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MEMORANDUM

February 17, 1988

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FROM: ANE/PD, Ronald F. Venezia 

SUBJECT: India: Center for Technology Development
(386-0507) Asia and Near East Project Advisory
Committee (ANPAC)

The ANPAC meeting to review subject PID will be held on Thursday, February 18, 1988 in Room 6660 NS from 2:00 - 3:00 p.m.

Participation in accordance with ANE Bureau guidelines is invited.

Attachments: Issues Paper
PID

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ISSUES PAPER FOR ANPAC REVIEW

PID

India: Center for Technology Development (386-0507)

LOP Funding: \$10.0 million; FY 88 Obligation \$5.0 million

Account: SDA & FN

Project Description:

While the India CDSS is still being prepared, this project is considered part of the new "Modernizing Asia" theme expected in the CDSS. The project purpose is to help create and sustain the climate and processes which will increase the development of technology and increase its use, mainly by small and medium scale, privately owned industries -- an effort initially focussed in the state of Karnataka.

An illustrative list of project outputs would include:

(a) An established mechanism to identify and promote applied research in Karnataka's emerging industries. This includes the establishment of three applied research centers (food processing, informatics and biotechnology).

(b) A buyer-supplier program to strengthen small-scale industries role in subcontracting

(c) A regular technical information update system for Bangalore industry and research groups. This will include access to U.S. computerized technical information data bases through satellite telecommunications.

(d) Education programs stressing the needs of Karnataka's emerging industries in the state's polytechnic system. This will involve an increase in the number of industry-oriented education programs and curriculum development relating to technology development programs in Karnataka.

(e) At least 20 new joint ventures and/or start-up firms in such fields as biotechnology, food processing, and informatics.

It is worth emphasizing that AID will be supporting a long-term process which will be catalyzed by a new organization, the Center for Technology Development (CTD). AID funds will not be used for the establishment or operation of the CTD. AID funds will be used for technical advisory services, training, and limited commodity procurement in support of CTD activities in Karnataka. The bulk of disbursements will be through host-country contracts, entered into by the CTD. Some additional training may be financed through USAID's existing Development Management and Training project. A key criterion for the selection and implementation of specific activities will be the extent to which they are demand driven, and correspond to near-term opportunities for commercialization and/or employment creation.

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The AID inputs are:

(a) U.S. Consultants	\$4,450,000
(b) Orientation tours	300,000
(c) Periodicals, meetings etc.	250,000
(d) training (U.S. third country & Local)	1,750,000
(e) equipment for Applied Research Centers	2,000,000
(f) technical information exchange	1,250,000
total	\$10,000,000

The host country contribution is estimated as \$20,400,000

Project Issues:

The ANE Bureau Project Review Committee met on February 8, 1988 to review the subject PID. Robert Beckman represented the Mission. Representatives from the PRE and S&T Bureaus also attended. There were no issues identified which the PRC considered "go/no go". But there were four programatic areas considered of sufficient importance to be brought to the attention of the ANPAC. The PRC recommends that the PID be approved and the Mission Director exercise his authority to approve the PP and authorize the project.

I. Policy Environment and Dialogue: The PID presented a limited discussion of the Indian public policy environment which may affect this project and also how this project can help to improve the GOI policies in Karnataka having to do with business development, technology transfer and the fostering of a more market driven service support culture among the academic and research institutions of Karnataka. Countries in Asia are experimenting with different approaches to developing S&T infrastructure, e.g. science parks, that make efficient use of human and financial capital. What plans or policies is Karnataka pursuing in this respect that may affect the development of applied research centers?.

Recommendation: The PP should contain a full discussion of the policy environment in which the project will operate, how this might adversely affect the project and how the project can positively influence the policy environment.

II. Project Focus and Sustainability:

The PID describes three major levels of activity associated with the project.

(1) The creation and operation of the Center for Technology Development; (CTD).

(2) The creation with assistance by the CTD and USAID of three to four industry specific applied research centers.

(3) The creation with assistance of the CTD and the applied research centers of at least 20 new joint ventures or start-up firms.

The project title implies a USAID primary focus of support at the first level. The project budget implies a USAID primary focus of support at the second level. The PID rhetoric often implies a primary focus at the third level. The Mission representative clarified that the primary focus of support by USAID will be at the second level.

Recommendation: The PP will need to be explicit in describing what the project will actually do as well as AID's specific objectives and measures of success. The PP should also discuss how all three levels of activity will grow and prosper beyond the AID PACD. The Mission representative mentioned at the PRC meeting that consideration was being given to providing an endowment to the CTD by the GOI. This idea should be pursued during PP development.

III. Competition with U.S. Exports and Intellectual Property Rights:

The PRC discussed at length the potential impact of the growing number of restrictions placed upon projects like this by the U.S. Congress to impede AID assistance to non-U.S. firms which compete with U.S. exports (e.g. Lautenberg). There was also a discussion of the increased concern for the protection of U.S. intellectual property rights. The President's Competitiveness Initiative of January 27, 1987 directs "Federal Agencies to take into account when negotiating international agreements or providing bilateral economic assistance whether those countries adequately protect U.S. intellectual property rights." (p 7.) Since informatics and biotechnology are two areas where intellectual property and patent protection are important and controversial topics, this issue may be extremely relevant to whether U.S. companies would be willing to participate in the program.

Recommendation: The PP will have to deal with both of these issues in a concrete manner by establishing general criteria for technology transfer development.

IV. The Proposed Level of Technical Assistance:

The PRC wholeheartedly endorses the level of TA and training proposed. However, it was questioned whether the GOI will permit this level of assistance. There was also a concern raised about the implementation difficulties which may be encountered by such a labor intensive mode of assistance, particularly given the likelihood of reduced staff levels.

The difficulty of providing technical assistance in support of previous USAID projects in India is well known. The Mission has also experienced considerable difficulty in expending grant training funds. Only \$2.8 million has been expended out of \$4.9 million authorized in grant funds since 1982 for the Development and Management Training Project. Only \$4.8 million has been expended out of \$41 million in grant funds authorized for the Irrigation Management and Training Project in 1983.

While recent restructuring of these two project have greatly improved project implementation and the rate of disbursements, it has taken years to resolve the implementation difficulties with the GOI. This project proposes \$4.450 million for U.S. consultants and \$1.75 million for training. This represents 62 percent of USAID's total contribution to the project.

Recommendation: The PP should contain a full discussion of the mechanism for selecting and obtaining approval of this TA and training. The PP should also contain sufficient evidence, e.g. a letter of understanding on the level of TA and training to be provided, so that it is reasonably clear to the Mission Director prior to project authorization that this issue will not unduely impede implementation . In other words, given past problems with the GOI in meeting CPs in an acceptable time frame, the standard CP to disbursement, which was used in the prior projects, which required a TA and training plan, will not suffice in this case.

Additional Guidance for PP Development:

1. Funding Mechanism and Budget:

How will the AID funds be passed from the GOI to the financial intermediary institution involved, the ICICI*, and in turn to the CTD and to the applied research centers? The PID also did not describe the basis for estimating the project budget. The PP will obviously require a complete financial analysis which should describe how the budgeting process for the project will work.

2. Private Sector Participation:

The Board of Directors for USAID's ongoing PACT Project consists of 6-7 U.S and Indian Private Sector representatives and one each GOI and USG representative. The proposed Board of Directors for the CTD is composed primarily of GOI representatives. The Mission and the GOI should consider having more private sector representatives on the CTD Board of Directors to better assure a market orientation.

The PID on page 21 states an assumption that "...some level of corporate financial participation in and control of the applied research centers would be required before AID funds could be drawn for associated consultancies and/or training." We should attempt to negotiate in the Project Agreement that these centers be more than 50 percent private sector owned and controlled before AID grant funds could be used for their support.

The PID contains a reference to the Indo-American Chamber of Commerce. The PP should define and fully explain the role of the Chamber.

* The Industrial Credit and Investment Corporation of India Ltd.

3. Small Scale Business Participation:

The PP should provide evidence of demand for these types of services by small scale businesses in Karnataka. There should also be a discussion about any possible conflict of interests between large scale industries which may have a financial involvement in one of the applied research centers and the smaller competing business who may want to use the services of the center. The PP should also describe how the management/administrative structure of CTD and the three-four industry specific applied research centers will in fact focus their energies on the stated primary small and medium size clientele. The Mission might consider adding credit to the "critical areas" to be strengthened concerning buyer-seller relationships to enhance small scale enterprise.

4. Training:

The PP should specify that the refocusing of secondary and tertiary education to be market responsive and supportive of industry needs will concentrate on widely generalized skill and educational manpower requirements. If employer-specific training is provided, those firms should be required to pay for that training. In such cases employers may be expected to capture the economic gains from such human capital investments, for such trainees cannot market their new skills elsewhere in the labor market. On the other hand, skills needed in a wide variety of jobs and enterprises, and which contribute to the occupational mobility and adaptability of students, e.g. engineering, scientific, literacy and arithmetic skills, are a legitimate focus for an educational subsidy. For such generalized skills, employers incentive to invest in such training are undercut, because students, once having been trained, may take these skills and market themselves among a wide variety of employers.

5. Monitoring and Evaluation

The PP will need a monitoring and evaluation plan to track both goal level objectives and project input/outputs.

Clearances

ANE/PD: BOdell (draft)
ANE/PD: PMatheson (draft)
ANE/PD: DHagen (draft)
ANE/SA: WSugrue (draft)
ANE/TR: RIchord (draft)
ANE/TR: RCobb (draft)
ANE/DP: VMiedema (draft)
ANE/DP: CHermann (draft)
PPC/PDPR: NZank (draft)
PRE/PD: TNicastro (draft)
S&T/RD: RYoung (draft)
GC/ANE: !Morris (draft)

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