private transfers (recorded remittances) are defined as the sum of inward transfers for family maintenance, funds withdrawn domestically from non-resident Indian[7] (NRI) bank accounts, gold and silver brought through passenger baggage, and personal gifts and donations to charitable and religious institutions. Figure 2.1 shows the overall growth in Indian remittances relative to other countries.

Figure 2.1
Migrant remittance inflows in selected countries ($bn)

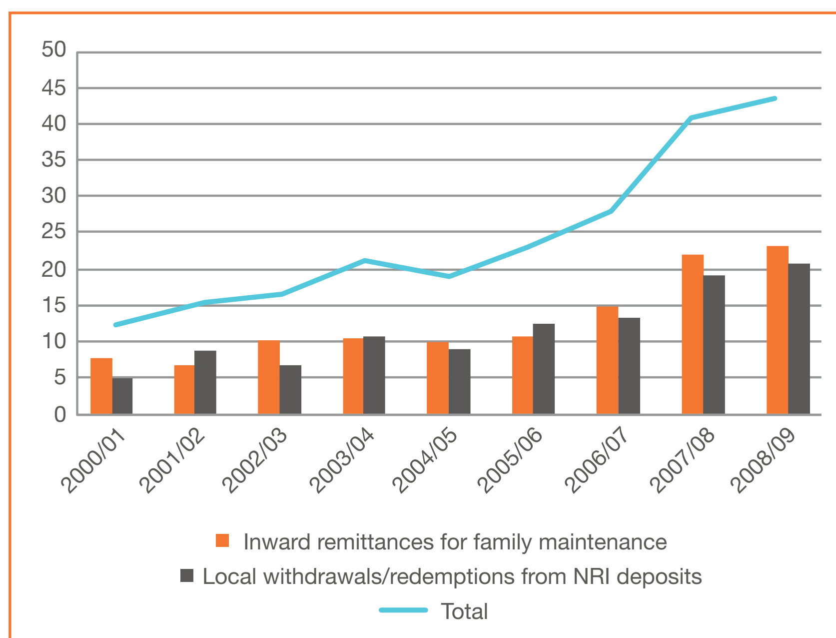


Source: World Bank 2011a
* Data for 2011 is estimated.
Note: These figures are in current (nominal) prices.

7 Non-resident Indians include Indian citizens who have migrated to another country, a person of Indian origin (up to four generations removed) who is born outside India, or a person of Indian origin who resides permanently outside India.

As noted above, there are two main types of migrant remittances to India: savings that are sent to families at home by migrant workers, and special banking deposits for NRIs. The latter were introduced in 1970 and have emerged as an important channel of obtaining foreign capital, since they are easy to open and to manage, and offer advantageous interest rates and favourable tax treatment for capital gains (see Tumbe 2012 for more details). Figure 2.2 shows the growth in both types of remittances over the last decade.

Figure 2.2
Composition of Indian remittance flows ($bn)



Source: RBI 2009 and Afram 2012
Note: Figures for 2007/08 are partially revised (PR) while figures for 2008/09 are preliminary (P).

A number of reasons have been given for the increase in remittance flows, including the liberalisation of the Indian economy in the early 1990s, the growth in opportunities for the investment of foreign capital by Indians living abroad, the increased use of formal remittance channels (such as banks or money transfer operators like Western Union) as opposed to unofficial *hawala* networks,[8] and the relaxation of controls on transactions involving foreign currency (Chishti 2007). It also reflects the changing composition of Indian migration flows. While the majority of emigrants in the 1970s were workers moving to the Gulf for low- to medium-skilled jobs, recent emigration has been dominated by highly skilled migrants moving to developed countries like the US, Canada and the UK. Table 2.1 compares the top 10 destination countries for members of the Indian diaspora with the top 10 countries by volume of remittances for 2010.

8 *Hawala* networks are alternative remittance systems that exist or operate outside of traditional banking or financial channels. They are widely used in Asia, the Middle East and Africa, and involve the transfer of funds between a network of unofficial money-brokers on the basis of honour, rather than legal obligations.

Table 2.1
Indian migrant destination countries and estimated bilateral remittance inflows (2010)

Rank	Destination country	Estimated number of Indian migrants
1	United Arab Emirates	2,185,919
2	United States	1,654,272
3	Saudi Arabia	1,452,927
4	Bangladesh	1,052,775
5	Nepal	831,432
6	**United Kingdom**	**657,792**
7	Canada	516,508
8	Oman	447,824
9	Kuwait	393,210
10	Sri Lanka	336,352

Rank	Remittance-sending country	Estimated remittances ($m)
1	United Arab Emirates	13,821
2	United States	11,977
3	Saudi Arabia	5,258
4	**United Kingdom**	**4,087**
5	Canada	3,422
6	Kuwait	2,070
7	Bangladesh	1,899
8	Oman	1,615
9	Australia	1,505
10	Nepal	1,499

Source: This data is estimated using assumptions and arguments as explained in Ratha and Shaw (2007). Remittance-sending country information updated with additional data for 71 destination countries as described in the *Migration and Remittances Factbook* (World Bank 2011a).
Note: Bilateral migration data was created by applying weights based on bilateral migrant stocks (from population censuses of individual countries) to the UN.

India's position at the top of the remittance league table is due to economic factors at both the global and national levels. The current weakness of the rupee against the dollar has encouraged many NRIs to take advantage of a favourable exchange rate and send more money home. An increase in Indian interest rates in November 2011 has also stimulated remittance flows, with some estimates suggesting that remittances may have increased by 20–25 per cent compared to the same period in the preceding year (Shetty 2012).

It is very difficult to get a true picture of the scale of remittances being sent to India from the UK since many of these transfers will be made in an informal way, and sent home via friends or acquaintances rather than through banks or officially licensed money transfer operators like Western Union or MoneyGram. However, from the data that does exist, it appears that the range of formal options for remitting this money home has grown over the last few years.

Looking specifically at the UK-India remittance corridor, information from the World Bank's remittances database shows that in 2008, ICICI Bank and the State Bank of India offered one transfer product each, while eight money transfer operators (MTOs) had remittance services available. In the four years since, both banks have increased the number of remittance services they offer, while a number of other MTOs have entered the market (see table 2.2). The fees attached to sending remittances have also fallen. The average cost of transmitting £105 from the UK to India at that time was £9.04 if using banks and £8.77 if using an MTO. In 2012, the average cost of transmitting £120[9] had fallen to just £5.16 for banks and £6.86 for MTOs. Together, these developments have made it cheaper and more attractive to send money to India from the UK and other major migrant destinations.

9 The World Bank changed its measurement system in the third quarter of 2009. Before this point, it looked at the cost of transferring £105 while after this point it took £120 as its base unit.

Table 2.2
The cost of sending money from the UK to India (2012)

Firm name	Firm type	Total cost (£120) (£)	Total cost (£300) (£)	Transfer type	Transfer speed
ICICI Bank	Bank	1.20	3.01	Account to account (same bank)	2 days
ICICI Bank	Bank	2.20	4.00	Online service	Same day
ICICI Bank	Bank	3.20	5.00	Account to account (same bank)	Same day
ICICI Bank	Bank	5.20	7.00	Account to account (other bank)	2 days
ICICI Bank	Bank	5.20	7.00	Account to account (same bank)	Same day
State Bank of India	Bank	0.43	1.08	Account to account (other bank)	2 days
State Bank of India	Bank	0.43	1.08	Account to account (same bank)	Next day
State Bank of India	Bank	23.43	24.08	Cash to account	2 days
Crew card	MTO	6.72	16.81	Pre-paid card service	Less than one hour
Ezremit	MTO	5.89	7.23	Cash to account	3-5 days
Ezremit	MTO	6.89	8.23	Cash to cash	2 days
GO	MTO	3.12	7.81	Pre-paid card service	Less than one hour
Money X press	MTO	2.51	6.27	Pre-paid card service	Less than one hour
Moneybookers	MTO	3.17	7.27	Online service	3-5 days
MoneyGram	MTO	12.50	16.26	Cash to cash	Less than one hour
Remit2India	MTO	3.70	4.76	Online service	Next day
Ria	MTO	7.59	11.46	Cash to cash	Next day
Western Union	MTO	9.93	14.48	Account, card, cash to cash	Next day
Western Union	MTO	11.93	16.48	Cash to cash	Less than one hour
Xpress Money	MTO	8.35	12.89	Cash to cash	Same day

Source: http://remittanceprices.worldbank.org/ (accessed 18 July 2012)
Notes: The figures above show the costs of transferring £120 and £300 to India for the first quarter of 2012. The data is current as of 8 February 2012. This data does not include information on UK banks that offer remittance transfer services to India.

Relatively little is known about who sends remittances, where precisely in India they end up or how they are used. **Conducting a systematic mapping of this data to understand these questions should be a priority for the Indian government.** In the meantime, some studies have attempted to build a picture of remittance inflows to India. According to the India Human Development Survey, a nationally representative survey, remittances from family members made up about 6 per cent of household income in rural areas, and about 3 per cent in urban areas in 2004–2005. It found that the average remittance size was just over Rs950 (around $22.50 at the time), although it did not distinguish between international and domestic remittances. It also suggested that income from remittances were concentrated among the most vulnerable sections of society, including the elderly, rural residents, those with less education and Dalits and Adivasis[10] (Desai et al 2010).

Some states appear to depend more on remittances than others. For example, a 2002 study found that that remittances made up around 21 per cent of the state income in Kerala during the 1990s (Kannan and Hari 2002). A more recent household survey estimated that remittances constitute 80 per cent of the cash income of sampled households in the state of Uttar Pradesh (Deshingkar 2010, cited in Thorat and Jones 2011). The same study estimated that the average annual remittance amount sent home by overseas workers is around Rs20,000 (approximately £230) and that even the poorest migrants send money (ibid). This is hugely significant, given that average incomes in India only crossed the Rs50,000 mark in 2010/11 (Times of India 2012).

10 Dalits are a caste group in India that have traditionally been ostracised from mainstream society and treated as ‘untouchable’. Adivasis is the term given to a diverse set of ethnic and tribal groups that are considered to be the aboriginal population of India. Both of these groups have historically been much worse-off economically and socially than other groups within Indian society.

Looking more specifically at the UK-India remittance corridor, a 2006 survey of ethnic minority households commissioned by DfID found that those with an Indian or Indian-British background were the second largest group of remitters in the UK (after Nigerians). However, while they constituted 23 per cent of the UK's black and ethnic minority population at the time, they only represented around 14 per cent of the total number of people remitting. This discrepancy may be the result of underreporting, or could reflect the fact that longer-established migrant communities (like Indians in the UK) tend to remit less after they have been away from their home country for a considerable period of time.

The DfID survey also revealed that the average age of Indian remitters was just under 39 (older than for many other ethnic groups) and that, on average, Indians were sending more remittances home on an annual basis than most other ethnic groups (£1,001 per year, compared to an average of £874). This may be linked to the fact that surveyed individuals with an Indian ethnic background were more likely to be employed compared to other ethnic groups, with an average employment rate of 68.7 per cent, compared to 58.6 per cent for the black and minority ethnic (BME) population as a whole. When asked about the uses to which these remittances were put, 25 per cent of Indians cited 'medical expenses' as a major reason, alongside money sent for food and clothing purchases, education expenses, accommodation and durable goods (see ICM 2006).

Improving the impact of remittances

Remittances are often described as one of the most significant and positive outcomes of international migration. The size and relative stability of these flows has provided a crucial source of income for many households in developing countries, and particularly in India. Yet because this money is primarily sent person-to-person, and because so many remittance transfers take place outside formal channels, policymakers have struggled to harness remittances to promote development beyond the level of individual households. As the 2006 survey of UK BME citizens indicates, remittances are understandably most often used to supplement income and provide for basic daily needs, rather than being invested in community projects that could improve living standards for larger numbers of people (ibid).

The Indian government is aware of this tension. In 2002, a high level committee on the Indian diaspora recommended that greater investment guidance should be provided to business-people in the diaspora through holding regular meetings to brief them on changing industrial conditions and policies, to support identification of suitable investment projects, and inform them of investment rules and regulations. It also made a series of recommendations for how to simplify and enhance the special deposit system open to NRIs, and how to improve processes for those sending savings home to family members (see MOIA 2001 and IFAD 2008). However, it has not been energetic enough in turning this recommendation into practical policy action, and in some cases is implementing policies that actively reduce the incentives for NRIs to send money home via formal channels. As noted in a report by the UK Remittances Working Group (2005), remittances sent to individuals in India that are in excess of Rs50,000 per month (approximately £600) are subject to income tax for the local recipient, acting as a form of double taxation. This is unlikely to be an issue for most Indian remitters, since the average amount sent home does not exceed this threshold. However, it might lead wealthy would-be remitters to invest money earned abroad in places other than India.

India has been more proactive than many other countries in creating opportunities for members of its diaspora to invest money at home. On three occasions over the last

two decades, the government has issued bonds through the State Bank of India (SBI) targeted specifically at NRIs. 'India development bonds' were issued in 1991 following a balance of payments crisis, 'resurgent India bonds' were released in 1998 to offset the impact of economic sanctions following India's decision to test nuclear weapons, and in 2000 the government issued 'India millennium deposits' in the hope that these would help India meet its millennium development goals.

As Ketkar and Ratha (2010) note, the Indian government has tended to use these diaspora bonds opportunistically to raise financing at crisis points when access to international capital markets is restricted. It would make sense to expand and regularise this programme to attract a stable source of finance that could then be invested in development projects in India. More research would be required to test this assumption, but it is possible that members of the diaspora with a stake in the development of their communities at home would accept lower returns on investment for projects that are linked to the expansion of health and education services for the poorest, say, or for infrastructure development in particularly deprived areas.

Energy also needs to be focused on the bottom end of the remittance market, as well as on wealthy members of the Indian diaspora. Evidence shows that remittances can make a significant difference to the living conditions and wellbeing of poorer families, yet these households tend to receive less money overall, are less likely to receive these remittances through official channels, and are therefore less likely to put them into savings accounts or to use them as more than a supplement to other sources of cash income. An RBI study (2010) found that, on average, only about 20 per cent of remittance funds received are deposited in bank accounts (although the percentages were higher in centres like Ahmedabad, Chandigarh, Delhi, Jaipur and Kochi). Improving financial literacy and expanding access to formal banking services, particularly in rural areas, is primarily a matter for Indian policymakers (see Afram 2012 for a discussion of different policy options).

The British government and financial sector should do more to engage with the substantial Indian population living in the UK on the issue of remittances. In 2004, the UK Remittances Working Group was set up, partially sponsored by DfID but managed by private and public sector representatives of groups with an interest in remittances. This was followed by the establishment of the UK Remittances Task Force in 2006 and the creation of a website (sendmoneyhome.org) that provided price comparison information to remitters. The task force conducted some important research and produced publications with recommendations about how to expand and improve remittance transfer services to developing countries. It also helped DfID to develop a voluntary customer charter for money transfer companies that aimed to promote transparency and standardisation among the MTOs that signed up to it. However, the activities of this body ceased in 2010.

The UK Remittances Task Force should be revived. Given the growing importance of remittances to people and communities in developing countries, and at a time when the UK government wants to shift its attention in countries like India away from development assistance and towards wealth creation, this would be a welcome development. At a minimum, useful tasks could include collecting more systematic and comprehensive data on the character of remittance-senders living within the UK's borders, and using this information to help create remittance products and services that are tailored to their needs, simple to use and do not impose costs that make the transfer of remittances through informal *hawala* systems more attractive.

The task force could also consider working with non-resident Indians in the UK, particularly those well-placed in the investment management industry, to develop new mutual funds focused on infrastructure and possibly also social development projects. If just 10 per cent of UK remittances to India were channelled through mutual funds it would more than offset the eventual ending of DfID's development programme in India.

Over the longer term, and as IPPR has argued in detail elsewhere (see Chappell et al 2010, Chappell and Mulley 2010), there are other substantive steps that the government could take to ensure that the UK migration system allows migrants to remain connected to their communities of origin and that permits more flexibility for circular migration. This could result in higher levels of poverty reduction in countries like India, while also bringing benefits to the British economy.

3. INVESTMENT FLOWS BETWEEN INDIA AND THE UK

Until the 1990s, India's capital account was largely closed meaning that little investment could join or leave the country. That changed when the current prime minister, Manmohan Singh, undertook a series of economic reforms when he became finance minister in 1991. The result has been a rapid increase in inward investment to India.

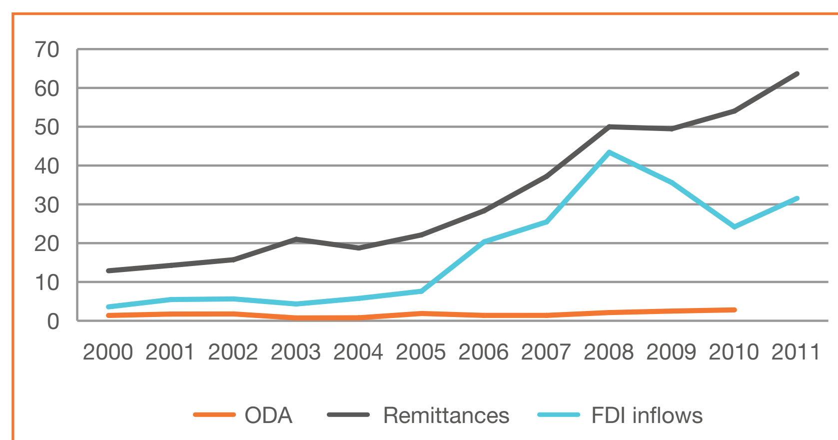
Inward investment is regarded as the flow of money into a country for the purchase of capital goods. This is normally distinguished between foreign direct investment (FDI) and foreign portfolio investments (FPI). FDI is investment directly into production in a country by a company located in another country, either by buying a company in the target country or by expanding operations of an existing business in that country. FPI is a more passive investment of securities such as foreign stocks, bonds, or other financial assets, none of which entails active management or control.

FDI and FPI are treated differently in India. FDI is allowed in India except in a few restricted sectors such as retail trading, some agriculture sectors, and some housing and real estate businesses. FPI, by contrast, is still restricted to registered foreign institutional investors and cannot exceed 10 per cent of the paid-up capital of the Indian company.[11] As a result, this section focuses primarily on FDI, for which there are far more accurate figures. We also examine the increasing investment flows from India to Britain and the benefits that these bring to both countries.

FDI flows to India

As alluded to above, the stock of FDI to India has increased from $10.6 billion in 1996 to $201.7 billion in 2011. Annual FDI inflows to India have been more volatile but have increased from just $75 million in 1991 to a peak of $43.4 billion in 2008 and were still $31.6 billion in 2011. The five most popular FDI destinations in 2011 were Chennai ($5.1 billion), Bangalore ($4.9 billion), Mumbai ($3.2 billion), Pune (£2.3 billion) and New Delhi ($0.9 billion) (Ernst & Young 2012). But as figure 3.1 shows, annual FDI inflows to India are dwarfed by annual remittances which, as we saw in chapter 2, rose to $54 billion in 2010.

Figure 3.1
Official development assistance, remittances and FDI inflows ($bn, current prices)



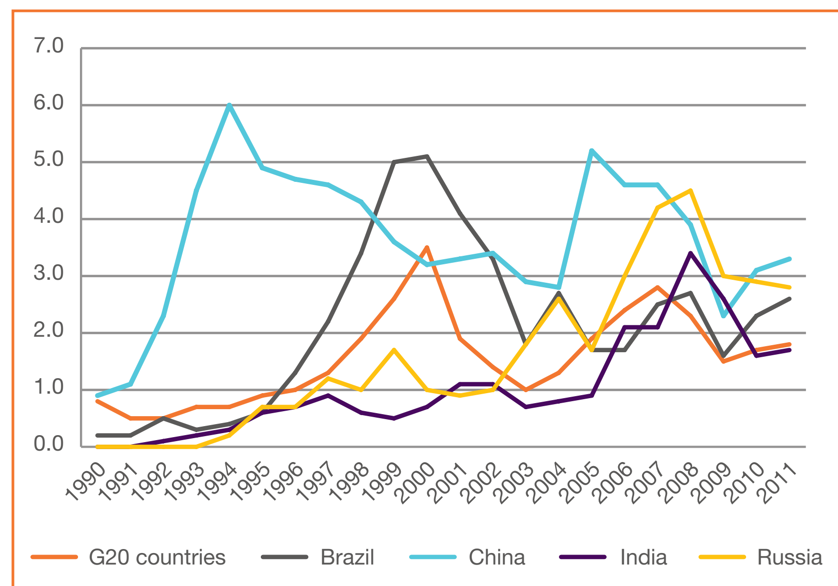
Source: OECD, World Bank

Nonetheless, FDI inflows to India are smaller than those to other rapidly growing countries. Compared to Brazil, Russia and China, India's FDI inflows as a share of GDP has tended to be at the bottom of the pack, as figure 3.2 shows.

11 See FAQs on the Reserve Bank of India's website: http://www.rbi.org.in/scripts/faqview.aspx?id=26#3

FDI inflows last year were 1.7 per cent in India compared to 2.6 per cent in Brazil, 2.8 per cent in Russia and 3.3 per cent in China. India's figures were on a par with developed countries which ranged from 1.1 per cent to 2.2 per cent.

Figure 3.2
FDI inflows to selected countries (% of GDP)



Source: OECD

India's poor performance compared to other BRIC countries is due to a number of factors. First, India's economy has a relatively smaller share of manufacturing than the other economies. Industrial production makes up 26.4 per cent of India's economy compared to 46.8 per cent in China, 36.9 per cent in Russia and 27.5 per cent in Brazil (CIA 2012). Second, it reflects wider constraints on the business environment such as power supply, transport and skills shortages in India. This contrasts sharply with China where government strategy has been explicit about encouraging inward investment. Corruption is also endemic, with Transparency International (2011) ranking India 95th out of 183 countries – below China, Brazil and South Africa. As a result, India is lowest of the BRIC counties in the World Bank's 'ease of doing business' rankings. It sits in 132nd place, compared to 91st for China, 120th for the Russian Federation and 126th for Brazil. In terms of the sub-category of 'protecting investors', however, India does come higher than the other BRIC economies (World Bank 2011b).

Third, it reflects the fact that India is a large and heterogenous country with some states at a much earlier stage of development. These states bring down the average while a limited number of other states look more like other BRIC countries. For example, more than three in every four dollars of equity FDI allocated to Indian regions in the last 12 years went to the state of Maharashtra and its capital Mumbai, Delhi and Bangalore (in the state of Karnataka). These territories account for a mere 18 per cent of the population (Romei 2012).

Finally, there remains a lingering reticence on the part of the Indian polity to fully embrace inward investment. This has caused something of an international backlash. For example, Britain's chancellor, George Osborne, set out concerns earlier this year that a new budget measure in India, which would retrospectively tax overseas deals going back 50 years, could 'damage the overall climate for investment in India' (Bedi 2012).

Indian reformers point to the change of direction under India's new minister of finance, P Chidambaram. For example, in September the government finally cleared a plan to open up its retail sector to global supermarket chains allowing international firms such as Walmart and Tesco to buy up to a 51 per cent stake in multi-brand retailers. But restrictions will still be in place to ensure that companies will have to invest at least $100 million (£67 million), open outlets only in towns with a population of more than one million, and source at least 30 per cent of produce from India (BBC 2012). The decision to implement the measures will be left to state governments and the policy may be revoked if the government loses the election expected in the next two years.

Meanwhile, the Indian government is reported to have decided against lifting a 26 per cent cap on foreign investment in the insurance business (Bloomberg 2012), and it was decided last year that FDI proposals for mergers and acquisitions in the pharmaceutical sector will no longer be permitted automatically but will instead by subject to government approval.

On top of the blockages to inward FDI, institutional investors in India have faced a tough time in the last year. For example, the best performing Indian fund for British investors, First State Indian Subcontinent Fund, lost 18 per cent of its value over the last year while the average fund lost 24 per cent of its value (Dunn 2012).

India has a series of infrastructure weaknesses that need addressing and which provide important opportunities for foreign investors. India's 12th five-year plan sets out a series of strategic challenges including the need for 'accelerated development of transport infrastructure' and 'securing the energy future for India'. The major infrastructure areas include electricity, roads and bridges, telecommunications, railways, ports, airports, irrigation, water supply and sanitation, storage, and oil and gas pipelines.

The Planning Commission has outlined that $1,025 billion will be needed between 2013 and 2017 to meet these infrastructure challenges, up from $514 billion for 2007–2012. They expect 50 per cent of this investment to come from the private sector (Planning Commission 2010). Other estimates have suggested that the government has underestimated infrastructure needs by at least 7 per cent (Sharma and Bhanumurthy 2011).

FDI flows from the UK to India

Britain's own contribution of FDI to India has risen both in relative and absolute terms. In 2001, total FDI outflows from UK companies amounted to £40.9 billion, of which £135 million (0.33 per cent) went to India. FDI outflows peaked in 2007 at £159.1 billion with India making up £650 million (0.41 per cent). In 2010, total outflows had fallen back to £23.4 billion while outflows to India had risen to a record £1.8 billion (7.7 per cent) (Wilkie 2012).

The stock of UK direct investment in India stood at £10,830 million in 2010 compared to £1,204 million in 2000. This represented 1.03 per cent of the UK's global investment position and put India in 18th place. Indeed, the House of Commons library has observed that, '[as India develops], it is expected that the UK FDI position of these countries, along with other rapidly developing countries, will rise in the coming years' (Allen and Dar 2012).

These figures are likely to be further extended by BP's 2011 purchase of a 30 per cent stake in India's Reliance Industries in a deal worth $7.2 billion. The deal was reported to be one of the largest examples of FDI since India began opening up its economy two decades ago (Jacob and Pfeifer 2011). The infrastructure upgrades and retail market liberalisation outlined above will provide further opportunities for British investors, including pension funds.

Unlike in the aid or remittances space, there are increasing flows of Indian investment *to* the UK. Particularly notable deals have included the purchase of Corus Steel by Tata for £6.2 billion in January 2007, the purchase of Jaguar Land Rover by Tata for £1.15 billion in March 2008, and, more recently, India Hospitality Corp acquiring Adelie Food Holding for $350 million (£220 million) in April 2012. The State Bank of India has also started offering mortgages in the UK this year (UNCTAD 2012).

UK Trade and Investment (UKTI) have certainly been more proactive in encouraging inward investment and commissioned Deloitte to produce a 'guide for Indian businesses' on investing in the UK in 2008 which gave advice on company structure in the UK, mergers and acquisitions and taxation (Deloitte 2009). Nonetheless, Indian politicians and business leaders have outlined how restrictions imposed since 2010 on British visas are impacting bilateral trade and investment (Economic Times 2012).

Improving UK investment to India

A select committee report from 2005/06 found some evidence that British investors were less 'adventurous' than those in the US and Europe and tended to focus on markets 'closer to home'. The committee called on the UK government to more effectively help companies to make rational decisions about investment opportunities (Trade and Industry Committee 2006). As such, **the government should convene a taskforce to examine institutional reasons why British investors are insufficiently focused on opportunities in India.** For example, this should consider how the British pensions industry is missing opportunities for significant returns that institutional investors from other countries are enjoying.

The Foreign and Commonwealth Office recently opened two new Deputy High Commissions in Chandigarh, north of Delhi, and Hyderabad in Andhra Pradesh bringing the total number of cities where UKTI has a presence to nine. Their approach is focused on helping British firms 'internationalise' through both exports to, and investments in, India. Nonetheless, their approach tends to be more reactive than proactive with activity generally responding to requests from companies aside from occasional sector briefings on opportunities for British exporters such as energy, aerospace or healthcare. Meanwhile, little advice is given to British companies looking to invest in India.

This seems to be an omission given that one of DfID's four strategic objectives is to 'catalyse the private sector's potential to combat poverty'. DfID sets out explicitly that it works alongside other capital investors to help boost employment, develop markets and unblock infrastructure constraints. As part of this they were anticipating making 35 public/private partnership (PPP) infrastructure deals across eight low-income states (DfID 2011). As mentioned above, these efforts to generate 'wealth creation' are expected to constitute 31 per cent of DfID's spending from 2011 to 2015.

As part of this, the CDC Group has invested UK money in 245 projects in India. This has included $30 million to improve energy efficiency at Dalmia Cement, $19 million to help GET Power provide power to half a million poor households, and $35 million to help Arch PharmaLabs to bring their production standards up to the highest international standards. Meanwhile, the Community Led Infrastructure Finance Facility (CLIFF) provides loan finance for slum development projects that are implemented by the urban poor.

The CDC Group will sensibly be increasingly focused on infrastructure projects and SME finance within India. Nonetheless, **DfID should continue to refine the role of the CDC Group as a vehicle for government capital to flow to India and ensure that it focuses**

on effective private sector projects which are creating permanent jobs. This needs to be both business-facing and inclusive of poor groups. Sectors which are complementary to DfID's activities, particularly its private sector programmes, in the fields of infrastructure and social development are most appropriate.

CONCLUSION

The debate about Britain's continued official development assistance has distorted a wider conversation about the range of different financial flows between the UK and India. This report has sought to put UK ODA to India in context by showing how it is dwarfed by flows of remittances and FDI. Nonetheless, there are important policy decisions that need to be made if Britain is to continue to play a role in India's development. DfID, UKTI and the CDC Group have an important role to play even if British aid to India does come down over time.

This report makes the following recommendations.

Official development assistance

- Rather than ending or arbitrarily cutting the DfID funding programme in 2015, the UK government should continue to support India until there has been further progress in reducing poverty and achieving other development objectives.
- Nonetheless, DfID should set out a clear 'exit strategy' for aid to India, specifying the development outcomes that it would regard as consistent with an end to providing ODA, and when it expects those outcomes to be achieved.
- In the meantime, the government should reduce its spending on the actual implementation of development projects and focus, instead, on community health programmes such as those to combat the spread of HIV/AIDS (where India has actually regressed over the period 1990–2010) and on addressing extremely high rates of malnutrition.
- DfID should maintain its focus on supporting good governance in the poorest states.

Remittances

- The British government and financial sector should do more to engage with the substantial Indian population living in the UK on the issue of remittances.
- The UK Remittances Task Force should be revived and assigned to collect more systematic and comprehensive data on the character of remittance-senders living within the UK's borders, and to use this information to help create remittance products and services that are tailored to their needs, simple to use and do not impose costs that make the transfer of remittances through informal *hawala* systems more attractive.
- The task force could consider working with non-resident Indians in the UK, particularly those well-placed in the investment management industry, to develop new mutual funds focused on infrastructure and possibly also social development projects.

Foreign direct investment

- The government should convene a separate task force to examine institutional reasons why British investors are insufficiently focused on opportunities in India.
- This task force should consider how the British pensions industry is missing opportunities for significant returns that institutional investors from other countries are enjoying.
- DfID should continue to refine the role of the CDC Group as a vehicle for government capital to flow to India and ensure that it focuses on effective private sector projects which are creating permanent jobs.

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