

AIRGRAM

DEPARTMENT OF STATE

5960024 (3)

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CLASSIFICATION

PD-AAB-479-D1 For each address check one ACTION

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TO - AID/Washington CAPTO A- 250

DEC 23 AM 7 43

DISTRIBUTION
ACTION
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INFO.

FROM - ROCAP/Guatemala
SUBJECT - NONCAPITAL PROJECT PAPER (PROP) Revision

DATE SENT
December 18, 1970

REFERENCE - CAPTO CIN A-42, September 8, 1967, Original PROP

Project Title: Business Administration (INCAE)
Project No. : 596-13-770-024
Revision No. 1

U.S. Obligation Span: FY-67 through FY-73
 Implementation Span: FY-67 through FY-74
 Gross life-of-project financial requirements:

U.S. dollars	\$ 2,087,000
Cooperating country cash contribution:	
Operating Revenue	2,200,000
CABEI Building Loan	645,000
Donated Land	250,000
Other Donor Contributions	1,640,000
TOTAL	\$ 6,822,000

(Does not include U.S. funding, FYs 63-66 provided under project 596-11-260-002, Industrial Investment & Trade Promotion to establish INCAE and initiate advanced management program = \$1.2 million)

OTHER AGENCY

State
CIA
Com
XMB
TRSY

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DRAFTED BY
A. J. McCreary: YOG

OFFICE
Program
Human Res.

PHONE NO. X-85
DATE 12/15/70

APPROVED BY:
ED: J. Roush

AID AND OTHER CLEARANCES

ADDP

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A. Summary Description

This project, begun in FY-63, is directed toward promoting economic development and private sector integration within the CACM through meeting manpower needs in business management. Technical and budgetary assistance continues to INCAE (the Central American Institute of Business Administration) in developing its capability as a degree (MBA) granting and advanced management training institution. With the assistance of a Harvard University contract, INCAE is expected to achieve full academic program viability by the end of FY-72. On the other hand, the difference between total operating costs and revenues obtainable from tuition and non-AID donations continues to leave an operating deficit. ROCAP proposes to assist INCAE to meet this deficit until the end of FY-72 and perhaps one additional year if required.

During the remainder of the project period emphasis will be given to the development and implementation of comprehensive, long-term operating and financial plans aimed at making INCAE financially viable upon the termination of AID grant support.

NONCAPITAL PROJECT FUNDING (OBLIGATIONS IN \$000)

Table 1
Page 1 of 2
Country: ROCAP

Project Title: Business Administration (INCAE)

PROP DATE: December 15, 1970

Original: _____

Revision: X

Project No. 596-13-770-024

Fiscal Years	Ap	L/G	Total	Cont ^{1/}	<u>Personnel Serv.</u>			<u>Participants</u>		<u>Commodities</u>		<u>Other Costs</u>	
					AID	PASA	CONT	US Ag.	CONT	US Ag.	CONT	US Ag.	CONT
Prior through Act. FY <u>70</u>			1,247	791			791	22				406	28
Oper. FY <u>71</u>			375	95			95					280	
Budg. FY <u>72</u>			235									235	
B + 1 FY <u>73</u>			230									230	
B + 2 FY _____													
B + 3 FY _____													
All Subs Subs.													
Total Life			2,087	886			886	22				1,151	28

^{1/} Memorandum (nonadd) column

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CAFTO A - 250

ROCAP/Guatemala

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Table 1

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Exchg. rate \$1 = Q1

Fiscal Years	AID-Controlled	Other Cash	Other	Food for Freedom (Commodities		
	Local Currency	Contribu-	Donor	Metric	CCC	World
	U.S. Country	tions	Funds	Tons	Value &	Market
	owned owned	INCAE	(S Equiv.)	(000)	Freight	Price
		Revenues			(\$000)	(\$000)
Prior through Act. FY <u>70</u>		1,200	300			
Oper. FY <u>71</u>		300	240			
Budget FY <u>72</u>		350	300			
B + 1 FY <u>73</u>		350	300			
B + 2 FY <u>74</u>						
B + 3 FY _____						
All Subs.						
Total Life		2,200	1,640			

* Private and public sector donations

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CAPTO A- 250

ROCAP/Guatemala

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B. SETTING - To Section B, Setting of the original PROP add the following:

The inadequacy of trained human resources described in Section B, Setting or Environment, of the original PROP remains one of the serious obstacles to economic integration in Central America.

Since the inception of this project, INCAE has demonstrated the intention and the capability of conducting a program in line with the overall business and management needs of the region. In this regard INCAE is achieving, with the one important exception of financial self sufficiency, the quantitative targets outlined in Section D, Planned Targets, of the original PROP.

INCAE is now firmly established as a permanent institution of higher education. It is Central America's first fully operative graduate institution and one of the leading centers for business management education in Latin America. The following are some of INCAE's most significant achievements to date.

1. It has built and equipped a campus with living facilities for 60 resident students, classroom facilities for 120 students, kitchen and dining rooms, library and offices for the faculty and the administrative staff.
2. It has been able to attract a total of 196 students to its M.B.A. program from a total of 11 different countries including all the Central American countries and Panama plus Colombia, Ecuador, Peru, Switzerland, and the United States.
3. It has been able to attract a total of 389 top level business and government executives to its Advanced Management Program from 13 different countries, including Chile, Ecuador, Mexico, Peru and the United States and Venezuela, in addition to the Central American countries and Panama.
4. It has been able to attract a total of 793 business and government executives to an aggregate of 29 short seminars offered throughout Central America, Panama and Colombia. This does not include 49 executives who attended two special training programs respectively sponsored by the Banco Nacional de Nicaragua for its own staff and by the Inter-American Development Bank for the staff of client institutions in Central America and Panama.
5. It has been able to offer, for the first time in Central America, a two-year M.B.A. program especially designed

to meet the needs and conditions of business in Central America.

6. It has proven the value of its educational programs and the quality of its graduates by successfully placing all 47 members of the first two graduating classes in executive and consulting positions.
7. It has recruited a multinational faculty composed almost exclusively of men with doctoral level training.
8. It has successfully accomplished the transfer of academic leadership from a U.S. Dean to a Central American Dean.
9. It has developed an administrative organization judged to be capable of upholding the Harvard associated standards of excellence after the complete phase out of all Harvard Business School inputs.
10. It has established a student guarantee loan fund through the First National City Bank, and has obtained a small number of merit scholarships for students of outstanding achievement.
11. It has organized a national committee and an international associates organization in each CA/country to mobilize the support of the business community.
12. It has been able to raise more than a million dollars in gifts from Central American business firms and some public sector institutions and nearly 800 thousand dollars more in tuition and fees from its educational activities.
13. It has firmly established its reputation as a first-rate academic institution throughout Central America and beyond, as evidenced by the growing number of applications from South American countries and its close ties with other Latin American institutions of higher education.
14. It has gained recognition as the leading center for case study development in Latin America, as evidenced by the decision of the Latin American Committee of Deans of Graduate Schools of Administration --better known as CLADEA-- to establish at INCAE a case clearing house for Latin America and the fact that they recently elected the INCAE Rector as their president. INCAE has completed approximately 200 C. A. case studies/notes and has assembled 500 other cases applicable to regional problems.

15. It has provided advice to several C.A. national universities on the use of teaching materials and the development of courses.
16. One important output target, however, is not being achieved as scheduled. INCAE has not been able to develop the financial support necessary to continue its operations after the programmed phase-out.

The original PROP projected that INCAE needed a total endowment fund of \$2 million by 1970 to make it self-supporting. To date INCAE has received \$891,941 in pledges of which \$513,290 has been paid. The important thing to note here is not that INCAE has failed to achieve this target but rather that it has, as a totally new institution with few established linkages, been able to achieve a high level of private financial support. Experience in institution building in business administration in the Latin American environment indicates that the development of linkages to the private and public sector capable of securing continuing financial support is a long-term process. For example, Dr. D. H. Taylor in his book Institution Building in Business Administration, The Brazilian Experience (1968) notes that it took the Business Administration Institute in Sao Paulo, Brazil at least seven years to establish favorable financial linkages with the public sector and thirteen years to establish them with the business community (pg. 97).

As a result of recent intensive INCAE/ROCAP reviews of the financial problems of INCAE, the following steps to reduce operating costs and/or increase revenue, are being taken, have been taken, or are under consideration.

A. Steps already taken: INCAE has

1. Organized a self-supporting "Asociados Internacionales de INCAE" (AIDI) in each CA/P country with a membership fee of \$150/year person to provide greater linkage with the private and public sector of each country;
2. Initiated a "bond" selling drive in each country to raise funds for the endowment fund - the "bond" purchaser does not pay the \$5,000 face value of the bond but agrees to pay a yearly interest of 6% for a period of 10 years;

B. Steps being taken: INCAE is

3. exploring the possibility of raising the M.B.A. tuition and boarding costs to \$5,000/year (currently \$2,500) with students paying \$2,500/year and their national governments paying the additional \$2,500. No final decision on whether to make this

increase has been made at present.

4. attempting to secure scholarships covering actual tuition and boarding costs for best 2nd M.B.A. year students to help meet operating cost deficit and act as a motivator for 1st. year students.
5. employing a maximum number of qualified Spanish-speaking professors to reduce or eliminate simultaneous translation costs;
6. determining the optimum number of M.B.A. students to reduce the ratio of operating costs to tuition to a minimum and still meet L.A. manpower needs and maintain the academic quality of program;
7. developing a plan to increase M.B.A. and A.M.P. tuition fees;

C. Steps under consideration: INCAE is

8. studying in depth the feasibility of an INCAE research/consultant affiliate that would provide contract services on cost plus basis for the region;
9. exploring the possibilities of obtaining a long-term, low interest rate loan from CABEI.

C. STRATEGY, TARGETS AND ACTION PLAN

Delete Sections C, D and E as shown in the original and substitute the following:

The development of INCAE may be considered in two parts; in terms of the academic quality of the institution itself and its graduates; and in terms of its long-term financial self-sufficiency.

With the assistance provided under the Harvard contract, INCAE is presently turning out well-prepared graduates and is achieving growing recognition throughout Central America and elsewhere for the excellence of its business administration education and advanced management training. Academic Target: the academic process is expected to be self-sustaining by the end of FY-72, when the Harvard contract is expected to terminate.

INCAE is in the unique position of being a major development instrument without a financial guarantor. Experience has shown that the operating costs involved in producing qualified graduates far exceed attainable tuition revenue. INCAE is taking positive steps to alleviate this problem through the development of leaner budgets, increasing tuition

rates, and attempting to bring the size of the student body to the optimum level for efficient and economic operation. It is clear, however, that the budget deficit cannot be met completely without substantial earnings from an endowment fund or some similar source of revenue. It is not realistic to assume that an adequate endowment can be raised through donations from private sources in the same time frame as educational viability is achieved, particularly in an area where there is no tradition of institutional donations and no tax incentives to do so. Thus, a significant part of its financial requirements will need to be obtained from international donors on either a grant or loan basis until at least 1975. If a loan is involved, it will be essential that interest and terms be the most generous possible to permit INCAE to build its equity from the interest spread.

It is ROCAP's plan to continue to encourage and press INCAE in the achievement of the following FINANCIAL TARGETS:

1. Develop long-term projection for optimum level M.B.A. student body to ensure that manpower demands of the region are met - March 31, 1971.
2. Analyze current A.M.P. operations and develop long-term projection to ensure that operations meet manpower needs at this level and continue to be fully cost recovering - March 31, 1971.
3. Study the feasibility of instituting a research/consultation affiliate to meet the needs of the region on a profit generating basis that can contribute to the overall operational budget of INCAE, and develop plans for this affiliate, if its creation is judged feasible - May 31, 1971.
4. Develop an overall INCAE financial plan and proposal to show how long-term overall financial self-sufficiency will be achieved. From this an action plan will be developed to show how much external funding (loan/grant) will be needed to achieve financial independence - July 31, 1971.

Assuming the preparation of a sound action plan by July, 1971, it would certainly be CY-1972 before INCAE could expect to negotiate a loan or obtain significant non-AID grants to replace AID grant assistance. In the interim, ROCAP proposes to continue meeting a substantial portion of the budget deficit during the remainder of the present 1970-71 and 1971-72 school years. During this period, INCAE will be bringing its total budget to a more austere level, increasing tuition rates and the size of its student body, completing plans for its long-term financial

development, and beginning implementation of the plans. Should unanticipated delays occur in negotiating loan support, ROCAP would be prepared to consider seriously additional and final grant assistance for the 1972-73 school year.

INCAE's ability to become financially viable by the end of the period proposed for grant financing and the subsequent period of loan financing is most heavily dependent upon the building of the endowment fund. In the past, gifts to INCAE that could have been used to build up the endowment fund have had to be used to meet current operating costs. It is essential that this be avoided in the critical period immediately ahead. Thus although we would like to project a substantial phasing down of our budget support to INCAE as we move to the phase out, our most recent analysis indicates that this would not be prudent.



Department of State

TELEGRAM

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ORIGIN AID-40

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DR FILED BY 14/001/JAMES R. LOCKARD

APPROVED BY 14/001/JACK E. HELGAP

14/001/JOHNSON

14/001/DOUGLASS (10/01/61)

14/001/SMITH (10/01/61)

14/001/JURGENSON (10/01/61)

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14/001/DOUGLASS (10/01/61)

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TO SECRETARY (10/01/61)

TO ASSISTANT SECRETARY (10/01/61)

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FOR FOLIO

SUBJECT BUSINESS ADMINISTRATION HARVARD UNIVERSITY

REF. C. P. O. (10/01/61) (10/01/61)

ADDITIONAL EVALUATION AND REVIEW OF PROJECT ADMINISTRATION PROGRAMS
RECOMMENDED AND APPROVED FOR THE YEAR 1962.

LOCATIONS DERIVED FROM CONTRACT ADMINISTRATION ANALYSIS OF RESEARCH
CONDUCTING LOCAL HARVARD UNIVERSITY AND HARVARD UNIVERSITY
SUPPORTING EVALUATION OF THE HARVARD UNIVERSITY ADMINISTRATION
UNIVERSITY FUNDS AND THE HARVARD UNIVERSITY ADMINISTRATION EXPENSE

CONTINUING TO BUILD AND DEVELOP HARVARD UNIVERSITY OFFICE OF
EFFECTIVE PROJECT PROJECT REQUIRES CAREFUL MONITORING SUBJECT AND
PAR CLOSELY RELATED TO ACCOMPLISHMENTS OF SCHOOL YEAR.

LIFE OF PROJECT APPROVAL ANTICIPATES TERMINATION HARVARD CONTRACT
FUNDING IN FY 71 TOTALS \$9,000,000 AS SET FORTH IN PROP BUDGET
1961-62

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