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DEPARTMENT OF STATE  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
Washington, D.C. 20523

CAPITAL ASSISTANCE PAPER

Proposal and Recommendations  
For the Review of the  
Development Loan Committee

ROCAP - CENTRAL AMERICAN SCHOOL OF BUSINESS ADMINISTRATION

AID-DLC/P-1004

UNCLASSIFIED

DEPARTMENT OF STATE  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
Washington, D.C. 20523

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March 13, 1972

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: ROCAP - Central American School of Business Administration

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed \$3,900,000 to the Central American School of Business Administration to assist in financing the United States dollar and local currency costs of Borrower's program to strengthen and expand its capabilities, programs and facilities.

Please advise us as early as possible but in no event later than close of business on Tuesday, March 21, 1972, if you have a basic policy issue arising out of this proposal.

Rachel R. Agee  
Secretary  
Development Loan Committee

Attachments:  
Summary and Recommendations  
Project Analysis  
ANNEXES I-XVII

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CENTRAL AMERICAN SCHOOL OF BUSINESS ADMINISTRATION  
I N C A E

TABLE OF CONTENTS

	<u>Page</u>
<u>SUMMARY AND RECOMMENDATIONS</u>	
1. The Borrower .....	i
2. The Loan - Amount, Terms and Guarantor .....	i
3. Purposes .....	ii
4. Project Description .....	ii
5. Background .....	iii
6. Total Cost of Project .....	iv
7. Alternative Sources of Financing..	v
8. View of ROCAP .....	v
9. Statutory Criteria .....	v
10. Issues .....	vi
11. Recommendations .....	vi
12. Project Committee .....	x
I. <u>HISTORY AND BACKGROUND</u>	
A. Institutional History .....	1
1. Background .....	1
2. Policy .....	1
3. Organizational Structure .....	2
4. Programs and Faculty .....	4
B. Recent Progress and Trends .....	7
1. Long Range Development Plan .....	7
2. Innovations in the MBA Program....	7
3. Agribusiness Project .....	8
4. INCAE Associates (AIDI) .....	8
5. Latin American Center of Documen- tation and Case Exchange (CLADIC).	9

## TABLE OF CONTENTS - Cont'd.

	<u>Page</u>
C. Past Assistance Provided to INCAE.....	9
1. A.I.D. ....	9
2. CABEI ....	10
3. Central American Support .....	11
D. Analysis of Major Problems .....	12
1. Productivity and Management.....	12
2. Quality and Relevance of Programs.	14
3. Physical Facilities .....	16
II. <u>THE PROJECT</u>	
A. Program, Administration and Staff Development .....	17
1. MBA Program .....	19
2. Advanced Management Program (AMP).	21
3. Seminars .....	22
4. Consulting Services .....	23
5. Research Activities .....	24
6. Library Resources .....	24
7. Associates Program and Fund Raising .....	26
8. General Administration and Staff Development .....	27
B. Expansion of Physical Facilities.....	28
1. Academic Areas .....	28
2. Administrative Areas .....	29
3. Complementary Areas .....	29
4. Student Housing .....	29
5. Associated Costs .....	30
6. Equipment .....	30

TABLE OF CONTENTS - Cont'd.	<u>Page</u>
C. Student Loan Fund .....	30
1. Justification .....	31
2. Administration .....	33
D. Technical Assistance .....	36
III. <u>ECONOMIC ANALYSIS</u>	
A. Rationale For Project .....	38
B. Economic Soundness of Project .....	40
C. Impact on U.S. Economy and Effect on Balance of Payments .....	49
IV. <u>FINANCIAL ANALYSIS</u>	
A. Role of the AID Loan .....	51
B. Self-Help .....	52
C. Financial Statements .....	53
D. Local Cost Financing .....	57
E. Currency Devaluation .....	58
F. Financial Plan .....	58
G. Conclusions .....	65
V. <u>ENGINEERING ANALYSIS</u>	
A. General Description .....	67
B. Technical Feasibility .....	68
C. Implementation Plan .....	69

## TABLE OF CONTENTS - Cont'd.

	<u>Page</u>
D. Maintenance .....	69
E. Summary .....	70
<b>VI. <u>LOAN ADMINISTRATION</u></b>	
A. Covenants .....	71
B. Implementation Plan .....	72
-----	
ANNEX I - Checklist of Statutory Criteria	
ANNEX II - Organization Chart, Board of Directors and Staff and Curricula Vitae	
ANNEX III - List of INCAE Graduates and Name of Employer	
ANNEX IV - Engineering Data	
ANNEX V - Financial Data	
ANNEX VI - Development Costs	
ANNEX VII - ROCAP Support to INCAE	
ANNEX VIII - Private and Public Sector Support to INCAE	
ANNEX IX - M.B.A. Program Curriculum	
ANNEX X - Students Enrolled and Geographic Distribution of MBA Entering Classes	

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**TABLE OF CONTENTS - Cont'd.**

- ANNEX XI - Salary of INCAE Graduates**
- ANNEX XII - Geographic Distribution of AMP  
and Seminar Participants**
- ANNEX XIII - Requests for Seminars**
- ANNEX XIV - Consulting Services**
- ANNEX XV - Minutes - LA/CAEC**
- ANNEX XVI - Certification Pursuant to  
Section 611 (e)**
- ANNEX XVII - Draft Loan Authorization**

March 13, 1972

ROCAP GUATEMALA

CENTRAL AMERICAN SCHOOL OF  
BUSINESS ADMINISTRATION (INCAE)  
MANAGUA, NICARAGUA

SUMMARY AND RECOMMENDATIONS

1. The Borrower

The Borrower is the Central American Institute of Business Administration (Instituto Centroamericano de Administración de Empresas - INCAE), a private, regional graduate level school of business administration chartered as a non-profit institution under the laws of Nicaragua. It was established in July 1964 by a group of businessmen from the six countries of Central America -- Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica and Panama -- with the close cooperation of the Harvard Graduate School of Business Administration.

2. The Loan - Amount, Terms, and Guarantor

Amount: Up to \$3.9 million. It is estimated the loan will be disbursed within four years.

Terms: The loan will be at AID's most concessionary terms -- 40 years including a 10-year grace period on amortization of principal -- with interest at 2% during the grace period and 3% during the 30-year repayment period.

Guarantor: The loan will be guaranteed by the Government of Nicaragua.

### 3. Purposes

To assist INCAE in becoming a self-sustaining regional institution of management education to meet the needs of the private and public sectors, with special emphasis on:

- a. strengthening the administration, teaching and research capabilities;
- b. improving the quality and relevance of programs;
- c. improving the long-range financial viability of the Institute; and
- d. expanding the scope of educational programs and extension activities.

### 4. Project Description

The project is designed to strengthen INCAE's teaching and research capabilities and to expand its educational programs and facilities, to the point where it can achieve significant impact in the process of economic development throughout the region. It consists of three major components, plus a small technical assistance element.

a. The construction of new and the remodeling of existing school buildings, including academic and administrative buildings, kitchen and dining facilities, and on-campus student residences, and the procurement of furniture and other related equipment;

b. A Student Loan Fund (SLF) sufficient to meet the anticipated demand for financial assistance during the next four years; and

c. Program, Administration and Staff Development Costs incidental to the on-going programs expansion and improvement of the school's programs, and activities. Development Costs are defined as that portion of the total cost of operating the Institute which is dedicated to development purposes, including such activities as course design, case development and supervision, design and expansion of seminars and consulting services, etc. Development Costs will advance the educational level and effectiveness of the teaching institution. They are estimated to cost \$2.5 million, \$1.3 million will be financed under the loan and \$1.2 million by INCAE.

#### 5. Background

INCAE was created in 1964 in response to the Central American Common Market's need for skilled and progressive business managers. The institution sought to raise the quality and quantity of business education, improve managerial competence, encourage private sector support for regional integration, and conduct research on business practices and problems in the CACM area.

During the period 1964-66 Harvard Business School provided assistance to INCAE under an AID contract in the form of participant training, development of case studies and other teaching materials, and presentation of seminars and advanced management courses. In 1966 plans were developed to establish a permanent graduate school with an appropriate physical plant. As a result of a donation from the private sector of land ten miles outside of Managua, Nicaragua, coupled with a building loan of \$645,000 from the Central American Bank for Economic Integration (CABEI), a permanent campus was constructed and occupied in May, 1969.

In January, 1968, the Masters in Business Administration (MBA) program which constitutes the primary focus of the Institute was started. In addition, the

Institute conducts an Advanced Management Program (AMP) for business and government executives, and gives short-term seminars designed to meet the specific needs of particular executive groups.

6. Total Cost of Project

The overall cost of the four-year project is about \$8.9 million, as shown below:

	<u>Local</u> <u>Costs</u>	<u>Fx</u> <u>Costs</u>	<u>Total</u>
	('000 omitted)		
<u>AID Loan</u>			
			<u>1/</u>
Building Expansion	\$1,050	\$ 230	\$1,280
Student Loan Fund	1,000	-	1,000
Program Development	1,300	-	1,300
Office and teaching equipment	-	205	205
Technical Assistance	<u>-</u>	<u>115</u>	<u>115</u>
Total AID	\$3,350	\$ 550	\$3,900
	(87%)	(13%)	(100%)
<u>INCAE Contribution</u>			
Regular Operating Expenses	\$3,830	-	\$3,830
Program Development	<u>1,170</u>	<u>-</u>	<u>1,170</u>
Total INCAE	<u>\$5,000</u>	-	<u>\$5,000</u>
<u>Total Project</u>	<u>\$8,350</u>	<u>\$ 550</u>	<u>\$8,900</u>

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1/ Covers site development, A-E services, construction, air conditioning, appliances, furniture and contingencies.

## 7. Alternative Sources of Financing

The Eximbank and IDB indicated on September 23, 1971 that they are not interested in this project. The IBRD determined that it was not interested in the project on September 21, 1971.

## 8. View of ROCAP

ROCAP strongly endorses this project, and urges its approval at the amount and terms recommended. United States policy in Central America is to strengthen the economic integration movement of Central America and to support an effective Central American Common Market (CACM). INCAE was created and has been developed to meet the Central American need for well trained, progressive private and public business administrators. The proposed loan would be the final step in a comprehensive program of assistance to INCAE. The Loan is designed to finish the job undertaken during the past nine years and to establish INCAE as a mature, self-financing educational institution.

The result of the project, if successful, will be a major improvement in the education of business managers throughout Central America and an upgrading of business and management practices as a result of this education. Such an upgrading is essential to the continued economic growth of the region and is responsive to one of the most critical problems of Central America, a shortage of skilled managers.

## 9. Statutory Criteria

All statutory criteria have been or will be met (see Annex I).

10. Issues

None.

During the intensive review particular attention was directed towards the capacity of INCAE to repay the proposed loan. This question is not listed as an issue in this Capital Assistance Paper since, in the judgment of ROCAP, the issue has been resolved and INCAE has the capacity to repay. This matter is set forth in detail in the Financial Analysis (see Section IV).

11. Recommendations

Authorization of a loan to INCAE in an amount not to exceed \$3.9 million, said loan to be guaranteed by the Government of Nicaragua:

a. Terms

- 1) Total years: 40
- 2) Grace period on principal repayment: 10 years
- 3) Amortization period: 30 years
- 4) Interest: 2% during grace period and 3% during amortization

b. Special Conditions

1) Conditions Precedent to Initial Disbursement

Prior to the first disbursement or to the issuance of the first letter of commitment under the loan, the Borrower shall, except as AID may otherwise agree in writing, furnish to AID, in form and substance satisfactory to AID, the following:

- (a) An opinion of the Chief Legal Officer of Borrower or of other counsel acceptable to A.I.D. that

this Agreement has been duly authorized by the Governing Body of the Borrower and duly signed on behalf of Borrower, and that it constitutes a valid and legally binding obligation of Borrower in accordance with all of its terms.

(b) A statement of the names of the persons holding or acting in the offices of Borrower specified in the loan agreement and a specimen signature of each person specified in such statement;

(c) An opinion of the Fiscal General of the Republic of Nicaragua or of other counsel acceptable to A.I.D. that this Agreement has been duly authorized and or ratified and signed on behalf of Guarantor, and that it constitutes a valid and legally binding obligation of Guarantor, in accordance with all of its terms;

(d) A statement of the names of the persons holding or acting in the office of Guarantor specified in the loan agreement and a specimen signature of each person specified in such statement;

(e) Documentary evidence that the Loan Agreement has been duly registered with the Central Bank of Nicaragua and a statement signed by an authorized officer of the Central Bank of Nicaragua or such other person as A.I.D. may approve that dollars will be made available by the Central Bank of Nicaragua to borrower for the payment by borrower of the interest and principal due under this Agreement;

(f) A copy, duly attested, of Borrower's annual budget for Fiscal Year 1972-1973 presented in substantially the same format and including the same activities as the financial projections submitted by Borrower in support of its application for the loan set forth in this Agreement;

(g) Letter from Borrower's Public Accountants certifying (i) that Borrower's books and records are set up to account for "Development Costs" as described in the Loan Agreement; (ii) that such books and records will clearly identify the amount of "Development Costs" financed by Borrower and by A.I.D.; and (iii) proposed procedures for documenting reimbursement requests to A.I.D. by borrower from loan funds for the financing of such costs.

(h) A signed contract or contracts, approved by A.I.D., for architectural engineering consulting services for (i) preparing final plans and specifications and bid documents, (ii) certifying payments to the construction contractor and (iii) supervision of construction.

(i) A written plan acceptable to A.I.D. setting forth criteria for making student loans, and policies and procedures for conducting the Student Loan Fund Program.

(j) A Memorandum of Understanding signed by the Borrower and the commercial bank servicing the Fund describing, in detail, the arrangements for administering the Student Loan Fund in conformance with the written plan referred to in item (i) immediately above.

(k) A letter from the Central American Bank for Economic Integration (CABEI) to Borrower confirming that it has agreed to amend the terms of the CABEI loan to Borrower to permit repayment "in accordance with Borrower's capacity to repay", to substitute a Government of Nicaragua guaranty for the mortgage and other security previously furnished by CABEI as collateral for the CABEI loan, and that it has or will formally release said mortgage and other security to the Borrower.

2) Conditions Precedent to Disbursement for Construction and Procurement of Equipment

Prior to any disbursement or to the issuance of any Letters of Commitment under the loan to finance construction or the procurement of equipment relating thereto, the Borrower shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) Final construction plans, specifications, bid documents, cost estimates and time schedules;

(b) A signed contract with a firm acceptable to A.I.D.;

(c) Evidence that Borrower has obtained real property rights, including easement and rights of way, required for the construction.

3) Covenants

(a) Unless otherwise approved in advance by A.I.D. in writing, Borrower shall submit in form and substance satisfactory to A.I.D. the following:

(i) Annual fiscal year Budget until loan is fully disbursed.

(ii) Annual audited financial statements.

(b) Within 30 days after Borrower submits its annual budget to A.I.D., a joint review of the progress of the program shall be held by Borrower and A.I.D.

(c) Borrower shall not borrow without the prior approval of A.I.D.

(d) Unless otherwise approved in advance in writing by A.I.D., all repayments of principal and payments of interest on loans from the Student Loan Fund shall be used only to finance the costs of administration of the Fund by INCAE, the service charges of the Commercial Bank and for further loans by the Student Loan Fund.

(e) Unless otherwise approved in writing by A.I.D., a reserve for bad debts acceptable to A.I.D., shall be established for the Student Loan Fund.

(f) Borrower recognizes that AID shall be obligated to finance only a stated percentage of development costs (development costs being only a portion of total operating costs) which percentage shall be the subject of analysis and review on an annual basis in light of actual experience and original projections made in support of Borrower's application for this loan

12. Project Committee

Capital Development Officer	-	Warren Wolff
Chief Human Resources Division	-	Glenn Coombs
Economist	-	Gerald Wein
Regional Legal Advisor	-	Robert R. Parker
Engineer	-	Carl Forsberg

Drafted by:GCoombs/WWolff/GWein/CForsberg:

Reviewed by:DD:Donald Finberg

Approved by:DIR:Oliver L. Sause

I. HISTORY AND BACKGROUND

A. Institutional History

1. Background

In 1963, a request was made by Central American business and government leaders for assistance in the establishment of a modern management education program to serve the Central American countries and Panama. This request led to the negotiation of an AID contract with the Harvard Business School to conduct a survey of the needs and effective demand for management education. As a result, the Central American Institute of Business Administration (Instituto Centroamericano de Administración de Empresas - INCAE), was established in July 1964 by a group of outstanding businessmen from six different countries - Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica and Panama.

From 1964 through 1967 the groundwork for the establishment of INCAE's MBA program was laid through a number of Advanced Management Programs and special seminars. These efforts served to familiarize the business community with the techniques, concepts, and potentials of modern management education. During the same time an aggressive program of research and case writing was carried out to provide educational materials relevant to the needs of the local management community. In 1968, the two-year MBA program was initiated and the Institute moved from its temporary location in Managua, Nicaragua, to its present modern facilities located 10 miles south of Managua.

2. Policy

INCAE was created in response to the Central American need for dynamic, skilled, informed and progressive business managers. It aims to develop a permanent and financially viable graduate level institution

to raise the quantity and quality of business education, improve managerial competence, conduct research on business practices and problems, and promote the growth of attitudes and conditions conducive to the further development of the Central American region.

### 3. Organizational Structure

In September 1966 INCAE was established as a legal entity, with Charter and By-laws, by an act of the Nicaraguan Congress. The authority and responsibility for development of management programs and activities is invested in a Board of Directors. (For Organization Chart see Annex II).

#### a. Board of Directors

The Board is presently composed of nine members: one for each of the Central American countries, Panama and Colombia, a Chairman at Large and the Rector ex-officio. This is the highest administrative and policy making body of INCAE.

National Committees are elected by alumni and associates in each of the seven countries presently served by the Institute. The National Committee chairmen are members of the Board ex-officio. Chairman of the Board, since the founding of the Institute has been Mr. Francisco de Sola, a distinguished businessman from El Salvador who is a well known leader in the Central American integration movement. (See Annex II, Exhibit C)

#### b. Rector

The Rector, as chief executive officer of the Institute, is responsible to the Board of Directors for all aspects of the Institute's operations - academic and financial. He is appointed for an indefinite term by the Board, and in turn, appoints all other administrative

officers of the Institute. He also has the authority to appoint Lecturers and Instructors below the rank of Assistant Professor. All Instructors with the rank of Assistant Professor or higher are appointed by the Board, acting on the Rector's recommendation. The Rector may appoint instructors at any level for periods not to exceed one year without prior board approval. Dr. Ernesto Cruz, from Nicaragua, has been director of the Institute since July, 1968. He has a law degree from the University of Nicaragua and the M.A. and Ph.D. in Economics and Government from Harvard University. (Annex II, Exhibit C)

c. Faculty Representation

The faculty holds regular bi-weekly meetings to consider matters of academic policy and planning, and to coordinate on day-to-day matters concerning programs and activities. Specific responsibilities for the administration of academic programs and supporting activities are delegated to individual faculty members. The three permanent faculty committees, designated by the Rector, include the Admissions Committee, Planning and Coordinating Committee and Academic Ceremonies Committee. Ad-hoc committees are designated by the Rector as required.

d. Student Representation - MBA Program

Three student representatives are elected by each of the two INCAE classes to coordinate student affairs and to maintain communication with the faculty on matters of mutual concern. The students have three standing committees, Student Welfare, Yearbook, and Professional Relations. At least once each term a meeting of all students and faculty is held to discuss the Institute's long-range development and other topics of current interest.

Considerable attention is given to student-faculty communication and to maintaining a collaborative, problem solving approach to developing common educational objectives. One of the first experiences of new students at INCAE is participation in a series of small group meetings with members of the faculty to discuss the objectives, policies, and programs of the Institute, and the backgrounds, aspirations and educational objectives of the students. While all aspects of the Institute's operations are open for discussion and joint efforts at improvement, the final responsibility for academic standards remains clearly and without question in the hands of the Faculty and the Rector.

#### 4. Programs and Faculty

The Harvard MBA program has served as a model in the design, staffing, standards, methods and overall development of the Institute. However, INCAE's own research and case-writing programs, its increasing number of competent faculty members of Latin origin, as well as its ties with the Latin business community permit it to effectively adapt the Harvard concepts and techniques to the needs and circumstances of business administration in the Central American region. INCAE and Harvard have plans for a continued relationship to be effected upon expiration of the AID supported contract in June, 1972.

##### a. The Masters of Business Administration Program (MBA)

The MBA Program, which is the only business program at this level in Central America, constitutes the primary activity of the Institute. Around this program, all other activities of teaching and research are being developed. This program requires two academic years of residence, and is designed to provide an opportunity for university graduates with professional

experience to develop knowledge, abilities, attitudes and understandings which will constitute a foundation for their growth into competent and responsible business leaders. (See Annex IX for a description of the MBA curriculum).

As of September, 1971, INCAE had enrolled 259 students in its MBA Program from 14 different countries (Annex X ). More than 90% of these students are from the Central American region, which conforms to the primary focus of INCAE programs. The current enrollment (1971) for the two year program is 119 compared with 81 in 1969. The three graduating classes to date total 92 students - 45 of whom graduated in the 1971 class.

b. Advanced Management Program (AMP)

(INCAE's Advanced Management Program, consisting of six-week courses, is designed for executives who are in position to initiate, recommend, and influence the course of action in their respective organizations. While the focus is on the management of private sector organizations, administrators from the public sector have attended the AMP and found it relevant to their professional needs.

The overall purpose of this program is to prepare participants to assume the responsibilities of top leadership in business or in public organizations, and to exercise these responsibilities in ways that serve their organizations profitably as well as the society at large.

Since the inception of Advanced Management Programs in 1964, INCAE has conducted 11 programs in the Central American region and Colombia (Annex XII ). Of the 466 participants in these programs, 99 were from outside Central America and Panama, including 78 from Colombia

c. Continuing Education Program (Seminars)

The program of seminars, usually of three-day duration, provides an opportunity for businessmen and executives to continue their education concurrently with the performance of their professional and business duties.

The content of the seminars vary. Some deal with the characteristic problems of specific managerial roles, such as that of comptroller, planning officer or marketing manager. Others facilitate understanding of current environmental conditions and developments, such as new government regulations of business activity, fluctuations in the international markets or sudden changes in the political or economic environment in which business operates. Still others present recent advances in the field of knowledge or new administrative techniques, such as new human behaviour concepts, computer applications, simulation and other methods.

Since 1966, 41 seminars have been held in seven countries for 1,230 participants (For a listing of the seminars by country and geographic distribution of participants see Annex XII ).

d. Teaching Faculty

INCAE has a full-time teaching faculty of 11 professionals (Annex II ), supplemented from time to time by visiting professors. All have or are completing PhD degrees. Currently, six of the regular faculty members are from the United States. However, the vast majority of research assistants and administrative officers are from Latin America. The new staff improvement plan includes the recruitment of top graduates from INCAE's graduating classes for staff positions in anticipation that the most promising persons will be sent to the U. S. for doctoral training.

## B. Recent Progress and Trends

### 1. Long Range Development Plan

In March, 1971, a 12-year development plan was completed by the INCAE staff. The plan provided for increasing the MBA enrollment to 400; greatly expanded AMP and seminar programs; initiation of a doctoral degree program; and a Latin American wide focus to all activities. Total cost of this plan was approximately \$20 million, of which about \$9 million (\$6 million loan and \$3 million grant) were requested of AID.

The plan was submitted to ROCAP for consideration. A ROCAP committee made an in-depth analysis of the plan which later led to its revision. While the revised plan retained the salient features for teaching and research development, it placed greater emphasis on the needs of the Central American region, and projected a considerably more modest MBA program expansion consisting of 170 enrollment by 1975/76. Discussions of this plan by INCAE and ROCAP committees led to the submission of a revised loan request which conforms to the loan program components and funding levels included in this paper.

### 2. Innovations in the MBA program

Several experimental innovations have recently been introduced into the design of the MBA program. These include the involvement of students in exploring their long term personal goals and in relating them to the specific developmental goals to be achieved during the MBA program; and the explicit use of study groups as a key vehicle for the development of interpersonal skills, and reinforcing this through the use of team-building techniques.

During the present year, an experimental course called Management Laboratory is being introduced

in which students will work with small local firms to develop and carry out the implementation of organizational and managerial improvement programs while exploring and sharing their experiences through classroom sessions.

### 3. Agribusiness Project

In recognition of the predominance of agribusiness in the economics of Central America, and in an effort to meet the management needs of those sectors, INCAE recently began an Agribusiness Project. The project consists of a teaching component and a research component. The teaching component involves courses in Agribusiness Management available to the second year MBA students which focuses on analyzing agribusiness problems and applying modern management techniques to their solution. The research activities have consisted of student field studies, case studies, and a major research project on the Nicaraguan animal grain system. This project is financed by the Central Bank of Nicaragua with IDB funds, and will also include assistance under a Harvard University-AID/TAB contract in the area of agribusiness management.

### 4. INCAE Associates (AIDI)

INCAE has begun to establish Chapters of the International Associates of INCAE in each of the Central American countries to provide a continuing program of discussions and activities for the more progressive and professional managers. Through these associations managers stay abreast of regional and international events and their implications, engage in active dialogue with public sector officials, identify their own development needs, and develop a sense of professional identification with other members of the management profession. Associate members pay an individual fee of US\$150 per

year to cover the expenses of their meetings and to assist with the support of an INCAE country Representative who plans and organizes the programs of the Associates, acts as liaison between INCAE and the local management community, and provides such other incidental services for members as may be appropriate. Any extra proceeds from the AIDI membership are treated as a national contribution to INCAE to support research and case writing activities. To date AIDI chapters have been organized in Nicaragua, Costa Rica and Guatemala.

5. Latin American Center of Documentation and Case Exchange (CLADIC)

In recognition of the progress achieved by INCAE in the development and handling of case studies, and its close ties with the Harvard Business School, The Latin American Committee of Business School Deans (CLADEA) has designated INCAE as headquarters for CLADIC. This center will serve as the case clearing house for Latin America. CLADIC will benefit from the joint efforts of all the affiliated schools, which will thus have access to a much broader collection of educational materials than could possibly be assembled by any of them separately. In addition, special arrangements are being made to join the new center with the Intercollegiate Case Clearing House (ICH) and to transfer to CLADIC its important collection of materials in Spanish. The center is expected to start operations in the near future.

C. Past Assistance Provided to INCAE

1. AID

The Regional Office for Central America and Panama (ROCAP) has provided assistance for the development of INCAE's management education program since its

inception in 1963 (see Annex VII ). Under the initial AID contract with Harvard, substantial support was provided in the preparation of case material and in organizing and conducting Advanced Management Programs and short-term seminars. Staff development, efforts between 1963 and 1968 included a year of training for selected Central Americans at the Harvard Business School's International Teachers Program (ITP).

In 1967, new contract agreements were entered into by INCAE and the Harvard Business School, with ROCAP support, to plan and develop a two-year Masters program in Business Administration. Staff from Harvard initially assumed key administrative and teaching positions in this program, while at the same time assistance was continued in the further development and expansion of AMP's and Seminars.

The Harvard contract, which will be phased out in June 1972, presently consists of one resident consultant and approximately six man/months of teaching and short-term consultants. Upon termination, the total AID contract financial support will amount to approximately \$1.6 million.

During this period of INCAE's development, the ROCAP Chief of Human Resources has served as Project Manager of AID supported programs and activities. In addition to the contract assistance (\$1.6 million), financial support in the amount of approximately \$970,000<sup>(1)</sup> has been provided to assist in meeting developmental and operational costs of the MBA program from FY 1967 through FY 1972. Grant financial support of this nature will terminate when loan funds become available.

## 2. CABEI

INCAE received a loan from CABEI, signed June 14, 1967, in the amount of \$645,000 for the cons-

truction of the existing physical plant, including the acquisition of equipment and furniture. Terms of that loan (financed with funds from AID Loan 596-L-004) are 5% interest, 20 years for repayment, including five years grace period. The loan is secured by a mortgage on the INCAE buildings, a pledge of the furniture and equipment, and the endorsement of an insurance policy. It is to be amortized over a 15 year period by 30 equal semiannual installments of approximately \$31,000 each. The first installment is due December 13, 1972. (For re-negotiation of the CABEI loan see page 54).

### 3. Central American Support

Annex VIII shows the amount of donations raised by INCAE from public and private sources, from its inception through June 30, 1971, broken down by year and by country. The total financial support through donations amounted to approximately \$1,473,000.

The bulk of these funds were raised between 1966 and 1969 through a vigorous campaign involving two full-time men at INCAE, paid representatives in each country of CA/P and active volunteer committees. The approach used in this campaign was to ask for sizeable contributions (relative to the capacity of most firms in the region) for the establishment of the new institution. Its principal weakness was that it left many contributors with a strong impression that the institute would not need any further support for operating expenses, an impression which has hindered later fund raising efforts.

From 1969 to 1971, the INCAE fund raising activity essentially involved one man who was also responsible for public relations and the promotion of executive programs -working with volunteer committees in each country. Moreover, during this period most of the energies of the administration had to be turned inward to the development of the MBA program.

The new and reorganized efforts presently under way to strengthen the fund raising organization are discussed under Section IV, pages 64-65.

D. Analysis of Major Problems

1. Problems Dealing with the Productivity and Management of the Institute

a. The annual cost per student to the institution for the MBA program is high. This cost, which in 1971-72 was approximately \$5,000 per student (excluding the cost of room and board for students who live on-campus) is high because

1) The present size of the MBA enrollment (119) does not take full advantage of potential economics of scale.

2) The average attrition rate for the two year MBA program has been approximately 30%, which may be largely attributed to the high academic standards and need for financial aid. While the attrition rate has declined with each newly entering class, it is anticipated as INCAE's visibility increases throughout Central America and as recruitment procedures are improved, more qualified candidates will be brought into the MBA program and the attrition rate will decline at a more rapid rate.

b. Students in the MBA program are in need of financial assistance. The equivalent of 60% of all students have demonstrated the need for financial support to cover their overall training expenses. Contributing factors include

1) The annual tuition fee which is presently \$1,800 and will be gradually increased to \$2,200.

2) The average INCAE student is 28 years old, 57% are married, and only 12% receive financial support from their families.

c. INCAE's penetration into the Central American business community is too recent and numerically too small to have created a "critical mass" of support for fund-raising purposes. The MBA program is only in its fifth year and is now turning out approximately 50 graduates per class. As a result

1) INCAE does not yet have a significantly large number of alumni and ex-participants to turn to for fund-raising efforts.

2) At present few of INCAE's MBA graduates have had sufficient time since graduation to achieve positions where they could be instrumental in securing funds for the Institute.

d. The size of the total staff is presently inadequate to provide base support for all programs and activities and to ensure institutional stability. Because of the small staff

1) The Institute is unable to increase its regional impact by expanding Advanced Management and Seminar programs.

2) The risk to the Institute by faculty loss is high. At its present size of eleven, the teaching faculty would be badly hurt by the loss of only one member.

3) The INCAE faculty is limited in its efforts to pursue sponsored research, consulting and fund-raising activities.

e. INCAE lacks sufficient qualified administrative personnel to staff all key positions for an improved internal administration. Beginning in late 1970, it was realized that INCAE's administration, which had been set up when the Institute was very small and when matters other than internal administration commanded priority, was inadequate for the present day needs of the school. Throughout 1971, efforts were pursued to upgrade and expand INCAE's administrative staff and to overhaul the administrative system and procedures. At the same time, efforts were made to improve the services required for the Institute's proper functioning. While the job is well under way, it is far from complete, and additional reforms and resources are required to carry out the following:

1) Strengthening of planning, informational system, budgeting and internal accounting and auditing procedures.

2) Establishment of procedures to evaluate, determine effective demand and compare the costs and benefits of on-going programs and activities.

3) Systematic organization of fund-raising activities and special projects. In particular, as the body of alumni and ex-participants expands, a means of systematically organizing these individuals for fund raising purposes must be established.

4) Improvement of systematic job placement and follow-up services to assist MBA graduates to find positions for which they are qualified.

2. Problems Pertaining to the Quality and Relevance of INCAE's Programs

a. The curriculum content of the MBA program at INCAE must be more directly related to the management

requirements of the Central American/Panama area. To supplement the U. S. case material, a core of local cases has been developed, but this development has lagged behind the true needs of the program. At the present time, only about 20% of the cases used at INCAE are drawn from local sources. To keep the Institute vital and current, more resources must be devoted to local case development, necessitating that:

1) Casewriting and course development efforts be pursued on a continuous basis.

2) Linkages with the local management community be improved and maintained to:

(a) provide opportunities for case development;

(b) enable INCAE to receive feedback from the community for use in program evaluation and improvement.

b. The applied research activities of the Institute are presently of too limited scope and depth to be of service to the furtherance of institutional goals. Expanded research activities and resulting publications would serve to strengthen ties between the Institute and the local management committee, to act as a vehicle of communication between INCAE and other similar institutions, and to reinforce INCAE's image as a high-level quality institution. This will increase INCAE's usefulness to local community, and hence INCAE's visibility in this community. INCAE's research activities are currently limited by:

1) A library lacking in organization and development. At the present time the library contains only about 2,000 titles.

2) Lack of an organized research effort. More work needs to be done to identify opportunities for effective research and to organize INCAE's efforts to exploit these opportunities.

3. Problems Pertaining to Physical Facilities

a. INCAE's existing office and classroom facilities, which were originally designed to accommodate a one-year MBA program and a faculty of six, are strained severely at present program levels and are completely inadequate for an expanded level of activity. In particular:

1) All office space is currently overcrowded, and certain research staff is housed in Managua (10 miles distant), creating problems of coordination.

2) Classroom space is a limiting factor to further expansion of the MBA program. Additionally, only three seminar rooms exist to accommodate 14 study groups, many of which must meet at the same hour.

b. INCAE's goal of creating a resident campus cannot be achieved due to a total lack of married student housing. More than half of the MBA enrollment is married and must presently live off-campus. This causes a series of problems both to INCAE and to the students. INCAE married students are forced to live in Managua (10 miles from INCAE) where there is a dearth of middle-income housing available and rents are correspondingly high. Rarely do the houses have adequate study areas. Some housing does exist along the south highway which leads to INCAE but it is prohibitively expensive for most students. Commuting from Managua is made more difficult by the fact that no commercial bus lines extend out as far as INCAE. A survey of all of INCAE's married students conducted at AID's request showed that virtually all non-Nicaraguan students found their present housing less than satisfactory. In a number of cases married students have resorted to leaving their families behind and living in bachelor quarters at least for several months while they search for adequate housing.

From the Institution's viewpoint, alleviating the housing problem is extremely important because of its effect on recruiting MBA students and on the operation of the MBA program. The difficulty of finding adequate housing in Managua has been frequently cited in interviews with potential students as a reason for their decision not to complete their applications or not to attend INCAE after they have been accepted.

Most important of all is the indirect effect the present situation has on INCAE's use of small group discussions. Many of these groups must meet in the evening and students living many miles from campus often find it impossible to attend. Students living far off-campus also find it more difficult to use the library and other INCAE facilities.

c. The dining room facilities are already crowded despite a staggered lunch schedule. Kitchen storage areas are inadequate. Additionally, the present location of the dining room and kitchen next to classrooms and seminar rooms causes difficulties because of cooking odors, and noise from high pedestrian traffic.

## II. THE PROJECT

The overall objectives of the project are: (a) to strengthen the administration, teaching and research capabilities; (b) to improve the quality and relevance of programs; (c) to improve the long-range financial viability of INCAE; and (d) to expand the scope of educational programs and extension activities. The \$3.9 million loan consists of three major components: (a) program, administration and staff development; (b) expansion of physical facilities; (c) a student loan fund. A fourth component provides funds for technical assistance. All four components are described in detail below.

### A. Program, Administration and Staff Development (\$1,300,000)

Any modern educational institution, and particularly one that is new and is striving to improve its high quality as in the case of INCAE, must invest heavily in developing relevant courses and instructional materials, researching the problems it was created to solve, evaluating the effectiveness of its programs, and expanding and improving the quality of its staff.

This major component of the loan represents financing a portion of the costs of administration, teaching staff, program development, research staff and associated overhead allocated to developmental activities. Some specific activities include course design and development for the MBA, AMP and seminar programs, case development and supervision, faculty efforts to evaluate, develop and coordinate new or expanded courses or programs, research on regional management problems, development or improvement of fund-raising activities, the Associates Program, academic support services (library, translation, etc.) and administrative support services (administration of Student Loan Fund, accounting procedures, kitchen and dining room management, etc.). These activities are considered essential in resolving the previously cited major problems of the Institute, particularly the expansion and development of INCAE's programs.

The amount of time devoted by a faculty member on developmental activities can vary from 100% for new and expanding courses and programs to a minimum of about 30%, sufficient to maintain the desired level of growth and excellence. It is estimated that in the past at least 50% of INCAE's operating budget has been devoted to these developmental expenditures. Since INCAE's operating revenues has been insufficient to provide this level of program investment, AID grant support was needed to cover the deficit. As explained in the Financial Analysis, it is estimated that INCAE will require four more years of AID loan support before its revenues are adequate to cover its entire budget, i.e., not only all regular operating expenditures, but also all developmental expenditures. During this period AID loan funds will replace AID grant funds in covering the deficit created by developmental costs.

For the purposes of the loan agreement, the institution's development cost will be simply defined as that proportion of the total cost of operating the institute dedicated to development purposes. AID and INCAE will agree that the percentage of total cost dedicated to development purposes, and the maximum amount of development costs AID will finance during the loan period will be as follows:

	<u>1972/73</u>	<u>1973/74</u>	<u>1974/75</u>	<u>1975/76</u>
Development Expense as a % of the Total Operating Budget* (except Interest, Contingencies, Housing, Cafeteria, Building and Grounds)	57%	53%	49%	46%
Estimated % of Development Expenses Payable by AID	65%	57%	48%	41%
Maximum AID Financing of Development Costs (\$000)	400	350	300	250

\* The development expense percentage was determined on the basis of an analysis of the use of faculty time. See summary table in Annex VI.

The cost center management concept that has been established covers all programs, activities and services within INCAE and is used as the basis for the budget categories identified in this Loan Paper (Annex V, E). The tentative organization chart for implementing the center concept is included as Annex II. This administrative innovation will greatly strengthen the planning and managerial capacity essential to the new and expanded programs and activities, particularly such vital functions as budgeting, accounting, informational feed-back, and evaluations which give due attention to the reduction in unit costs. (An estimate of total development costs and AID's part thereof is shown by Cost Centers in Annex VI.)

The following pages describe briefly many of the measures and reforms which will be undertaken within the major cost centers.

1. MBA Program

A significant expansion is planned for the MBA Program. From the current enrollment of 119 students for the academic year 1971/72, the enrollment will be increased to 131 in 1972/73 and to 170 in 1975/76. It will continue to grow to 190 in 1979/80 if this is determined to be desirable. These phased increases are modest and should not adversely affect the desired high quality of academic performance. Moreover, since these increases do not per se require additional faculty, administration or courses, they contribute to a lower cost per graduate. More than adequate effective demand for this projected enrollment increase is believed to exist (See discussion under Part III - Economic Analysis).

INCAE has established and plans to maintain high standards for admission. The selection process is vigorous, consisting of personal interviews, evidence of a high level of previous academic standing, an admission examination and acceptable letters of recommendation. The demands which the course places on the students make careful screening of candidates essential. A staff member assigned to the Rector's Office will deal with recruiting for the MBA and AMP programs.

In regard to the geographic distribution of

applicants admitted to INCAE, past experience indicates that the broader student base which would be provided through the admission of up to 20% of the students from countries outside the CA/P region serves as a means of enriching the educational process for both students and faculty. The current student body consists of approximately 15% from outside the region.

Curriculum reorganization will be introduced as a means of making the program more relevant to regional needs. New courses will be included in the areas of 1) management of planned change; 2) management of public sector organizations; 3) management of agribusiness systems, 4) economic integration and international cooperation, and 5) adaptation of external management concepts and techniques. The focus of the second year program will be shifted to emphasize general management capabilities and multifunctional problems rather than functional specialization.

New instructional procedures will be introduced to ensure the maintenance of academic standards with larger student sections. A variety of instructional methods and techniques will be utilized, including simulation exercises, role playing, managerial games, lectures, research work, and, above all, case discussion and analysis. The study group technique has been employed with great success and shall be continued. Each group is comprised of approximately eight students. Group members tutor each other within their areas of personal expertise, discuss case materials together prior to class discussion, provide each other emotional support in dealing with the pressures of the program. Group projects are often assigned on the basis of study group membership and attention is given to developing effective teamwork skills.

Another area in which new and improved techniques will be introduced is in program evaluation. Faculty meetings will be held bi-weekly to evaluate teaching methods, instructional materials and to determine necessary changes for improvement of the educational programs. A particularly useful device for program improvement involves student participation. At the completion of each course, students will fill out a questionnaire which probes in detail into the effectiveness of both the faculty members and the course content, thus

spotlighting areas which need attention or improvement. INCAE is to investigate ways of lowering the attrition rate (see page 12).

## 2. Advanced Management Program (AMP)

INCAE's plan for expansion contemplates an increase in the number of AMP's from the present two per year to three per year in 1974/75. AMP staffing in past years have required 50% or more assistance from Harvard professors. It is anticipated that the projected increase in core staff in support of all programs will reduce the need for outside assistance to 25% or 30%.

Admission requirements for the AMP will be based largely upon the qualities of maturity, ability, experience and responsibility. Participants will range in age from 30 to 50 years; will have achieved the top schelon in their organization or be designated for promotion to that level, and will be experienced men who have become accustomed to responsibilities. The requirements for admission have been set without reference to prior education and degrees.

Steps have been planned for increasing enrollment in the three projected AMP's, two of which will be held in CA/P region and one in Colombia. The average attendance for the eleven previous seminars was 42, while the enrollment target was fifty. Previous promotional efforts were assigned to the National Committees which are presently in the process of being reorganized so as to provide more effective support to INCAE programs. In addition, the new plan calls for the promotional effort to be directed from the Rector's office of INCAE with the support of designated persons in each country.

Further improvements are planned in program evaluation procedures. While modifications each year have made the content more relevant to regional needs, a more systematic and formalized procedure of program planning and feed-back, involving both professors and participants, is in the process of implementation.

### 3. Continuing Education (Seminars)

The basic plan for the conduct of seminars during the coming years is to increase the number from six seminars in 1970/71, to 28 in 1975/76, and to 38 in 1978/79 (See pages 43-46 for discussion of demand). These seminars will be of three types: the company or organization oriented seminar, new "presidential" seminars, and general seminars similar to those which INCAE has conducted to date. Typical seminars last three days, and have a participant fee of \$200.

#### a) Company and Private Organization Seminars

Eight of the 28 seminars are to be provided for private organizations. Three seminars of this type have been conducted before by INCAE, and it has been established that there is considerable interest on the part of many additional organizations. (Annex XIII). The previous seminars consisted of a program on Developing a Management Team for the Central Bank in Nicaragua; a program on the Problems of Textile Manufacturing for an organization in Colombia; and a program concerned with the Development of the Capacity of Financial Managers for a banking group in Nicaragua.

#### b) "Presidential" Seminars

Included within the plans for 28 seminars, are two new top-level seminars. These seminars will be designed for administrators who have participated in the Advanced Management Program. The seminar would be of 7-10 days duration, and would draw upon the 466 graduates of the Advanced Management Programs.

#### c) General Seminars

The general or public seminar, covering a specific subject area and directed toward decision-making managers from various companies and organizations, has been the most common type conducted by INCAE. Since 1966, forty-one such seminars have been held with a total of 1,166 participants. The attendance has varied from 18 to 50 participants. It is planned to increase the number of

these seminars from five in 1970/71 to 18 in 1975/76. For an explanation of the geographical distribution and demand see Annex XII.

INCAE has developed a series of seminars which have been very successfully conducted over the past four years. These will be further redesigned and new ones developed as information is received from the field concerning new interests on the part of businessmen. Promotional efforts are in the process of being modified and revitalized, including the use of full-time field representatives.

#### 4. Consulting Services

While individual INCAE professors have been doing private consulting for Central American organizations since the initial days of the Institute, the plan to undertake consulting as an institutional program is a recent concept. The new consulting program will make the institutional resources of INCAE available to client organizations to deal with a wide range of management problems. While consulting efforts will include market studies, feasibility studies, and general advisory services, the major emphasis will be placed on consulting activities which increase the capacity of the client organization to deal with its own problems (See Annex XIV for a description of recent consulting requests).

Consulting activities will not be conducted in accordance with the usual method of billing clients on an hourly basis, but based upon a fixed fee contract. The contract will establish a specific objective to be accomplished, usually of a report or training nature. INCAE hopes in this way to make efficient use of its faculty expertise while broadening their practical knowledge and experience and earning a profit for the Institute which can be applied to the development of other programs. The Consulting Division of INCAE will normally undertake consulting projects of \$5,000 or more. Contributing faculty members will be paid for inputs on a per day basis equal to the average of the entire staff's daily consulting fee.

The faculty commits itself to 50% or more of its total consulting time to the institutional program.

Faculty members may continue to do retainer and daily fee consulting, but the faculty has agreed that all contracts with a potential for 10 or more days of consulting shall be offered to the Consulting Division.

### 5. Research Activities

To date only a beginning has been made into the field of contract research projects that would benefit both INCAE and the Central American countries. A project which is in progress under a contract with the Instituto Nacional de Comercio Exterior e Interior, involves a study of various aspects of the Nicaraguan animal grain system (See Agribusiness Project, page 8 ). Funds paid to INCAE for the first year's operation of this study was \$80,000. An additional \$82,500 is to be received in the near future.

Contract research projects are a natural outgrowth of INCAE's program to develop new case studies of Latin American business operations. The initial field has been in agribusiness where 56 Latin American agribusiness cases have been obtained, and a total of three new courses developed and offered to students in the second year MBA program. As a result of this growing research capacity in the field of agribusiness INCAE will have its first Program Center for Agribusiness Promotion and Research.

Major research projects presently being negotiated and their respective sponsors include: (a) UNICEF: Motivation training for entrepreneurial development; (b) Ford Foundation: Management of national family planning programs; (c) ISDI: Educational programs in the management of social change; (d) IDB: Development banking; (e) Ford or Kellogg Foundation: Nutrition (proposal being developed jointly with INCAP).

In addition, research without specific funding will be carried out by the teaching faculty and research assistants; students are also required to do research reports as part of their course requirements.

### 6. Library Resources

Major improvements which are planned for

library resources and services include the following:

- a) Develop library quarters with adequate space for new acquisitions and the expanded student body.
- b) Arrange the library space so that the collection may be open to the readers; take appropriate security measures to prevent the loss of books.
- c) Revise the circulation system so that it will quickly reveal who has borrowed a particular book.
- d) Acquire and process approximately 2,000 volumes per year.
- e) Increase from 14 to 75 the number of subscriptions that the library receives.
- f) Develop backfiles on about fifty journals on a gradual basis as the needs of the faculty are made evident.
- g) Revise the cataloging of the entire collection with standard library techniques and with catalog cards.
- h) Make a concerted effort to collect more materials in Spanish, particularly statistical reports and publications describing business activities of the Central American countries.
- i) Initiate library services in reference to student orientation, guide on how to use the library, monthly listing of books received, production of bibliographies and inter-library cooperation.

The development of the Library is seen as taking place in gradual steps; both in terms of the development of its collection and services and in terms of readers and areas of Central America to be served. It should eventually be adequate for serving the INCAE Associates as well as the INCAE faculty and students.

## 7. Associates Program and Fund Raising

The present status of the INCAE Associates program and the past fund raising efforts of the Institute have been discussed on pages 8 and 11 respectively.

A new strategy, which is now in the process of implementation, calls for specifically developing the membership of the INCAE Associates from among the more influential progressive elements of the management community and specifically designing the programs of these organizations to meet the needs and aspirations of this group. Building on this membership, the program of the Associates will be designed to provide a forum which will allow the progressive management elements of both the private and public sectors to 1) define common goals; 2) confirm their professional management identity; 3) facilitate their own self-development efforts; 4) plan action programs for increasing the impact of professional managers in achievement of national and regional development goals; 5) develop facilitating linkages between organizations within particular sectors and between private and public sectors; and 6) assist in the overall planning, development and financing of INCAE programs. Future seminar and conference programs will be planned largely on the basis of specific needs identified by these groups.

In connection with the Associates program, INCAE bonds are a unique fund raising idea developed by INCAE to formalize and regularize annual giving. INCAE sells to the contributing organization non-interest bearing INCAE bonds in the amount of US\$5,000 with a ten year maturity. In exchange for the bond, the contributing organization or individual gives to INCAE a ten year note for US\$5,000 bearing interest at the rate of 12% or US\$600 per year.

The National Committees will assist with fund raising activities in addition to their other responsibilities, i.e., recruiting participants for the various programs, placing MBA graduates, and directing the activities of the Associates chapters. The current plans call for the establishment of a full time country representative, with MBA level or comparable training, who will assist in fund raising activities as well as other functions assigned to the National Committees.

## 8. General Administration and Staff Development

Two key staff positions will be included as a part of the Rector's office. Both will be filled by faculty level personnel who might also have some teaching responsibility. One will be the Director of External Affairs who will have direct responsibility for Public Relations and Fund Raising Activities. The other will be the Director of Planning and Institutional Development, whose major concern will be planning and seeking support for separately funded research efforts, coordinating overall planning and budgeting, and coordinating academic programs.

The MBA and AMP programs will be grouped and related to the supporting resources of the library, publications and services such as interpretation, translation and the reproduction and distribution of cases and educational materials.

The three activities aimed at providing direct and continuing services to INCAE's client community will be grouped together as Management Services. These will include the Seminar, Consulting, and Associates Programs. It is anticipated that the faculty coordinator of the Seminar Program will request the assistance of individual faculty members in assuming responsibility for specific seminar topics.

Faculty development efforts have been more systematic and intensive since the establishment of the MBA program in 1968. Three Central Americans have been sent to the U. S. for advanced training and have returned to positions as full-time members of the INCAE faculty. A fourth is in the final stages of the Harvard doctoral program and will return to the faculty during this academic year.

While it is anticipated that the MBA teaching faculty will remain constant at 11, the total professional staff will expand from 12.5 in 1971/72 to 18 in 1975/76. The 18 professional staff include 11 for teaching the MBA program, two for project research, and five for developing and expanding the programs and activities described in the preceding pages. This level of staffing will not only make possible the expansion and development of INCAE's programs, but will also add to the Institute's stability

by making it less vulnerable should one or two key faculty members leave.

A faculty member will be expected to teach four courses a year (the academic year is divided into three trimesters totaling approximately 10 months). If a faculty member is assigned an administrative function as Director of Continuing Education (Seminars) or Director of Consulting he will be required to spend proportionately less time teaching in the MBA Program and the balance of his time administering the other program.

Specific action is planned for professional improvement of staff and to develop additional Latin American faculty. The budget will include \$400 per faculty member per year for continual updating through conferences and investigations. Qualified Latins who are completing doctoral studies in the U.S. in relevant fields will be identified and contacted to determine their possible interest in joining INCAE. Moreover, the top graduates of each of the MBA graduating classes will be recruited for staff positions in anticipation that the most promising will be sent to the U.S. for advanced training. INCAE will assist the candidates in obtaining outside fellowship support.

B. Expansion of Physical Facilities (\$1,485,000)

The construction plan will address the problem of strained plant capacity described in Section I, D.3, (page 16 ) and will provide adequate facilities for the planned expansion. The reader is referred as well to the Engineering Analysis in Section V and Annex IV, Exhibit A. The principal elements of the plan are as follows:

1. Academic Areas (\$89,000)

The building now housing the library will be converted into a new amphitheatre-type classroom for the expanded first year class. The room will seat 100 persons and will be equipped for air conditioning and simultaneous translation. The two existing classrooms will also be air conditioned. Without air conditioning the temperature in

these classrooms frequently becomes high enough to seriously impede the learning process.

The number of seminar rooms will be increased from three to twelve. Several seminar rooms will be built in the area now used as the kitchen, and the remainder will be located in a new structure.

The library will be relocated in the area presently used for the dining-room. The new location is sufficiently large to house the expanded library collection and to serve the larger student body. Alterations to the present structure will be minimal.

2. Administrative Areas (\$135,000)

The critical shortage of office space will be alleviated by the construction of a faculty office building containing fifteen faculty offices, a small infirmary, the Rector's office, and a staff meeting room. Offices presently used by the faculty will be used by administrative staff and researches.

3. Complementary Areas (\$124,000)

The dining and kitchen facilities, now located next to the classrooms and seminar rooms, will be housed in a new building about 50-75 yards from the academic area. The new facility will solve the problem of serving the expanded student and staff population and will eliminate the problems of noise, traffic, and congestion of the present facility. Additionally, in recognition of the fact that the dining area is the natural and only possible social center for the students, it will include a small lounge/recreation area, and the main dining room will be designed so that it can also be used for social events involving the entire student body.

4. Student Housing (\$390,000)

Student housing will be expanded to accommodate the growing enrollment. For single students, 15 or 16 double occupancy rooms with one bath for each two rooms will be constructed. Following the present pattern there will be a small lounge/study area for each eight rooms.

Married student housing will be built to accommodate forty families. All 40 units will be identical except that some will have two bedrooms and others will have three. The houses will be of a townhouse type which will reduce costly site preparation and save valuable land for other uses in the future. A small, centrally located child care center and a common laundry facility will be built in lieu of the maids quarters usually provided in Central American middle-income housing. Housing will be completely self-financing, and will address the problems discussed in Section I, D3 (page 16).

5. Associated Costs and Contingencies(\$543,000)

In addition to the above, INCAE will incur costs for site development (\$134,900), A & E services (\$85,000), and furniture (\$108,000). A sum of \$215,157 (20% of all other costs) will be set aside for inflation and contingencies.

6. Equipment (\$205,000)

It is estimated that INCAE will require about \$205,000 of equipment to introduce and expand the use of modern educational technology and to provide adequate support for professional, administrative, and support personnel. A tentative equipment list is attached as Annex F. Equipment acquisitions will require prior ROCAP approval.

C. Student Loan Fund (SLF): \$1 Million

One million dollars in AID funds will be made available to MBA students to finance tuition fees, room and board and some incidental expenses. It is expected, based on INCAE's past experience, that about two thirds of the students will need financial assistance. The maximum student loan will amount to \$3,000 for a single student and \$4,000 for a married student, per academic year, or \$6,000 and \$8,000 respectively over the two year period of the MBA program. These amounts will rise gradually as tuition costs rise.

The SLF program gives INCAE a major tool in servicing the financial needs of its students and at the same time provides the school with a substantial source of new income. INCAE will turn over the administration of the SLF to a local commercial bank (Bank of America) thereby relieving the institution itself of the responsibility and expense of undertaking a large program for which it has little expertise and permitting the school to concentrate its energies on teaching and educational activities relating thereto.

1. Justification

a) A look at the typical MBA student body reveals a mixed family income pattern, with most students coming from middle and high income families. This does not always mean that the student can or wishes to look to his parents for financial assistance. To date about 12% of the students receive financing from their families, 11% pay part their own way, and about 27% receive partial scholarships and/or financing from their employers. As stated above, about two-thirds (expected to go higher as tuition fees, etc. increase) of future MBA candidates will require considerable amounts of financial aid. The INCAE student tends to be older than the typical graduate student (average age 28), and has varying degrees of business experience. As a result, a student within this group is likely to be more independent of family ties, and is anxious "to make it on his own" and not to rely on the family for help. Further, a student may come from a middle or upper middle class family, but may be one of many children, thereby making it difficult, if not impossible, to seek assistance from his parents who already are under a financial strain educating other members of the family. If a student does possess the financial means, he will not be eligible for a student loan.

A condition precedent to initial disbursement requires INCAE to submit its policies, procedures and criteria for conducting the SLF program.

b) A major justification for the SLF is that it helps to resolve a very serious problem for INCAE-assisting the MBA student in financing the high costs of the school (annual tuition fee alone is currently \$1,800) at terms that will be commensurate with his salary when he begins to work after completing his studies. INCAE has

had previous loan programs, but they were limited in scope and subject to other drawbacks which this program aims to correct (see below). The institution can already show, as a result of a survey of recent graduates, that the loan payment capacity rises substantially after a student leaves INCAE with an MBA degree inasmuch as he can expect to receive an annual salary increase of about \$3,000. (For information about salaries see Annex XI ). The average salary increase would probably be higher except for the fact that a number of students receiving scholarships and financing from their employers do so with the understanding that they will return and work at their old salary or at only a small increase for one year or more. Student loans may in some cases be amortized in accordance with the student's ability to repay, to make repayments lower at the beginning and increasing as the graduate's salary increases. It is expected that a single student borrowing \$3,000 in each of the two years of his studies would have to pay \$144 per month and a married student borrowing \$4,000 in each year would have to pay \$192 per month.

It is well to mention that currently there are no comprehensive programs of financial aid for higher education in the CACM. What programs do exist are not adequate to help INCAE and tend to focus on under-graduate education or study outside the region. INCAE, therefore, has to develop its own program of financial assistance consisting almost exclusively of loans supplemented by only a few scholarships usually awarded to outstanding second-year students with proven need.

c) Of equal importance is the fact that the SLF will be fully self-financing and could in the future provide a substantial source of income to INCAE. However, other than for financing administration of the fund, the Administering Bank's service fee and for extending further student loans, INCAE cannot use loan repayments (including interest) for any purposes without the prior approval of AID (See Covenant in S. & R. Section 11). INCAE will earn a net interest spread of almost 6 to 7% on each student loan. This is based on an interest rate of 9 to 10% on each note, deducting a reserve for loan losses and the fee of the commercial bank administering the SLF (see below).

Since the rollover from principal and interest repayments will be used to make additional loans, especially during the first six years of the AID loan, the actual capital of the SLF may rise to as much as \$1.6 million. Once the size of the fund stabilizes at that level earnings will far exceed servicing costs and requirements for new loans. The SLF will not only be self-financing, it could, if good repayment experience can be maintained over the life of the loan, contribute to amortizing the AID loan.

A further feature of the SLF is that all student loans will be denominated in US dollars (students will assume the risk of local currency devaluations). This assures repayments to INCAE in dollars.

d) An expanded SLF will be most helpful to INCAE in its promotional efforts to attract Central American students to the Institute.

## 2. Administration

### a) Past Programs:

INCAE's previous experience with student loans has been limited in scope and has proved unsatisfactory both to INCAE financially and to the students in meeting their needs. The Institute's past programs involved two approaches. Initially, INCAE administered its own loan program using its very limited cash reserves. Administratively this was expensive, and collection experience was poor. Subsequently (FY 70/71) the school made arrangements with a commercial bank which provided loans to students up to an aggregate of \$300,000. This was a step in the right direction as it got INCAE out of the banking business. But this program proved too small to serve student needs, and again INCAE had to use additional resources this fiscal year in the face of student demand. Further disadvantages of this program include a high interest rate, approximately 13% p.a. (about 3 to 4% higher than the rate proposed under the AID loan), and a requirement that

INCAE secure outstanding student loans with a cash deposit at a ratio of 1:3 - one dollar on deposit for every three dollars in loans outstanding. This has tied up \$100,000 of INCAE's cash, and has placed a great strain on INCAE's effective working capital. These funds will continue to be tied over a four to five year period until the underlying student loans are repaid. (See Section IV , Financial Analysis).

b) New Program

Under the proposed AID program, a commercial bank (Bank of America) has agreed to administer the SLF on a regional basis at terms that are extremely attractive to INCAE. It proposes to charge a "one shot" fee of  $\frac{1}{2}$  of 1% on the face amount of each loan. This covers the full servicing of each loan, from credit checkings to the collections of loan payments.

The Bank of America was asked whether it could use its own funds in the SLF, to take a participation in each loan, the thinking being that it would be more concerned with enforcing loan payments if it had a financial stake in each loan. After weighing this, the bank concluded that a participation would not improve its proposal to INCAE and, as it wrote to INCAE when outlining its proposal, "the bank will exhaust all possible means of collection". Besides, participation would substantially increase the bank's earnings while depriving the Institute of badly needed income. The bank has stated that it is not interested in making profit at INCAE's expense. The bank also believes that repayment under the SLF should be good because of the calibre of the students and the nature of the professional positions they will hold after graduation. Any loan losses should be adequately covered within the 2% reserve which will be established for this purpose.

INCAE wants the administering bank to be able to serve its students in all five CACM countries and Panama. The Bank of America has branches in Guatemala, Honduras, Nicaragua, Costa Rica and Panama. In El Salvador it will work with one of its correspondents or a bank it judges to be competent in administering student loans, and which is

also acceptable to INCAE. It is expected that the Salvador bank will also charge an administration fee of  $\frac{1}{2}$  of 1%.

Further key aspects of the SLF and the role of the administering bank(s) are summarized below:

(i) Loan Terms (Average): INCAE's experience shows that students cannot pay interest while they are in school since they generally have no income. Repayment of principal and interest will therefore begin three months after graduation, and will terminate five years later.

(ii) Interest Rate: Interest will vary between 9 and 10% and will apply to all five CACM countries and Panama.

(iii) Foreign Exchange Risk: It will be the responsibility of the administering bank to see that the student registers his loan with the Central Bank in his country to assure dollar repayment to INCAE and to AID.

(iv) Administering Bank: The bank will be responsible for obtaining credit checkings on each student, obtaining a co-signer or guarantor and making recommendations to INCAE for approving or rejecting a loan application. All loans financed with AID funds must have a co-signer. In the event INCAE wishes to approve a loan without a co-signer or to deviate from the bank's recommendations, such exception will be submitted to ROCAP for approval. The administering bank will submit model promissory notes for INCAE/AID approval. Notes will include an acceleration clause stating that if a student is delinquent in one payment all payments are due and payable within 150 days.

The bank will also do the following:

(i) Set up books and records and submit regular status reports on all loan activity, as INCAE and AID may require;

(ii) Collect payments of interest and principal on each loan, and in the event of non-payment undertake formal protest proceedings. This is customary

practice in Central America and the first legal step in enforcing collection. Subsequent legal proceedings, if necessary (if the bank exhausts all attempts to collect), will be for the account of INCAE; and

(iii) Assure that student loans are secured with a life insurance policy covering the unpaid balance of the loan in the event of the death of the borrower.

The loan agreement will include a condition precedent to disbursement for SLF activity requiring INCAE to submit a Letter of Understanding, satisfactory to AID, between INCAE and the bank(s) describing in detail the arrangements for administering the SLF program.

D. Technical Assistance (\$115,000)

To implement the various aspects of INCAE's expansion and development program, it is anticipated that approximately 36 man/months of consulting and technical assistance will be required. The major part of this assistance (33 man/months) is planned for the Program, Administration and Staff Development Component. A substantial part of the assistance under this component will relate to the Advanced Management Program. In addition, approximately three man/months of consulting services are tentatively programmed for the Student Loan Fund.

A major portion of the technical assistance will be drawn from a continuing relationship between INCAE and the Harvard Business School as well as from other leading U. S. institutions in the field of business management. This assistance will focus on program and course design and faculty recruitment and development.

The INCAE-Harvard relationship has been a most essential one in developing INCAE to-date and according to tentative plans it is expected to continue, outside of the loan program, along the following lines:

- a) Joint sponsorship of executive programs serving Latin America.
- b) Exchange of MBA faculty on a visiting basis.
- c) Joint research projects on the problems of multinational firms operating in the Latin American environment.
- d) Cooperative case writing efforts to increase the number of quality cases dealing with multinational business in Latin America.
- e) Support for Harvard DBA candidates conducting dissertation research in Latin America.

Such activities if properly designed and carried out could add significantly to the breadth and enrichment of both institutions.

### III. Economic Analysis

#### A. RATIONALE FOR PROJECT

Economists have long known that the key to development rests not so much on the creation or discovery of new resources, but in improving the quality, organization and utilization of existing resources. As a high quality educational institution, INCAE obviously contributes directly to improving the quality of human resources. Even more important, perhaps no activity can contribute more significantly to the better organization and administration of resources than the training of good managers.

Central America is an area particularly lacking in skilled business managers. Until the establishment of INCAE's MBA program in 1968, no graduate level training in business administration was available in the region. The quality of undergraduate business administration programs in Central America still needs to be strengthened.

Whether a cause or a result of the shortage of well trained managers, attainment of a leadership position in private or public enterprise has traditionally depended less on training and skill than on economic and social position. Poor management and low efficiency have become the rule, and their existence is perpetuated by restrictive trade measures and close control of financial channels which protect inefficient industry from competitive pressures.

Business and government leaders are becoming increasingly aware of the need to change these outdated practices. If the industrial base is to continue to expand, particularly now that most of the easy import substituting opportunities provided under the Central American Common Market have been exploited, pri-

vate industry must give increasing attention to production for export. This implies a need to revitalize some existing industries and to establish new industries capable of meeting international standards of price and quality. To date few Central American industries have demonstrated this capability.

Central America is receptive to and offers many opportunities for private sector involvement in the economic development of the region. Over the years A.I.D. programs have encouraged the role of the private sector, and have financed many new and expanding industries. A.I.D. has assisted in creating and financing six private financiers, one in each of the CACM countries and Panama. Total financing to these institutions exceeds \$45 million. A.I.D. has also extended four loans totalling over \$18 million to two government development banks (formentos) for financing industrial activity. A.I.D. has supported CABEI in its efforts to stimulate private investments in Central America and has lent this regional bank over \$45 million for re-lending to the private sector. The most recent loan for \$30 million was signed in September 1970 and is part of a \$100 million program to increase exports and tourism in the CACM region. Lastly, A.I.D. approved in August 1971 a \$6 million loan to the Latin American Agribusiness Development Corporation SA (LAAD), part of a \$40 million program to augment the capabilities of a private sector effort to finance Central American Agribusinesses, with emphasis on the promotion of non-traditional exports. It is anticipated that LAAD's efforts will contribute to the eventual development of a capital market for the Central American region.

The above A.I.D. activities alone total \$114.6 million and are making a sizeable impact in the region. The need to support these programs with a corps of well trained business managers is urgent. It is one of the most pressing problems facing Central American business and government countries today. The INCAE program is designed to do this, and its expansion program is well timed to make a very significant contribution to the region's development by improving the quantity and quality of trained managers.

We believe that INCAE can make a significant contribution to the region's development by training the skilled managers needed to modernize Central American business practices. Achievement

of the desired effects requires that INCAE impart relevant, high quality training and that its graduates be given the opportunity to employ their skills. Both of these conditions are being met. INCAE's efforts to make its programs relevant to Central American needs are reflected, for example, in the increasing attention given to the problems of agribusiness and export diversification. Evaluation of INCAE's programs by ROCAF staff and by senior staff of the Harvard Business School confirm that the quality is in fact outstanding. The high salaries offered to MBA graduates and the rapid raises they receive after employment (see below) give further evidence of the quality of the training. The high salaries are also a reflection of the high level of responsibility being given to INCAE graduates (A list of the positions held by INCAE graduates can be found in Annex III).

An important side benefit of the INCAE program is its positive effect on regional integration. INCAE students, the future business leaders of their respective countries, are developing contacts and friendships with the men who will be their counterparts in neighboring countries. How much this will strengthen the integration movement is impossible to predict, but it is certain to have a significant effect over the long term. In at least one case INCAE graduates from several countries have already joined together to form a new regional business. Experience in the U.S. and elsewhere has shown that the contacts made in business schools are so important to businessmen that they become an important feature drawing students to those schools.

The ROCAF Human Resources sector strategy gives major emphasis to the development of higher education centers of excellence, i.e. CSUCA and FUPAC programs per se, and the proposed loan will further this objective. INCAE has already established itself as a regional institution of the highest quality.

The second study, commissioned by AID, was prepared in 1965 by Dober, Walquist and Harris of Cambridge, Massachusetts. Using two different methodologies, their report estimated that demand between 1970 and 1980 would be for a minimum of 100 new managers per year and more likely would be for around 400 per year.

In 1966, a study performed by CSUCA, the Central American Council on Higher Education, found that the earlier studies had grossly understated the potential demand. According to CSUCA the INCAE output will only begin to meet Central America's needs.

The latest study, based on a sample of 62 businesses in the Managua area, was conducted by INCAE during the intensive review. This more up-to-date view of the Central American business community once again confirmed that the potential demand for INCAE graduates justifies the planned expansion.

The findings of all of these studies are very persuasively substantiated by historical evidence. In view of the lack of experience in Central America with MBA programs and the fact that INCAE was a new and untried institution, the strength of the demand for graduates has been quite remarkable. A survey including half of the first two graduating classes indicated not only that the graduates were all quickly employed in responsible positions but that the average salary upon leaving INCAE was \$2,500 (54%) more than they were making when they entered. A more recent survey of all INCAE graduates working in Managua (including 21 from the 1971 class) showed that upon leaving INCAE, graduates earned an average \$803/month as compared with \$504/month when they entered the program, an average increase of 59%. The study also showed that MBA

graduates were apparently performing very well in their jobs! the average salary one year after graduation was over \$1,000/month. Forty-three out of the forty-five students graduating in 1971 had accepted positions even before leaving the Institution. (The results of these studies are included in Annex XI.)

(b) Admissions

Even after discouraging applications from those obviously not qualified INCAE received 184 applications in 1971 for 65 places. The demand for admission to the MBA program has been such that INCAE has been able to be very selective.

The field from which future MBA students might be drawn is very large relative to INCAE's planned enrollment. Central America's undergraduate university enrollment in 1969 was approximately 52,500 and growing by more than 10% annually. More than 6,000 Central Americans will be graduating annually from Central American and foreign universities. In view of the salaries MBA graduates are receiving, INCAE should experience no dearth of applications and should easily be able to select 90-100 outstanding applicants for admission.

2. Advanced Management Program (AMP)

The potential demand for the AMP is a function of three variables: the total population to which the programs are directed, the attractiveness of the programs relative to price and the adequacy of the promotional means which are used to advise managers of the availability of the programs.

The CSUCA study mentioned above estimated the number of decision-making managers in Central America in 1963 at more than 10,000. Since only 363 Central

Americans have thus far had the opportunity to attend an AMP, the population from which to draw participants is more than adequate.

The attractiveness of the program to the decision-making manager in Central America and Panama has been increased each year. As a result of conscientious evaluation efforts, the program has been modified each year to make it more relevant to the needs of region's managers.

The promotion efforts for the first programs, conducted through the National Committees and through visits by the limited INCAE staff, were found to be inadequate to generate sufficient demand to fill the AMPs to capacity. As noted above (pages 5, 21) INCAE learned a great deal from those early efforts and is adjusting its promotional efforts accordingly.

At the same time the cost of the program has increased, and this additional cost has been passed on to the participants in a higher subscription fee (\$1,600). Almost all participants are sponsored by their firms, and this fee for a six week course is not excessive even for relatively small businesses. Discussions with the National Committees and with graduates of the Advanced Management Programs in the last two years have indicated that the increased utility of the program as a result of its increased relevance to the needs of the Central American managers effectively offsets the price factor.

### 3. Seminars

The assessment of the potential demand for short seminars is again the function of the three variables, the management population, attractiveness and adequacy of promotion.

The basic plan for the conduct of seminars during the coming year is to increase the number from 6 seminars in 1970-1971 to 28 seminars in 1975-1976. These 28 seminars will be of three types: the company or organization oriented seminar, new top-level general seminars, and general seminars similar to those which INCAE has frequently conducted in the past.

Company and Private Organization Seminars: Eight of the 28 seminars are planned to be conducted for private organizations. Three seminars of this type have been conducted before by INCAE.

Annex XIII is a list of requests for private seminars and seminar information received recently by INCAE. Although 1971 was the first year that INCAE conducted programs for private companies, the number of requests has already grown to the point that INCAE has sufficient requests for the total number of programs originally planned for the next two years. This increased interest by private companies in INCAE seminars is evidence of the adequacy of this market for the limited number of seminars INCAE is planning to conduct in the coming years.

"Presidential" Seminars: Included within the plans for 28 seminars, are two new top-level seminars of two different types. One type would be for top-level administrators who have taken the Advanced Management Program. Admission would be limited to 30 participants. A second type of seminar is being designed for divisional managers. This program will probably be conducted within the countries over an extended period of time, and will aim at developing the administrative competence of divisional managers.

The attractiveness of these seminars to the potential participants has not been tested, as the se-

minars are under design. However, INCAE has had discussions with a significant number of the graduates of the Advanced Management Programs, and they have indicated a desire for the refresher seminars. In addition, INCAE has held discussions with divisional managers in a number of the larger companies, and they have indicated a need for seminars concerning divisional interaction. INCAE anticipates no difficulty in promoting these seminars.

Public Seminars: The public or general seminar, covering a specific subject area and directed toward executives from various companies and organizations, has been the most common type of seminar conducted by INCAE. Forty-one such seminars have been conducted for a total of 1166 participants since 1966. It is planned to increase the number of these seminars from 5 in 1970-1971 to 18 in 1975-1976. The demand for this type of seminar exists, but the quantification of such demand is difficult.

Of the 18 seminars per year, it is planned to conduct 6 of them in Colombia. These will be co-sponsored by INCOLDA, the Colombian Management Association, which has co-sponsored the Advanced Management Programs with INCAE for the last two years. INCOLDA has training centers in each of the larger cities of Colombia. The Board of Directors of INCOLDA has asked for 15 seminars a year, but plans are being made to conduct six seminars in Colombia beginning this year with possible increases in the following years. Planning for 6 seminars per year in Colombia with INCOLDA is a modest program.

The remaining 12 public seminars will be conducted in the Central American area. INCAE has developed a series of seminars which have been successfully conducted in the last four years.

The plan of putting on 12 seminars would mean only two seminars per country (including Panama). INCAE has already put on as many as 5 seminars in Panama and three in Managua within one year, all of which were attended by the planned number of participants.

Given the better image and broader dissemination of information about INCAE in general and the seminar program in particular within the Central American area, INCAE anticipates sufficient market for more than 12 seminars a year in Central America.

#### 4. Research Grants

The projected levels of demand (revenue) for this program are conservative and should be easily reached. The Agribusiness research project, sponsored by the Bank of Nicaragua with IDB funds, is expected to provide INCAE with a total of approximately \$500,000 by 1974/75. This one project alone will provide 55% of the revenue projected from research grants during the period of loan implementation. Negotiations are already underway with several other institutions which have approached INCAE concerning possible new research projects. (See page 24). No difficulty in reaching the planned dollar level of research grants is anticipated.

#### 5. Consulting Services

The existence of a potential demand for INCAE's consulting services is confirmed by private consulting done by INCAE faculty members, approaches already made to INCAE by potential clients, and our

knowledge of considerable consulting being done in C. A. by public sector organizations on both a regional and national level.

Most INCAE professors have used part of their free time to do private consulting to augment their income. In an effort to bolster the institution's financial position, the faculty has agreed to offer INCAE any consulting contract with a potential of 10 or more days of consulting work.

A number of firms and government organizations have already made preliminary requests to INCAE for assistance. (A list of these potential consulting activities is included in Annex XIV, A&B). Through its Associate Program, AMPs and seminars, INCAE is in almost constant communication with the firms most likely to require business consultants.

There is also a potential for a considerable amount of consulting work as a result of programs being developed by the Central American Bank for Economic Integration (CABEI) the Latin American Agribusiness Development Corp. (LAAD), the Central American Institute for Industrial Technology (ICAITI), national financieras and Central Banks. AID is itself indirectly financing a substantial amount of this consulting activity through its loan and grant programs. INCAE will maintain contact directly with many of the potential clients, and through ROCAP will keep abreast of AID financing in this field.

#### 6. Married Student Housing

Presently 68 students are married out of an enrollment of 119. INCAE anticipates that in the future a minimum of 70-80 students of the planned 170 will be married.

Since INCAE has no housing for its married students at the present time and thus lacks any experience with married student housing, a survey was taken of all married students to test the potential demand. The results showed that virtually all married students except Nicaraguans would prefer housing at INCAE if it were available at reasonable rents. Most Nicaraguans would prefer to maintain the residences they established before going to INCAE. Of the 70-80 married students INCAE expects to have in the future, about 80% or 56-64 will be non-Nicaraguans. The forty (40) planned married student housing units should therefore be fully utilized.

The total cost/unit including basic furniture will be about \$10,000. Rents are not expected to exceed \$140/month, but will be sufficient to cover all maintenance, depreciation of furnishings, and insurance and to pay interest and amortization on the AID funds used to plan and construct the units. If for some unanticipated reason the ratio of married students to total enrollment were to fall, married student housing units could be rented to several single students.

#### 7. Single Student Housing

Single students are obligated to live on campus. Out of an enrollment of 170 students, 90-100 are expected to be single. After completion of 30 additional places, INCAE will be able to provide 90-100 places depending upon whether one or two students occupy the 10 existing small rooms designed for single occupancy. As in the case of married student housing, the total costs will be passed on to the students in the form of rental fees.

In conclusion, the Loan Committee is convinced that INCAE has the potential of making an important con-

tribution to the economic development of the region and that the market will produce sufficient effective demand so that these potentialities can in fact be realized.

C. Impact on U.S. Economy and Effect on Balance of Payments

The investment being made in INCAE, both with our funds and Central American funds, is in the long-run interests of the U.S. Not only will the Institution contribute to the achievement of Alliance goals, but more specifically INCAE's effects on the private sector in Central America should generate substantially increased trade potential with the U.S.

The immediate effect of this loan on the U.S. economy will be to generate a balance of payments drain equal to the local cost financing, approximately \$3.35 million. These funds will be converted into Nicaraguan cordobas and the dollars will become available to the Bank of Nicaragua for financing general imports. Given the limited export earning potential of the Nicaraguan economy and the strong import demand, it is reasonable to anticipate that virtually all of the estimated \$3.35 million will be used to finance imports. Imports from the U.S. represent 37 - 38% of total Nicaraguan imports. Another 25% of Nicaraguan imports come from the other CACM countries with which settlements are made in dollars and which import 35% of their respective imports from the U.S. Thus, within a short period of time a large proportion of the loan funds can be expected to flow back to the U.S. to finance additional imports. In the long-run, of course, the funds flow back to the U.S. again in the form of amortization and interest payments.

Because most of INCAE's billings are convertible in foreign exchange (see page 58), the Institution itself will generate more than enough foreign exchange to repay the AID loan. Repayment in dollars should thus not constitute a problem for the Nicaraguan balance of payments.

#### IV. FINANCIAL ANALYSIS

##### A. Role of the A.I.D. Loan

INCAE cannot survive as a quality institution without the financial support of this loan, comprising three major inter-related components designed to expand its facilities and programs. Expanding programs to an efficient size is essential if INCAE is to achieve the desired development impact and if the institution is to reach financial viability within a reasonable period.

##### 1. Program, Administration and Staff Development

As is generally the case with educational programs, INCAE's programs involve high developmental costs. In the past these developmental costs have been financed from AID grants and from donations. In planning the expansion and improvement of existing programs and the development of new programs INCAE has estimated that \$2.5 million, about 40% of its operating expenditures over the next four years, are appropriately classified as development costs. (See page 17). Under the proposed loan plan, AID would finance \$1.3 million (about 54%) of these development costs.

##### 2. Construction and Equipment

The planned increases in plant and equipment will house and support INCAE's existing, new and expanded programs. The cost of the required construction and equipment totals \$1.5 million and will be financed fully out of the loan. Of this amount, \$660,000 will be for student housing and will eventually pay for itself. The remaining \$840,000 must be amortized out of general revenues.

##### 3. Student Loan Fund (SLF)

As noted earlier, the SLF will not only be self-sufficient but will generate considerable profit for the Institute.

B. Self-Help

1. Central American Contribution

INCAE was constituted as an international institution by the Government of Nicaragua operating principally in the five Central American countries, plus Panama and Colombia. Because of its international status, INCAE does not enjoy an automatic subsidy from any governmental budget as do national institutions, nor does it receive support as a CACM regional institution in the sense that SIECA, ICAITI and ODECA do. To date the Government of Nicaragua has been the only C.A. government to contribute to INCAE. By June 30, 1971, the GON had made cash grants totalling \$394,000.

While it might be desirable to obtain annual subsidies from each of the C.A. governments, this does not appear to be feasible given stringent national budgetary conditions and existing frictions in the Common Market. Moreover, the governments regard INCAE as an institution primarily serving the private sector and feel that the private sector should provide the necessary support.

The total amount of Central American resources that have gone into INCAE has been considerable. By June 30, 1971, INCAE had received more than \$3.3 million of Central American resources. These funds have come from the following sources:

Tuition, fees and other service charges	\$1,237,000	a/
Gifts from the private sector	\$1,079,000	b/
Gifts from the public sector (GON)	\$ 394,000	
CABEI loan for initial construction	<u>\$ 645,000</u>	
Total	\$3,375,000	

a/ Includes \$80,000 from the Bank of Nicaragua for Agribusiness Research.

b/ Includes \$140,000 contribution from United Fruit Co. and a land contribution of \$118,000 as carried on INCAE's books.

2. Loan Contribution

It is interesting to note that even though INCAE requires the AID loan to undertake a major expansion program to improve the size and quality of the school, the Institute will still be financing 56% of the program, as shown below:

Financed by AID Loans

U.S. Dollar Costs (100%)	550	6%
Local Currency Costs (40%)	<u>3,350</u>	<u>38%</u>
	3,900	44%

Financed by INCAE

Local Currency Costs (60%)	<u>5,000</u>	<u>56%</u>
Total	8,900	100%

C. Financial Statements

INCAE's audited Balance Sheets and Profit and Loss Statements for the past three fiscal years - 1969 through 1971 - are shown in Annex V Exhibits A, B, and C. A recent financial statement (not audited) for the six-month period ending December 31, 1971, is shown in Annex V Exhibit D. An examination of the statements reveals the following:

1. Net Worth

This is valued at \$664,441 as of December 31, 1971, and reflects a 33% increase over the past three and a half years. The current ratio of debt to equity is well within bounds (1:1). When the AID loan is disbursed the ratio will rise to 15:1, which would be excessive. This is more than offset by the fact that INCAE values

its land (Fixed Asset) at the acquisition value of \$118,000. Current market valuation of the land is close to \$2 million, which gives INCAE a true net worth of around \$2.4 million and an acceptable debt/equity ratio of about 2:1.

2. CABEI Loan: \$645,000

This represents INCAE's total long-term debt to date. The purpose and terms of this loan are described earlier in the paper (page 10). Under the present amortization schedule INCAE pays \$32,000 in interest annually and the first payment of principal is due in December of this year. It would not be possible for INCAE to service this debt under its original terms and to take on the \$3.9 million AID loan. CABEI has agreed to amend its outstanding loan agreement with INCAE to permit an easier repayment schedule in accordance with INCAE's "ability to repay", and to release all collateral which now secures its loan in exchange for a Government of Nicaragua guarantee. The GON has already issued a Letter of Intent to INCAE covering the guarantee of the CABEI loan as well as the guarantee of the proposed AID loan. ROCAP believes the CABEI/INCAE negotiations will be resolved soon. As a condition precedent to initial disbursement, INCAE is required to submit a letter from CABEI confirming that it has agreed to amend the terms of the CABEI loan to permit repayment "in accordance with Borrower's capacity to repay" (see S & R, page viii for full wording of condition).

3. Working Capital

At this time INCAE has insufficient working capital (current assets minus current liabilities) to properly service its increasing short-term debts (bank loans, supplier credits, etc.) This is a major problem to INCAE, and has been compounded because INCAE has had to secure expensive short-term commercial bank financing to pay its bills which only increases the debt. A further problem is that \$100,000 in cash is "tied" to secure student loans extended by a commercial bank. INCAE will not be able to use these funds until repayments by the student

borrowers are made over the next four to five years. While there is no instant solution to INCAE's working capital problem, a partial solution over the short run is tied to an aggressive fund raising campaign, higher earnings from tuition fees as the enrollment rises, and revenues from other activities such as consulting (see Financial Plan below). INCAE has recently taken action to vigorously enforce repayments under the earlier student loan program discussed above which involves about \$124,000 in funds outstanding. Also, since the intensive review INCAE has moved toward improving its working capital situation by exercising firmer budget control and by holding down its expenditures some of which had, in the past, been increasing far out of proportion to the school's income-generating capacity (see below).

#### 4. Profit and Loss

An analysis of INCAE's income and expenses over the past three and a half years reveals the following:

INCAE Profit and Loss Statements (Condensed)  
( '000 omitted)

	<u>JUNE 30*</u>			<u>DECEMBER 31 **</u>
	<u>1 9 6 9</u>	<u>1 9 7 0</u>	<u>1 9 7 1</u>	<u>1 9 7 1</u>
<u>Income</u>				
Total	851,100 (100%)	593,900 (100%)	912,800 (100%)	594,600 (100%)
ROCAP Grant Contribution	209,100 ( 25%)	74,000 ( 12%)	269,200 ( 29%)	203,600 ( 34%)
Net Operating Income (Fees - excludes Donations, Misc., etc.)	255,100 ( 30%)	264,400 ( 45%)	463,700 ( 51%)	259,000 ( 44%)
Donations, Fund Raising, Misc.	386,900 ( 45%)	255,100 ( 43%)	179,000 ( 20%)	132,000 ( 22%)
<u>Expenditures</u>	753,300 ( 88%)	583,100 ( 98%)	890,500 (97.6%)	475,000 ( 80%)
<u>Net Income</u>	<u>97,800</u> ( 12%)	<u>10,800</u> ( 2%)	<u>22,300</u> (2.4%)	<u>119,600</u> ( 20%)

\* 12 Months

\*\* 6 Months

ROCAP grant support for operating and development expenses will terminate when AID loan funds become available. It is anticipated that a concluding \$100,000 grant will be made during the first quarter of FY 73 (see Implementation Schedule, page 72 ). The \$1.3 million in loan funds earmarked for financing Development Costs will replace the need for continued grant assistance - hence the importance of this type of financing (see page 17 ). INCAE cannot be expected to move immediately from being an institution long dependent on grant support to a self-financing entity; therefore, the financing of Development Costs on a declining basis over a four-year period to FY 1975/76 is designed to bridge this gap. After FY 75/76 INCAE will be self-sufficient. (See Financial Plan below).

#### D. Local Cost Financing

If INCAE is to develop, the furnishing of local currency assistance is unavoidable because INCAE's needs are local currency in character. They involve the construction of buildings, in which the foreign exchange component is small, and the establishment of a student loan fund consisting entirely of local currency. There is no rational means through which foreign exchange expenditures could be substituted for local expenditures and still meet the objectives of the loan because these objectives have been developed to meet the actual needs of the situation.

The present financial condition of INCAE has been examined in depth with the resulting judgment that the INCAE contribution to the program of approximately \$5 million is the maximum which it can finance for the period of the project.

Therefore, if the objective of establishing INCAE as a viable, self-financing institution is to be achieved, the local currency expenditures necessary must be financed from external sources, and, in this case, A.I.D. is the financing source of last resort.

### E. Currency Devaluation

The Government of Nicaragua will guarantee the AID loan; therefore, in the event of a devaluation of the Nicaraguan Cordoba, AID will be protected from losses if INCAE were unable to generate the required amounts of local currency for conversion into dollars covering payments of principal and interest to AID. The potential loss that would accrue to INCAE would be surprisingly small, since only 20% of its total revenues (billings) are in Cordobas in the form of fees from its Nicaraguan students and programs. The remaining 80% in revenues are received in the other currencies of Central America and in those of Panama and Colombia. If a devaluation did occur, INCAE would probably increase its tuition fees the following year to adjust for such devaluation. Its loss would only relate to the actual year of such devaluation and only affect the earnings from the country where the devaluation occurred. Such losses could probably be absorbed by INCAE without difficulty.

Other factors that tend to minimize the risk of loss from devaluation are the stability of the Cordoba, which has maintained its current value for more than twenty-five years, and a GON history of maintaining adequate foreign exchange reserves and a good debt-servicing capacity.

### F. Financial Plan

#### 1. Summary

Special emphasis was placed on the preparation of the financial projections during the intensive review. The income figures were conservatively estimated and expenses, in certain cases where doubts arose, were increased to allow for contingencies. Evidence that these projections are on target is verified by INCAE's profit and loss statement for the six-month period ending December 31, 1971. Overall income and expenses are about one-half of the figures projected for FY 71/72. A detailed Source and Application of Funds and projected balance sheets and Profit and Loss

Statements have been prepared over a twelve-year period (up to FY 1984) and are shown in Annex V Exhibit E. A consolidated Source and Application of Funds covering the four-year disbursement period of the AID loan is shown below. It illustrates among other things the improvement in INCAE's cash position expected during this period.

PROJECTIONS  
FOUR YEAR DISBURSEMENT PERIOD  
July 1, 1972 to June 30, 1976

Source and Application of Funds  
(consolidated - in thousands US\$)

Sources

Operating Income (including donations) \$4,976

Borrowings, AID Loan

Student Loan Fund (SLF)	\$1,000
Construction	1,250
Program Development	1,300
Equipment	205
Technical Assistance	<u>145</u>

Total AID Loan \$3,900

Donations, Restricted	20
Student Loans (Prior Program)	94
Liquidation of Investments	<u>25</u>

Total \$9,015

Uses

Regular Operating Expense (INCAE Funds) \$3,595 (60%)

Program Development Expense

INCAE Funds \$1,172 (19%)

AID Loan 1,300 (21%)

\$2,472 (40%)

Sub-Total \$6,067 (100%)

Student Loan Fund - <u>AID Loan</u>	1,000
Construction - " "	1,250
Equipment - " "	205
Technical Assistance - " "	145
Repayment Bank Loan	<u>76</u>

Total \$8,743

Increase/Decrease in Cash \$ 272

Opening Cash Balance \$ 301

Closing Cash Balance \$ 302

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Closing Cash includes amount tied to secure loans.

## 2. Strategy

In an effort to eliminate INCAE's annual deficits, a number of cost-saving measures have already been undertaken and others are planned. Among the more significant of these was a reorganization of the kitchen/dining room facilities to permit them to be run on a break-even basis. Perhaps the potentially most important of the changes presently being undertaken is the implementation of a new accounting and cost control system developed during the intensive review. All expenses are now grouped under categories which correspond to INCAE's programs (MBA, AMP, seminars, etc.) or major support centers (library, dining, translations and reproduction, etc.). This system will permit better planning, budget to actual comparisons, and cost control.

While budget reductions of a small magnitude are possible, a joint INCAE-ROCAP financial review indicated that reducing costs by an amount sufficient to eliminate the current annual deficits would require severe measures which would have negative effects on the quality of the institution's programs. Deterioration of INCAE's programs would not only lessen INCAE's development impact, but would also be financially counterproductive to the extent that the institution's ability to attract students, research grants and consulting business and to solicit financial contributions from the private sector would also be lessened. The plan being undertaken therefore includes cost-cutting to the extent feasible without generating these negative effects, but the emphasis is placed on increasing revenue. Increasing revenue requires both a stepped-up fund raising campaign and an expansion of the revenues earned from INCAE's programs (without proportional increases in expenditures).

### (a) Development of INCAE Programs

Revenues from INCAE's programs are the primary source of the institution's income. These revenues will be increased more rapidly than costs by

taking advantage of potential economies of scale. Financial analysis of INCAE's programs shows that, when compared to average revenue, fixed costs are relatively high and variable costs are relatively low.

These relationships are particularly apparent in the MBA program. With the present MBA enrollment of only 119 students, INCAE still requires a faculty capable of teaching the entire program, researchers to help prepare case materials, a library, classrooms, dining and kitchen facilities, etc. When the student body is increased to 170, revenue from tuition will rise 43%. Operating expenditures will also rise as this expansion takes place, but most of the increase in costs is explained by expenditures to increase quality which would be required even at the present enrollment level. The planned increase in enrollment itself has little effect on operating expenditures.

Revenue from the MBA program will rise further because tuition, presently \$1800/year, will be raised by \$100 each year until it reaches \$2200/year. As a result of these measures INCAE will be able to make substantial improvements in the program and still eliminate the deficit between revenue and direct costs.

	<u>1971/72</u>	<u>1972/73</u>	<u>1973/74</u>	<u>1974/75</u>	<u>1975/76</u>
Direct Costs (\$000)	245	306	324	360	360
Tuition Revenue (\$000)	<u>198</u>	<u>242</u>	<u>273</u>	<u>322</u>	<u>366</u>
Surplus/Deficit	-47	-64	-51	-38	+ 6

While important financial improvements are thus anticipated in the MBA program, this is not to suggest that the program will ever pay its own way financially. There are many indirect costs (library, translation and educational materials, etc.) which are not included in the above figures and which cannot be financed out of tuition revenues. With or without the expansion

in enrollment, many (and sometimes costly) improvements must be made in these supporting activities if INCAE is to reach its educational goals. The cost of these measures must be borne by other programs and by the private sector through donations.

Economies of scale also will be exploited in other programs, specifically the AMP, seminars, and research projects. By 1975/76, the net contribution of these programs is expected to reach \$71,000, \$41,000 and \$24,000 respectively. (See Annex V, Exhibit E.)

In addition to expanding present activities to exploit potential economies of scale, INCAE will develop a profit-making consulting business. To date INCAE professors have been accepting small consulting contracts in their free time, but the institution has directly undertaken little activity in this field. Initial samplings of the demand for larger institutional-type consulting services have proven quite favorable. (See Economic Analysis). During the period of loan disbursement, considerable effort will be expended to develop consulting as an INCAE activity. Fixed costs for administration and travel are expected to be about \$27,000 per year and variable cost will equal 50% of billings. INCAE must, therefore, do about \$54,000 of consulting business just to break-even. The financial implications of the proposed plan for consulting services are shown in the following:

<u>Consulting</u>	<u>1971/72</u>	<u>1972/73</u>	<u>1973/74</u>	<u>1974/75</u>	<u>1975/76</u>
Costs	\$ 15,000*	57,000	67,000	77,000	77,000
Revenues	<u>20,000</u>	<u>60,000</u>	<u>80,000</u>	<u>100,000</u>	<u>100,000</u>
Net Income	5,000*	3,000	13,000	23,000	23,000

\* Costs do not include related administration and thus Net Income is overstated.

(b) The SLF as a Source of Income

In addition to meeting the financial needs of INCAE students, the Student Loan Fund will provide INCAE with a much needed source of income (See Annex V, Exhibit E). During the first six years of operation it is expected that all of INCAE earnings from the Fund will be needed for new loans and to cover costs of losses, administration, etc. Thereafter earnings will substantially exceed costs (including interest, reserve for losses and amortization payments to AID) and requirements for new loans. With ROCAP's permission, these "net profits" from the SLF will be available for repayment of long term debt and will play an important role in INCAE's achieving financial viability.

(c) Raising Donations

As the figures above indicate, considerable financial support from the private sector has been obtained. Donations received from the private sector as of 6/30/71 totaled more than \$1 million. Because these funds were needed for pressing operational and capital expenditures, INCAE has not been able to date to build an endowment fund (See Section G below).

In evaluating the institutions' performance and future prospects in obtaining donations it must be remembered that Central America has no tradition of contributing to private educational institutions. Although donations are tax deductible in Central America, low tax rates and ease of tax avoidance make the tax write-off a rather ineffective stimulus to individual giving. Fund-raising efforts have also suffered as a result of a general decline in the prospects for regional integration and, particularly in the last year, from somewhat depressed business conditions.

INCAE and ROCAP feel, however, that significantly increased donations can be raised in the future as more and more business leaders become aware of the value of INCAE's programs. This will occur as more MBA graduates take up positions in private enterprise

and as a result of increase AMPs and seminars. Thus the planned increases in INCAE's services should not only increase the institution's development impact and contribute directly through fees to its financial viability, they should also contribute indirectly to its financial viability through increased donations.

Greater visibility by itself is unlikely to generate a markedly increased level of contributions, and INCAE recognized the need to devote considerably more attention to its fund-raising activities. The administrative staff is already being supplemented and fund-raising techniques and plans are being integrated more closely with INCAE's other external affairs, including AMPs, seminars and the INCAE Associates Program. The staff involved in these efforts will include the Rector and two full-time staff members based at INCAE and field representatives located in each of six countries. These field representatives will spend about half of their time visiting local firms to follow-up on graduates, develop consulting prospects, recruit candidates for INCAE's programs, and solicit contributions. Efforts to obtain increased C.A. government support will also be stepped-up.

INCAE has already prepared a detailed plan of action. The plan includes a description of the regional and national organization, the steps to be followed and their timing in each country, techniques for soliciting funds, assignment of responsibilities, and an extensive list of possible contributors to be contacted.

G. Conclusion: Capacity to Repay

The financial projections show that with the support of the \$3.9 million loan, INCAE will be able to eliminate its operating deficit, improve its working capital position, and service its long-term debt. The projections further show that by the end of the four-year disbursement period, FY 75/76, INCAE will for the first time have generated from its own revenues a reserve for contingencies and an endowment fund for a combined

total of about \$267,000. Such results would not be attainable without AID's most concessionary terms and a revised repayment schedule of the CABEI loan (now being negotiated) that will permit INCAE to make repayments commensurate with "its ability to repay".

Two major activities financed under the AID loan, the Student Loan Fund and student residence construction, will facilitate INCAE's repayment capacity inasmuch as they will be placed on a self-financing basis and will pay for themselves, including provisions for amortizing the AID loan. These two activities aggregate about \$1.7 million, or 44% of the AID loan.

To conclude, repayment prospects of the loan at the terms recommended are favorable. The loan is timely and provides INCAE with the financing it needs to improve quality and expand. As the financial statements indicate, the programs to be developed will be sufficiently diversified so that a failure in any one will not jeopardize the overall viability of the institution. A great deal of effort went into the preparation of the financial projections, and they look promising, as noted above. In the final analysis, of course, they are only estimates, and the true test of the program lies with INCAE itself in the ability of its management to exercise the leadership and financial discipline which will be required to make the Institute truly viable. The job will be challenging and the potential for success is high. INCAE probably ranks today as the leading business school in Latin America, and has the potential of ranking with the best business schools in the United States.

V. ENGINEERING ANALYSIS

A. General Description

The engineering and construction phase of the loan project consists of the final design, preparation of plans and bid documents, and construction of the INCAE campus facilities required for the expansion program in which the enrollment will be increased from 119 to 170 full-time students by FY 75/76. This will involve additional class or lecture and seminar rooms, faculty office space and on-campus housing for both single and married students, with necessary basic furnishings.

In order to make more efficient use of existing space a new cafeteria-kitchen will be constructed and the area now occupied by this facility will be converted for academic use. Present faculty office space will be used for the administrative and research units, thus making it possible for the Institute to bring all operations on campus and release rental space in Managua. Air conditioning will be installed only in the two existing and one new classrooms and the new faculty offices.

Architectural design of academic, office and complementary structures, and single student housing will be similar to the existing buildings. Married student housing, to be located in the lower sector of the campus, will be of the two-story townhouse style, modest but adequate, and will be compatible with living accommodations to which the average married student is accustomed.

Adequate land on the campus is available for the expansion program. Site development will consist of grading, extension of existing water, sewerage, and electrical lines, a new septic tank system for the married student housing, short access streets and parking lots for the married student housing and new cafeteria service area.

The various elements to be constructed and the estimated costs are listed in Annex IV, Exhibits A and B. Preliminary sketches of the campus layout, building floor plans, and outline specifications are shown in Annex IV, Exhibit C. The total cost of construction and basic furnishings is estimated at \$1,279,000. It is anticipated that \$227,920 represents foreign exchange costs, and \$1,051,080 represents local currency costs.

B. Technical Feasibility

Academic and office space requirements have been worked out by members of the INCAE faculty and administrative staff, drawing heavily on experience gained since the institution started. Student housing needs are based on a study of the present and previous student bodies with consideration given to the increase in enrollment. The firm of Diseños y Construcciones, S. A., Managua (D y C) has assisted in planning of the expansion program and has prepared all of the preliminary plans and estimates.

The Institute intends to employ D y C or some other qualified architect-engineer firm from Code 941 countries to prepare final plans, specifications and bid documents and supervise construction. The firm of D y C is considered by USAID/Nicaragua to be qualified, having performed A-E services for the Las Mercedes Airport Terminal, Ruben Dario Theater, Banco de America, and Cartography-Geology buildings, the later being financed under A.I.D. Loan 524-L-012. In addition to these major structures in Managua the firm has been the principal advisor to the National University of Nicaragua in planning the new Managua Campus.

Construction will be carried out by contract under public bidding. Firms from Nicaragua and Code 941 countries will be eligible to participate in the bidding for construction, however, during the last six years U. S. and firms from other CACM countries have rarely shown interest in bidding on building

construction projects in Nicaragua. There are several Nicaraguan firms with demonstrated capacity to carry out the required construction in a satisfactory and timely manner.

The material components are expected to be at the local vs imported ratios of 80/20 for construction materials and 50/50 for furniture. No material shortages are anticipated. Estimated foreign exchange requirements are shown in Annex IV, Exhibit A.

The majority of the construction labor force will be from Nicaragua regardless of the nationality of the prime contractor. The projected rate of new building construction in Nicaragua is such that ample labor, both skilled and unskilled, will be available.

C. Implementation Plan for Design and Construction

As indicated above, final planning, design, evaluation of bidding and supervision of construction will be performed by a consulting A-E firm to be retained by the Institute and financed under the loan.

A projected schedule is presented in Annex IV, Exhibit D, showing the proposed timing for planning and design, bidding and award, construction of the various components, and the relationship to the academic periods. Construction is divided into two phases, the facilities that are critical to the academic activities, and those which can be constructed at any time. It is anticipated that final design and construction will require a period of twenty four months.

D. Maintenance

Maintenance of the INCAE Campus facilities is a responsibility of the Administrative Director. The staff

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includes the chief of maintenance and twelve full-time assistants, with two technicians for the phone system and interpreting equipment on a retainer basis. The current annual budget for maintenance is \$23,500 of which \$19,000 is for salaries and \$4,500 for materials.

In addition to maintenance there is the janitorial staff for the day to day cleaning operations.

The Administrative Director plans to increase the maintenance staff by two after the completion of the expansion program. The materials budget will also be increased.

An inspection of the campus indicates that the maintenance is excellent and in fact it is one of the better maintained facilities in Nicaragua. No maintenance problems are anticipated.

#### E. Summary

The preliminary plans for the expansion program, including various alternatives, have been reviewed and estimated costs compared with current construction costs in and around Managua. Section 611 requirements are considered to be satisfied.

The Engineering office of the USAID/Nicaragua will be responsible for the monitoring of the construction phase of the project. In addition, the ROCAP Engineering office will provide assistance on an as-needed basis.

## VI. LOAN ADMINISTRATION

### A. Covenants

The Summary and Recommendations Section describes the covenants that will be included in the Loan Agreement. One covenant of special importance requires INCAE to submit its annual budget to ROCAP for review and evaluation until the loan is fully disbursed. Within thirty days after the budget is submitted, a review of the project will take place, the purpose of which will be to compare performance to date against the previous years' budgets, and to agree on the next year's budget and the allocation of AID funds. New budgets will also be compared closely with the financial projections INCAE submitted to support its loan application. Certain specific operating income and expense items will be carefully evaluated, such as tuition fees, working capital, construction costs and Program Development costs financed with AID funds. Continuing disbursements will depend on the results of these evaluations.

An important condition precedent to initial disbursement of loan funds [See S & R Section II-3-(b)], requires INCAE to revise its accounting methods to permit better financial control of all programs: MBA, AMP, Seminars, Consulting, Fund Raising, Cafeteria, Research Projects Publications, etc. (See page 17 ). This will make it possible to determine the income and expense of each activity and to determine its profit or loss. The accounting control system relates closely to the above annual budget review, in that it will be possible, in advance, to establish the yearly budget for each activity, and to monitor that activity (quarterly or even monthly) if desired. The budget, therefore, will be used as the primary program monitoring device for making comparisons with actual experience, and to highlight problem areas at an early stage.

After the joint review of the annual budget by ROCAP and INCAE, and upon receipt of a disbursement request, an initial advance of AID funds will be made for Development Costs, based on INCAE's needs for a specified period of time, but not exceeding 90 days. Subsequent reimbursements will be made, supported by INCAE's request and the following documentation.

1. Record of actual expenditures by each Cost Center; showing the percentages and amounts of Development Costs and Regular Operating Costs within each Cost Center.
2. Percentages and amounts of above Development Cost expenditures within each Cost Center equaling the amount of the request for AID funds.
3. Copy of previously approved budget showing a comparison between actual expenditures to date - broken down into Development Costs and Regular Operating Costs. A further comparison would show amount of AID funds budgeted for Development Costs in each Cost Center against the amount of development Cost disbursements made to date.
4. Certification from the Rector that the amount of Development Costs budgeted to each Cost Center and amount for which reimbursement is requested is true and correct.

B. Implementation Plan

1. Authorization of Loan: April, 1972. 1972.
2. Presentation of draft Loan Agreement to INCAE: May, 1972. 1972.
3. Negotiation and signing of Loan Agreement: July, 1972. 1972
4. Terminal date for initial conditions precedent to disbursement (includes A/E consulting services, Student

Loan Fund and Program Development Costs): November, 1972.

5. Terminal date for conditions precedent to disbursement for the construction of buildings and procurement of equipment: January, 1973.

6. Drawdown of AID Funds

	<u>June 30</u>				
	('000 Omitted)				
	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>Total</u>
Construction	\$ 450	\$ 530	300		\$1,280
Student Loans	200	225	275	300	1,000
Development Costs	400	350	300	250	1,300
Office, Teaching					
Equipment	100	35	35	35	205
Technical Assistance	<u>30</u>	<u>30</u>	<u>30</u>	<u>25</u>	<u>115</u>
	\$1,180	\$1,170	\$940	\$610	\$3,900

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7. Terminal date for issuance commitment documents: June 30, 1976. Terminal date for final disbursement: September 30, 1976.

8. Control Monitoring and Reporting

AID funds will be disbursed through letters of commitment to cover foreign exchange costs of the project. The USDO (or RDO) will obtain local currency to cover local costs. After initial conditions precedent to disbursement have been met, and upon the written request of INCAE, a local currency advance to cover estimated 90 day requirement will be made to provide INCAE with working funds. Upon

subsequent INCAE requests for reimbursement, and approval of the supporting documentation (outlined above for financing Development Costs), ROCAP will replenish the initial advance as a revolving fund with the amount requested.

INCAE will appoint a Project Manager who will be responsible for coordinating all activities under the loan. He will report directly to the Rector, and will among other things be responsible for complying with AID procedures (i.e. Small Business Notification, etc.) and reporting requirements, such as monthly loan status reports, quarterly progress reports, shipping reports, annual budgets, audited financial statements and any special reports that AID may require from time to time.

AID financed construction contracts will be awarded to the lowest qualified bidder. The pre-qualification procedure will be used in selection of prospective construction contract bidders, and only those selected on this basis will be invited to bid. The construction will be a unit price bid type contract. INCAE will contract an Architect/Engineering firm, satisfactory to AID, which will (1) prepare final plans and specifications (2) prepare bid documents (3) review bids and recommend selection of the contractor(s) and (4) supervise the construction and certify payments to be made to the construction contractor. Technical monitoring of the construction elements of the project will be the responsibility of the USAID/Managua Engineering Officer assisted by ROCAP Engineers on an as-needed basis.

ROCAP's Chief Human Resources officer will be responsible for overall project monitoring. Fiscal control of loan funds will be the responsibility of the ROCAP Controller who may supplement his review of the documents with periodic spot checks of INCAE's accounting procedures. ROCAP's Capital Development Officer will

assist the Human Resources Officer and Controller in these matters, as appropriate. He will be responsible for maintaining compliance with the conditions of the loan agreement, evaluating all reports that are submitted, and forwarding same to AID/W.

AID 1240-2. (A-71)

CHECKLIST OF STATUTORY CRITERIA

(Alliance for Progress)

In the right-hand margin, for each item write answer or, as appropriate, a summary of required discussion. As necessary, reference the section(s) of the Capital Assistance Paper, or other clearly identified and available document, in which the matter is further discussed. This form may be made a part of the Capital Assistance Paper.

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended.

App. - Foreign Assistance and Related Agencies Appropriations Act, 1971.

MMA - Merchant Marine Act of 1936, as amended

COUNTRY PERFORMANCE

Progress Towards Country Goals

1. FAA § 208; §.251(b).

A. Describe extent to which country is:

*(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.*

The C.A. countries (and INCAE through its Programs) are making increased and appropriate efforts in this area through agriculture projects which will help increase food production and means for storage and distribution.

*(2) Creating a favorable climate for foreign and domestic private enterprise and investment.*

Directly through this loan and through the CACM and other means the C.A. countries are making positive efforts to create a favorable climate for private investment both on a national and regional basis.

*(3) Increasing the public's role in the developmental process.*

The C.A. countries have been working individually and through the CACM (and with INCAE) to increase the public's role in the development process.

*(4) (a) Allocating available budgetary resources to development.*

The C.A. countries have been allocating considerable available budgetary resources to both national and regional development.

*(b) Diverting such resources for unnecessary military expenditure (see also Item No. 16) and intervention in affairs of other free and independent nations. (See also Item No. 14.)*

No C.A. country is diverting resources for unnecessary military expenditures, nor is any C.A. country intervening in other countries' affairs.

*(5) Willing to contribute funds to the project or program.*

INCAE will make a substantial contribution of funds to the project.

*(6) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.*

(6) All C.A. countries are making progress toward respect for the rule of law, freedom of expression and of the press, and recognition of the importance of individual freedom, initiative, and private enterprise as is witnessed by the absence of press and other censorship and the encouragement of initiative and private enterprise in agriculture, industry and housing. Some progress is being made in political reforms such as tax collection improvements and land tenure arrangements.

*(7) Adhering to the principles of the Act of Bogota and Charter of Punta del Este.*

(7) The C.A. countries have been adhering to the principles of the Act of Bogota and the Charter of Punta del Este. Furthermore of the CACM is in accordance with the goals therein stated.

*(8) Attempting to repatriate capital invested in other countries by its own citizens.*

(8) A major purpose of C.A. integration is to make the common Market more attractive to Central American capital. The establishment of a graduate school of business administration should aid in the return to Central America of Capital invested elsewhere.

*(9) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.*

(9) C.A. integration is an effective response to the vital economic, political and social concerns of the people in the region and to its problems of development; and this loan in particular will provide opportunities for self-help.

*B. Are above factors taken into account in the furnishing of the subject assistance?*

Treatment of U.S. Citizens

2. FAA § 620(a). *If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?*

There is no evidence of any such debt owed to a U. S. citizen by a C. A. government.

3. FAA § 620(e)(1). *If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing-ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?*

There is no evidence that any such action has been taken by C.A. governments or their agencies.

4. FAA § 620(o); Fishermen's Protective Act, § 5. *If country has seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters,*

No C. A. country has taken any such action.

a. *has any deduction required by Fishermen's Protective Act been made?*

N/A.

b. *has complete denial of assistance been considered by A.I.D. Administrator?*

N/A.

Relations with U.S. Government and Other Nations

5. FAA § 620(d). *If assistance is for any productive enterprise which will compete in the U.S. with U.S. enterprise, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?*

This assistance is not for a productive enterprise. However if a problem arises with respect to any proposed sub-project, it will be dealt with in accordance with policies in effect at this time.

6. FAA § 620(j). *Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action, of U.S. property?*

No Central American country has permitted such action.

UNCLASSIFIED

ANNEX I

Page 6 of 19

7. FAA § 620(l). *If the country has failed to institute the investment guaranty program for the specific risks of expropriation, in convertibility or confiscation, has the A.I.D. administration within the past year considered denying assistance to such government for this reason?*
- All Central American countries have signed investment guaranty agreements with the U.S. and have instituted the program.
8. FAA § 620(q). *Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country?*
- No Central American country is in default for payments due under any A.I.D. loan.
9. FAA § 620(t). *Has the country severed diplomatic relations with U.S.? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?*
- No Central American country has severed diplomatic relations with the U.S.
10. FAA § 620(u). *What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearage taken into account by the A.I.D. Administrator in determining the current A.I.D. Operating Year Budget?*
- All Central American countries are current in their U.N. obligations.
11. FAA § 620(a). *Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba?*
- No Central American country trades with or assists Cuba in any way nor permits ships or aircrafts under its flag to carry cargoes to or from Cuba.

12. FAA § 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?
- The Secretary of State has determined that each Central American country is not controlled by the international Communist movement.
13. FAA § 620(f). Is recipient country a Communist country?
- No Central American country has a Communist Government.
14. FAA § 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the U.S. or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?
- No Central American country is involved in or is planning such subversion or aggression.
15. FAA § 620(n),  
Does recipient country furnish goods to North Viet-Nam or permit ships or aircraft under its flag to carry cargoes to or from North Viet-Nam?
- No Central American country furnishes goods, or permits ships or aircrafts under its flag to carry goods, to North Vietnam.
- Military Expenditures
16. FAA § 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points to be coordinated with PPC/MAS.)
- No Central American country spends an excess amount of its country's budget or foreign exchange reserves for military equipment. No Central American country has purchased sophisticated weapon systems.

CONDITIONS OF THE LOAN

General Soundness

17. FAA § 201(d). *Information and conclusion on reasonableness and legality (under laws of country and U.S.) of lending and relending terms of the loan.*

The proposed terms and conditions of the loan are legal under Central American and U.S. laws and reasonable for Central America at the time.

18. FAA § 251(b)(2); §.251(e). *Information and conclusion on activity's economic and technical soundness. If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds \$100,000, has country submitted to A.I.D. an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?*

The proposed project appears to be both economically and technically sound, and there are strong assurances that the funds will be used in sound manner.

AID 1240-2

19. FAA § 251(b). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.
- Financial projections and INCAE operating principles indicate that the project will be financially successful and that INCAE has the capacity to repay the loan.
20. FAA § 611(a)(1). Prior to signing of loan will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?
- The financial and other plans necessary to carry out the assistance have been obtained together with a reasonably firm estimate of the cost to the U.S. of the assistance.
21. FAA § 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purposes of loan?
- No further legislative action will be required within the Central American countries for accomplishment of the purposes of the loan.
22. FAA § 611(e). If loan is for capital assistance, and all U.S. assistance to project now exceeds \$1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?
- The Mission Director has so certified.
23. FAA § 251(b). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.
- No other free world financing appears to be available for this project.

Loan's Relationship to Achievement  
of Country and Regional Goals

24. FAA § 207; § 251(a). Extent to which assistance reflects appropriate emphasis on; (a) encouraging development of democratic economic, political, and social institutions; (b) self-help in meeting the country's food needs; (c) improving availability of trained manpower in the country; (d) programs designed to meet the country's health needs, or (e) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and voluntary agencies; transportation and communication; planning and public administration; urban development; and modernisation of existing laws.

This loan will support and directly encourage import areas of economic, political, and social development, especially agribusiness, non-traditional exports, investment banking and related institutions. Goals (a), (b), (c), and (e) will be emphasized by INCAE through its programs.

25. FAA § 209. Is project susceptible of execution as part of regional project? If so why is project not so executed?

The project is regional in nature and is being executed and coordinated on a regional basis.

26. FAA § 251(b)(3). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realisable long-range objectives.

The activity is closely related to and consistent with other development activities and will directly contribute to the long-range objectives of the CACM.

AID 1240-2

19. FAA § 251(b). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.
- Financial projections and INCAE operating principles indicate that the project will be financially successful and that INCA has the capacity to repay the loan.
20. FAA § 611(a)(1). Prior to signing of loan will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?
- The financial and other plans necessary to carry out the assistance have been obtained together with a reasonably firm estimate of the cost to the U.S. of the assistance.
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Loan's Relationship to Achievement  
of Country and Regional Goals

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- This loan will support and directly encourage important areas of economic, political, and social development, especially agribusiness, non-traditional exports, investment banking and related institutions. Goals (a), (b), (c), and (e) will be emphasized by INCAE through its programs.
25. FAA § 209. *Is project susceptible of execution as part of regional project? If so why is project not so executed?*
- The project is regional in nature and is being executed and coordinated on a regional basis.
26. FAA § 251(b)(3). *Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realizable long-range objectives.*
- The activity is closely related to and consistent with other development activities and will directly contribute to the long-range objectives of the CACM.

AID 1240-2

27. FAA § 251(b)(7). *Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.*
- The activity will directly contribute to the achievement of self-sustaining growth for the five countries by strengthening CACM private sector management particularly agribusiness and non-traditional export potential and by helping to provide foreign exchange earnings.
28. FAA § 281(a). *Describe extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private, and local governmental institutions.*
- The loan will directly contribute to the assuring of maximum participation in the task of economic development through the improvement of public and private managers and the promotion of private sector activities and greater public participation therein.
29. F.A § 281(b). *Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.*
- The program recognizes clearly the particular needs, desires and capacities of the people of the region and indirectly supports and furthers the other goals.

30. FAA § 601(a). Information and conclusions whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.
- The loan will directly serve to encourage the flow of international trade and aid private initiative, and will indirectly further efforts of the countries to attain the other goals.
31. FAA § 619. If assistance is for newly independent country; is it furnished through multilateral organizations or plans to the maximum extent appropriate?
- The assistance is not being furnished to a newly independent country.
32. FAA § 251(h). Information and conclusion on whether the activity is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its annual review of national development activities.
- The activity is consistent with the findings and recommendations of CIAP.
33. FAA § 251(g). Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America.
- This activity will have direct effect on the cooperative movement in Central America.

AID 1240-2

34. FAA § 209; § 251(b)(8).  
*Information and conclusion whether assistance will encourage regional development programs, and contribute to the economic and political integration of Latin America.*

This assistance will directly encourage regional development programs through increased economic and fiscal stability in the CACM and will thereby also contribute to the economic and political integration in the region.

Loan's Effect on U.S. and A.I.D Program.

35. FAA § 251(b)(4); § 102.  
*Information and conclusion on possible effects of loan on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving the U.S. balance of payments position.*

The loan will have little effect on the U.S. economy; no effect on areas of labor surplus; and will be furnished in a manner as consistent as possible with improving the U.S. balance of payments position.

36. FAA § 601(b). *Information and conclusion on how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).*

Through improved economic and financial stability in the region the loan will encourage increased U.S. private trade and investment abroad through increased facilities for tourists and businessmen in the area, and the furnishing of goods and services by the U.S. private sector.

AID 1240-2

37. FAA § 601(d). If a capital project, are engineering and professional services of U.S. firms and their affiliates used to the maximum extent consistent with the national interest?

Any engineering or professional services financed under the loan may be provided by U.S. firms or their affiliates.

38. FAA § 602. Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and services finance by the loan.

U.S. small business will be ensured the opportunity to participate equitably in the furnishing of goods under the loan.

39. FAA § 620(h). Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?

No.

40. FAA § 621. If technical assistance is financed by the loan, information and conclusion whether such assistance will be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.

Such technical assistance as may be financed under the loan will be contracted from private enterprise.

AID 1240-2

41. FAA § 252(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.

All loan funds will go directly to private enterprise, (or intermediate credit institutions).

Loan's Compliance with Specific Requirements

42. FAA § 201(d). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter?
43. FAA § 608(a). Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.
44. FAA § 604(a). Will all commodity procurement financed under the loan be from U.S. except as otherwise determined by the President?

Yes.

The loan agreement will so provide.

There will be no commodity procurement financed under the loan.

AID 1240-2

45. FAA § 604(b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market prices?
- There will be no commodity procurement financing under the loan.
46. FAA § 604(d). If the host country discriminates against U.S. marine insurance companies, will loan agreement require that marine insurance be placed in the U.S. on commodities financed by the loan?
- Yes.
47. FAA § 604(e). If off-shore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?
- There will be no offshore procurement of any agricultural commodities financed under the loan.
48. FAA § 611(b); App. § 101. If loan finances water or water-related land resource construction project or program, is there a benefit-cost computation made, insofar as practicable, in accordance with the procedures set forth in the Memorandum of the President dated May 15, 1962?
- The loan will not finance a water or water-related land resources construction project or program.
49. FAA § 611(c). If contracts for construction are to be financed, what provision will be made that they be let on a competitive basis to maximum extent practicable?
- Any construction contracts financed under the loan will be required, through the loan agreement, to be let competitively to the maximum extent possible.

AID 1240-2

50. FAA § 620(g). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property?
- The loan agreement will preclude such use of funds.
51. FAA § 612(b); § 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services.
- INCAE is making a substantial contribution to the project. No U.S. owned foreign currency is available for this project.
52. App. § 104. Will any loan funds be used to pay pensions, etc., for military personnel?
- No.

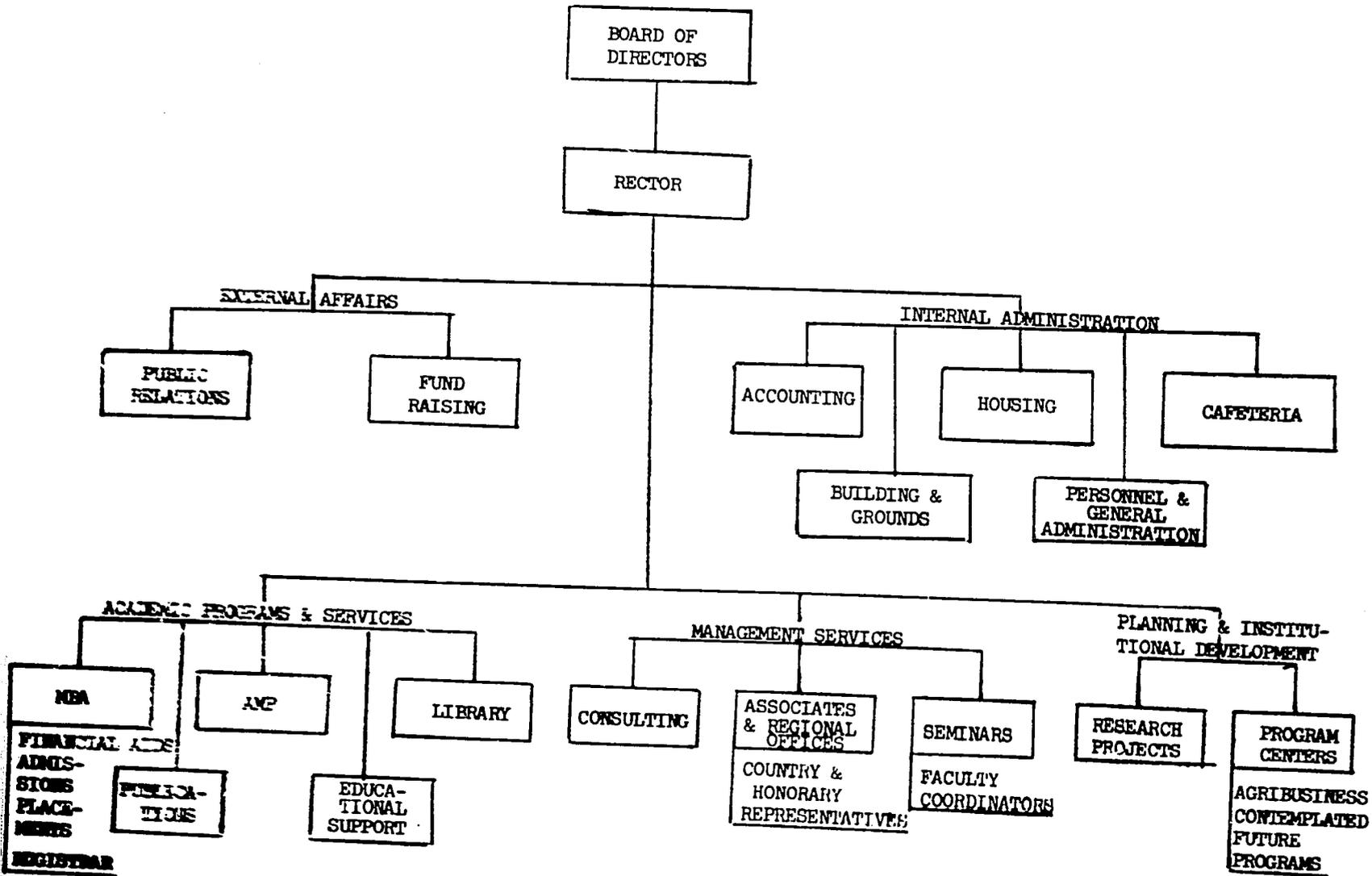
AID 1240-2

53. App. § 106. *If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms?* Yes.
54. App. § 108. *Will any loan funds be used to pay U.N. assessments?* No.
55. App. § 109. *Compliance with regulations on employment of U.S. and local personnel for funds obligated after April 30, 1964 (Regulation 7).* These regulations will be complied with.
56. FAA § 636(i). *Will any loan funds be used to finance purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States, or any guaranty of such a transaction?* No.
57. App. § 401. *Will any loan funds be used for publicity or propaganda purposes within U.S. not authorized by the Congress?* No.

AID 1240-2

58. FAA § 620(k). *If construction of productive enterprise, will aggregate value of assistance to be furnished by U.S. exceed \$100 million?*
- The aggregate value of assistance to the project to be furnished by the U.S. will not exceed \$100 million.
59. FAA § 612(d). *Does the U.S. own excess foreign currency and, if so, what arrangements have been made for its release?*
- No excess foreign currency is owned by the U.S. in the region at the present time.
60. MMA § 901.b. *Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed with funds made available under this loan shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.*
- This requirement will be complied with.

INCAE - TENTATIVE ORGANIZATION CHART



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 ANNEX II  
 Exhibit A - Page 1 of 1

INCAE BOARD OF DIRECTORS AND STAFF

THE BOARD:

Francisco de SOLA  
Socio Administrador  
H. de Sola e Hijos, Sucesores  
San Salvador, El Salvador  
Chairman

Alberto SMITH  
President  
Banco El Ahorro Hondureño  
Tegucigalpa, Honduras

Manuel CANO  
Gerente General  
Compañía de Alumbrado Eléctrico  
de San Salvador  
San Salvador, El Salvador

Ernesto CRUZ  
Rector  
Instituto Centroamericano de  
Administración de Empresas  
Managua, Nicaragua

Rodolfo JIMENEZ-BORBON  
Gerente  
Hacienda Juan Viñas, S.A.  
San José, Costa Rica

Eduardo MONTEALEGRE-CALLEJAS  
Gerente General  
Banco Nicaraguense  
Managua, Nicaragua

Guillermo de SAINT MALO  
President  
Servicios Financieros de Chiquí  
Panamá, Panamá

Rafael K. SABBAGH  
Director Gerente  
Desarrollos e Inversiones de  
Centro América, Ltda.  
Guatemala, Guatemala

Alberto VASQUEZ-LALINDE  
Presidente  
Fábrica de Tejidos del Hato  
Medellín, Colombia

THE FACULTY:

Ernesto CRUZ  
Ph.D., Harvard University  
M.A., Harvard University  
D. Derecho, Universidad  
Nacional de Nicaragua  
Rector

David Craig KORTEN  
Ph.D., Stanford University  
M.B.A., Stanford University  
A.B., Stanford University  
Visiting Associate Professor  
Academic Director of the  
M.B.A. Program

Enrique ALVARADO-BARRIOS  
I.T.P., Harvard University  
Lic. Admón. de Empresas  
Universidad de San Carlos de  
Guatemala  
Associate Professor & Director of  
Educational Support Services

James Edward AUSTIN  
D.B.A. (cand.), Harvard University  
M.B.A., Harvard University  
B.B.A., University of Michigan  
Instructor and Director of the  
Agribusiness Program

Pedro BELLI  
Ph.D., University of  
California at Berkeley  
A.B., Amherst College  
Assistant Professor

Stanley Michael DEAN  
D.B.A. (cand.), Harvard University  
M.B.A., Harvard University  
B.A., Brigham Young University  
Instructor

Edward Montgomery GRAHAM  
D.B.A. (cand.), Harvard University  
M.B.A., Harvard University  
B.S., Massachusetts Institute  
of Technology  
Instructor

José Nicolás MARIN XIMENEZ  
D.B.A., Harvard University  
M.B.A., Tulane University  
Lic. Rel. Industriales, Universidad  
Ibero-Americana  
Associate Professor & Director of  
the Advanced Management Program

Robert Wilson MULLINS  
D.B.A., Harvard University  
M.B.A., Harvard University  
Professor of Business Administration  
School and Director of the Continuing  
Education Program

Edward Allen NELSON  
Ph.D., University of California  
at Los Angeles  
M.B.A., University of California  
at Los Angeles  
B.A., University of California at  
Los Angeles  
Associate Professor

Rodolfo PAIZ ANDRADE  
D.B.A. (cand.), Harvard University  
M.B.A., Harvard University  
Ing. Civil, Universidad de San  
Carlos de Guatemala  
Instructor

Harry Wallace STRACHAN  
D.B.A. (cand.), Harvard University  
J.D., Harvard University  
B.A., Wheaton College  
Instructor

Christophe VENGHIATTIS  
M.B.A., Harvard University  
B.A., William March Rice University  
Instructor

RESEARCH ASSOCIATES:

John C. ICKIS  
M.B.A., Harvard University  
B.A., Miami University  
Research Associate

Jaime ROMAN  
M.B.A., Instituto Centroamericano  
de Administración de Empresas  
Research Associate

Billy Joe ROSS  
M.B.A., University of the Americas  
B.A., Texas A.&M. University  
Research Associate

Alberto SARTHOU  
M.B.A., Harvard University  
B.A., B.S., De La Salle College,  
Manila, Philippines  
Research Associate

ADMINISTRATIVE OFFICERS:

Ernesto CRUZ  
Ph.D., Harvard University  
M.A., Harvard University  
D. Derecho, Universidad Nacional  
de Nicaragua  
Rector

Ernesto MORALES  
M.B.A., INCAE  
Lic. en Derecho, Universidad de  
Costa Rica  
Institutional Relations Director

Manuel Enrique ORTIZ  
M.B.A., INCAE  
B.B.A., University of California  
at Los Angeles  
Director of Promotion and Development

Humberto VALLEJO  
M.B.A., INCAE  
Lic. Admin. Empresas, Escuela de  
Administracion y Finanzas de Medellin  
Director of Admissions

CURRICULUM VITAE

Francisco de SOLA

Chairman Board of Directors

Education:

- Menlo School, Menlo Park, Cal. -  
H.S. Diploma, 1927
- Worcester College, Oxford University -  
B.A., 1931
- INCAE, Curso de Alta Gerencia (Antigua  
Guatemala, 1964)
- Harvard Business School - A.M.P., 1965

Languages:

Spanish, English, French, Italian

Business:

- Socio Administrador, H. de Sola e  
Hijos, Sucesores, San Salvador, El  
Salvador
- Director:
  - Fábrica de Grasas y Aceites El  
Dorado, S. A.
  - La Cabaña, S. A.
  - Industrias Unisola, S. A.
  - La Favorita, S. A.
  - Compañía Distribuidora, S. A.
  - Construcciones Lourdes, S. A.

Public Service,  
Educational &  
Philantropic:

- Personal Representative of the  
President of El Salvador in the  
Commission for the Normalization  
of the Central American Common  
Market
- Member, Business Advisory Board,  
O.A.S.
- Chairman, Board of Trustees, Ins-  
tituto Centroamericano de Adminis-  
tración de Empresas (INCAE), Monte-  
fresco, Nicaragua
- Chairman, Board of Trustees, Centro  
Internacional de Agricultura Tropi-  
cal (CIAT), Palmira, Colombia

- Chairman, Board of Directors,  
Federación de Cajas de Crédito,  
San Salvador, El Salvador
- Trustee, Escuela Agrícola Paname-  
ricana, El Zamorano, Honduras

Distinctions:

- Knight, Order of Orange - Nassau,  
1960
- LL.D. (hon.), Williams College,  
1960
- Nomination, Menlo School Hall of  
Fame, 1969
- Distinguished Award, Harvard  
Business School Associates, 1971.



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ANNEX II  
Exhibit C  
Page 4 of 4

Introducción a la Problemática de la  
Acción Procesal (León: Editorial  
Hospicio, 1956)

Asociaciones  
Científicas y  
Profesionales

National Tax Association, Miembro

LIST OF INCAE GRADUATES (MBA) AND NAME OF EMPLOYER  
CLASS OF 1969

Mario Alonso I. Asistente Presidente Banco Central de Nicaragua Managua, D.N.	Luis Fasano Gerente General Vent Vue, S.A. Panama, R. de P.
Mauricio Argueta M. Oficina Propia (indep. consultant) San Salvador, El Salvador	Adrián Hidalgo Gerente General Super Servicio, S.A. Apartado 992 San José, Costa Rica
Mario Barboza A. Gerente de Finanzas Yoshida de Costa Rica Ltda. Apartado 418 Teléf. 253588 San José, Costa Rica	Angel Ovidio Interiano Asociación Nacional de la Empresa Privada Edificio de la Centroamericana San Salvador, El Salvador
Salvador Biguria Asistente de Jefe de la División de Promoción y Desarrollo ICAITI Avenida La Reforma 4-47 Zona 10 Guatemala, C.A.	Benigno Jiménez Asistente de Gerencia Lachner & Saenz, S.A. Apartado 10.014, Barrio México San José, Costa Rica
Mariano Buitrago S. Catedrático Universidad Centroamericana Managua, D.N.	Ricardo Lee Wong First National City Bank Apartado 555, Zona 9A Teléf: 644044 Panamá, R. de P.
Alejandro Calderón, Director Censos Nacionales Managua, D.N.	Lamberto Mantovani Director de Depto. de Organización Administrativa Dirección General de Planifi- cación y Administración Panamá, R. de P. Telef: 64-03-11
Arnoldo Cantón D. Empresa Aguadora de Managua Managua, D.N.	Raúl Martínez Analista Financiero, Depto. Industrial Banco Centroamericano de Integración Económica Apartado No. 772 Tegucigalpa, Honduras
Rodrigo De Leon Catedrático de la Escuela Administración de Negocios Universidad de Panamá Panamá, R. de P.	

CLASS OF 1969 - Continued

Markus Neuweiler  
Contralor  
Durallix, S.A.  
Guatemala, C.A.

Francisco Orellana G.  
Gerente General  
Regalado Hermanos  
1a. Calle Poniente No. 1137  
San Salvador, El Salvador

Roberto Pasquier  
Oficina de Planificación de la  
Presidencia de la República  
Managua, D.N.

Roberto Puente  
Asistente de la Gerencia General  
La Constancia  
San Salvador, El Salvador  
Avenida Independencia #526

Gastón Reyes  
Oficinas Propias (family business)  
León, Nicaragua

Jesús Rodríguez  
Asesor General  
Avicultores de Mixco Asociados  
Guatemala, C.A.

Julio César Sandoval  
Gerente General  
Corporación Financiera Industrial  
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Teléf: 40841 al 45  
Managua, D.N.

Abelardo Sánchez (Vice-Gerente)  
Banco de América  
Teléf: 21151  
Managua, D.N.

Luis Alberto Santos  
(Actualmente en Estados Unidos,  
pursuing advanced studies at  
Harvard)

Rogelio Sánchez  
Vice-Presidente  
Cámara de Diputados  
San Salvador, El Salvador

José Urrutia  
Gerente General  
Industria Calcetinera  
Centroamericana  
S.A. de C.V.  
Tegucigalpa, Honduras

Simón Vega B.  
Asistente de la Gerencia  
Implementos Centro Americanos, S.)  
Apartado No. 1904  
Santa Ana, El Salvador

Virginia Z. de Interiano  
INCAE  
San Salvador, El Salvador

CLASS OF 1970

Ana Guadalupe Alvarez  
(housewife)

Alberto Avellán  
Banco Central de Nicaragua  
Managua, D.N.

Gustavo A. Arguello  
Gerente  
Lacayo Montealegre Hnos.  
Managua, D.N.

René Cajina  
Departamento Estudios Económicos  
Banco Central de Nicaragua  
Managua, D.N.

José Cardenal  
Gerente  
Nicaragua Machinery Co.  
Managua, D.N.

Róger Duarte  
Gerente  
Gillete de Nicaragua  
Managua, D.N.

Wilfredo Galo  
Gerente  
Cooperativa Algodonera del Sur, Ltd.  
Tegucigalpa, Honduras

Marco A. López-Azmitia  
Gerente  
Bienes Raices, S.A.  
Teléf: 80204  
Managua, D.N.

J. Fernando Márquez  
Analista Financiero  
Standard Fruit Co.

Ana Delia Mendoza  
Oficina Propia  
San Salvador, El Salvador

Danilo Morataya  
(present employment unknown)

J. Dionisio Marengo  
Ingenio San Antonio  
Chichigalpa, Nicaragua

Juan D. Pastora  
Gerente de Ventas  
El Porvenir, S.A.  
Managua, D.N.

Raúl Prudencio  
Asistente de la Gerencia  
Molinos de El Salvador, S.A.  
San Salvador, El Salvador

Tomás Reyes S.  
Depto. Analisis Financiero  
Standard Fruit Co.  
La Ceiba, Honduras

Eduardo Saravia  
First National City Bank  
México, D.F.

Roberto Vega B.  
Gerente  
Brautigan Plantation  
S. Juan del Norte, Nicaragua

Ricardo J. Zelaya  
Asistente de Gerencia  
Cajas y Bolsas, S.A.  
Apartado No. 1239  
San Salvador, El Salvador

CLASS OF 1971

Jorge L. Alfaro  
Catedrático  
Universidad de Costa Rica  
San José, Costa Rica

Robert Arango  
First National City Bank  
Panamá, R. de P.

Roberto J. Atha R.  
Director Administrativo  
Instituto Centroamericano de  
Administración de Empresas  
Apartado No. 2485  
Managua, D.N.

Enrique J. Brenes  
Caldera Industrial, S.A.  
Teléf: 91459  
Managua, D.N.

Federico Brevé, Asistente a la  
Gerencia  
Oficina Zacarías Bendeck  
Tegucigalpa, Honduras

Manuel de J. Castellanos  
Gerente  
Industrias de Madera, Ltda.  
Guatemala, C.A.

Carlos Castellanos  
Gerente  
Zurn, Chamorro y Cuadra  
Boulevard Kennedy, J. 4½ Carretera  
Norte  
Managua, D.N.  
Teléf: 40824

Moisés Castro M.  
Gerencia General  
Almacén El Faro

María Concepción Castejón  
Economista Sección de  
Análisis Industriales  
Banco Central de Honduras  
Tegucigalpa, Honduras

J. Dionisio Chamorro  
Asistente Depto. de Crédito  
Banco Nicaraguense  
Managua, D.N.

Mario Chamorro  
Asistente Administrativo  
Empresa Nacional de Luz y Fuerza  
Managua, D.N.

Fabián Fuentes  
Negocio Propio

Mario A. Ganuza  
Corporación de Inversiones  
Diversas  
7o. Piso Edificio Inmobiliaria  
Managua, D.N.

Jorge González  
Gerente NOMAR  
Managua, D.N.

Hansjorg Guguolz  
Arquitectos Ingenieros, S.A.  
Apartado No. 1327  
Teléf: 40841  
Managua, D.N.

Mauricio Guirola  
Shell de El Salvador  
San Salvador, El Salvador

Manuel Gurdian  
Asistente de la Gerencia  
Inmobiliaria de Seguros, S.A.  
Edificio Inmobiliaria

CLASS OF 1971 - Continued

Armando Grimaldo, Asesor  
de la Comisión  
Comisión de Fortalecimiento de  
la Administración para el Desarrollo  
Panamá, R. de P.

Eduardo Herrera E.  
Director de Mercadeo  
Jacobó Engel e Hijos Suc.  
Guatemala, C.A.

Oscar Icabalceta  
Gerente de Producción CARNIC  
Managua, D.N.

Harvey Leach  
Contralor  
Cervecería El Aguila  
Managua, D.N.

Miguel Lou Da Costa  
Asistente Gerente de Mercadeo  
Gillette de Centro América  
7a. Calle "A" 7-11, Zona 9  
Guatemala

Emilio Martínez  
Compañía Nacional de Seguros  
de Nicaragua  
Managua, D.N.

Sebastián Méndez  
Díaz & Guardia, S.A.  
Panamá, R. de P.

Gustavo Mercado  
Gerente Operaciones Financieras  
INFISA  
Managua, D.N.

Guillermo Meza V.  
Programa de Agrindustria  
INCAE  
Managua, D.N.

Pedro Molina D.  
(present employment unknown)

Sergio U. Molina  
Departamento de Investigaciones  
Tecnológicas  
Banco Central de Nicaragua  
Managua, D.N.

Ernesto J. Morales  
Director de Relaciones  
Institucionales  
Instituto Centroamericano  
de Administración de Empresas  
Managua, D.N.

Mauricio Morales  
Ejecutivo de Mercadeo  
FLOR DE CAÑA  
F. Alf. Pellas & Co.  
Managua, D. N.

Manuel E. Ortiz  
Director de Promoción y  
Desarrollo  
Instituto Centroamericano de  
Administración de Empresas  
Apartado 2485  
Managua, D.N.

Paulino Padilla  
(present employment unknown)

CLASS OF 1971 - Continued

Allan Paredes Asistente a la Gerencia Banco Financiera Hondureña, S.A. Apartado 215 San Pedro Sula, Honduras	Winston Salinas Tabacalera Nicaraguense, S.A. Managua, D.N.
Carlos Perezalonso Ejecutivo Corporación de Inversiones Diversas S.A. 7o. Piso Edificio Inmobiliaria Managua, D.N.	Silvio Sequeira Asistente de la Gerencia Líneas Aéreas de Nicaragua (LANICA) Managua, D.N.
Marcel O. Posada (present employment unknown)	Carlos Thomae Almacenes Paiz, S.A. Guatemala, C.A.
Mario Francisco Rivera Consejo de Administración Universidad Nacional Autónoma de Honduras Tegucigalpa, Honduras	Humberto Vallejo Director de Admisiones Instituto Centroamericano de Administración de Empresas Apartado No. 2485 Managua, D.N.
Alfonso Robles Gerente CARNIC Managua, D.N.	Freddy Villagrán Laboratorios Miles Guatemala, C.A.
Jaime Román Investigador Asociado Programa Agrindustria Instituto Centroamericano de Administración de Empresas Apartado 2485 Managua, D.N.	Edwin Yllescas BID, Washington, D.C.
Ricardo Sagrera B. Gerente de Mercadeo Hilandería Salvadoreña, S.A. San Salvador, El Salvador	

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The relatively large number of graduates employed in Nicaragua may be attributed to the larger enrollments from that country and to the fact that the Institute's programs are better known there. INCAE plans to take action which will further improve the enrollment and employment distribution.

BUILDING CONSTRUCTION BY TYPE, NUMBER AND AREA Page 1 of 2

<u>ITEM</u>	<u>NO.</u>	<u>Area-m<sup>2</sup></u>
<u>ACADEMIC</u>		
Classroom ( for 100 students )	1 *	266.0
Seminar Room	4 *	92.4
Seminar Room	6	120.0
Library	1 *	354.0
		832.4
<u>FACULTY</u>		
Office - Professor	15	225.0
Office - Rector	1	30.0
Office - Secretary	11	110.0
Conference Room	1	40.0
Medical Room	1	30.0
Halls, etc.	-	152.25
		587.25
<u>COMPLEMENTARY AREAS</u>		
Cafeteria - Kitchen	1	600.0
Toilets	4	24.0
Connecting Walkways	-	110.0
		734.0
<u>STUDENT HOUSING</u>		
Married	40	3,200.0
Community and Service Building	1	100.0
Single	30	600.0
		3,900.0

TOTAL AREA

New Construction	5,341.25 m <sup>2</sup>
Remodeling *	712.40 m <sup>2</sup>
<b>TOTAL:</b>	<b>6,053.65 m<sup>2</sup></b>

( 65,137 sq. ft. )

SUMMARY OF BUILDING CONSTRUCTION AND RELATED COSTS

<u>Academic Area</u>		
Classrooms		\$ 22,727
Seminar Rooms		25,022
Library		13,636
Air Conditioning		27,836
		<u>\$ 89,221</u>
<u>Administration Area</u>		
Offices, etc.		\$ 106,880
Air Conditioning		28,429
		<u>\$ 135,309</u>
<u>Complementary Areas</u>		
Cafeteria - Kitchen		\$ 109,200
Sanitary Services		4,436
Connecting Walkways		10,000
		<u>\$ 123,636</u>
<u>Student Housing</u>		
Married		\$ 306,560
Single		73,637
Service Area		9,580
		<u>\$ 389,777</u>
	Total Building Construction:	<u><u>\$ 737,943</u></u>
<u>Site Development</u>		
Grading, electrical, water, sewer, drainage, access roads, parking, landscaping		\$ 134,900
<u>A-E Services</u>		\$ 85,000
<u>Furniture</u>		
Class and Seminar Rooms		\$ 25,000
Administration		10,400
Married Housing		60,000
Single Housing		12,600
		<u>\$ 108,000</u>
	Total:	\$ 1,065,843
	Contingencies and Inflation (20%)	213,157
	<b>GRAND TOTAL:</b>	<u><u>\$ 1,279,000</u></u>

SUMMARY - ESTIMATED AVERAGE BUILDING

CONSTRUCTION COSTS

<u>AREA</u>	<u>\$ m<sup>2</sup></u>
Academic, Faculty and Cafeteria	182.00
Academic - remodeling	55.50
Married Housing	95.80
Single Housing	122.70

SUMMARY - ESTIMATED FOREIGN EXCHANGE AND

LOCAL CURRENCY COSTS

	<u>L.C. in \$</u>	<u>F.Exch. in \$</u>	<u>Total in \$</u>
Building Construction	586,243	95,435	681,678
Air Conditioning	22,505	33,760	56,265
Site Development	128,150	6,750	134,900
A-E Services	85,000	--	85,000
Furniture	54,000	54,000	108,000
	<u>875,898</u>	<u>189,945</u>	<u>1,065,843</u>
20%	175,182	37,975	213,157
	<u>1,051,080</u>	<u>227,920</u>	<u>1,279,000</u>

OUTLINE SPECIFICATIONS

ADMINISTRATION BUILDING  
INCLUDING NEW SEMINAR ROOMS

FOUNDATIONS	Reinforced Concrete, ACI 301-66, Uniform Building Code.
STRUCTURE	Reinforced Concrete, ACI 301-66, Uniform Building Code.
EXTERIOR MASONRY	Clay Brick - Plaster Finish.
INTERIOR PARTITION	Clay Brick - Plaster Finish Wood and Glass Partitions.
ROOFING	Clay Tile over Felt and Wood Deck.
CEILING	Acoustic Tile.
FLOORING	Cement Tile, Terrazo Type.
WINDOWS	Aluminum.
DOORS	Hollow-Core.
PLUMBING	Water Pipe : PVC CS256 Storm and Drainage Pipe : PVC CS256 Plumbing Fixtures: Vitreous China CS20
AIR CONDITIONING	Central Unit - Air Cooled
ELECTRICAL	NATIONAL ELECTRIC CODE Conduit : Black - WW-C-571A Conductors : TW Wiring Devices : W-P-455A W-S-755B W-S-00896D W-C-596A

CAFETERIA AND KITCHEN

FOUNDATIONS	Reinforced Concrete, ACI 301-66, Uniform Building Code.
STRUCTURE	Columns: Reinforced Concrete Roof: Wooden Trusses Uniform Building Code.
EXTERIOR MASONRY	Clay Brick - Plaster Finish.
INTERIOR PARTITION	Clay Brick - Plaster Finish.
ROOFING	Clay Tile over Felt and Wood Deck.
CEILING	Exposed Wood Planking.
FLOORING	Cement, Tile, Terrazo Type.
WINDOWS	Aluminum and Wood Windows.
DOORS	Hollow-Core.
PLUMBING	Water Pipe : PVC CS256 Storm and Drainage Pipe : PVC CS256 Plumbing Fixtures : Vitreous China CS20
ELECTRICAL	NATIONAL ELECTRIC CODE Conduit : Black - WW-C-571A Conductors : TW Wiring Devices : W-P-455A W-S-755B W-S-00896D W-C-596A

MARRIED STUDENT HOUSING

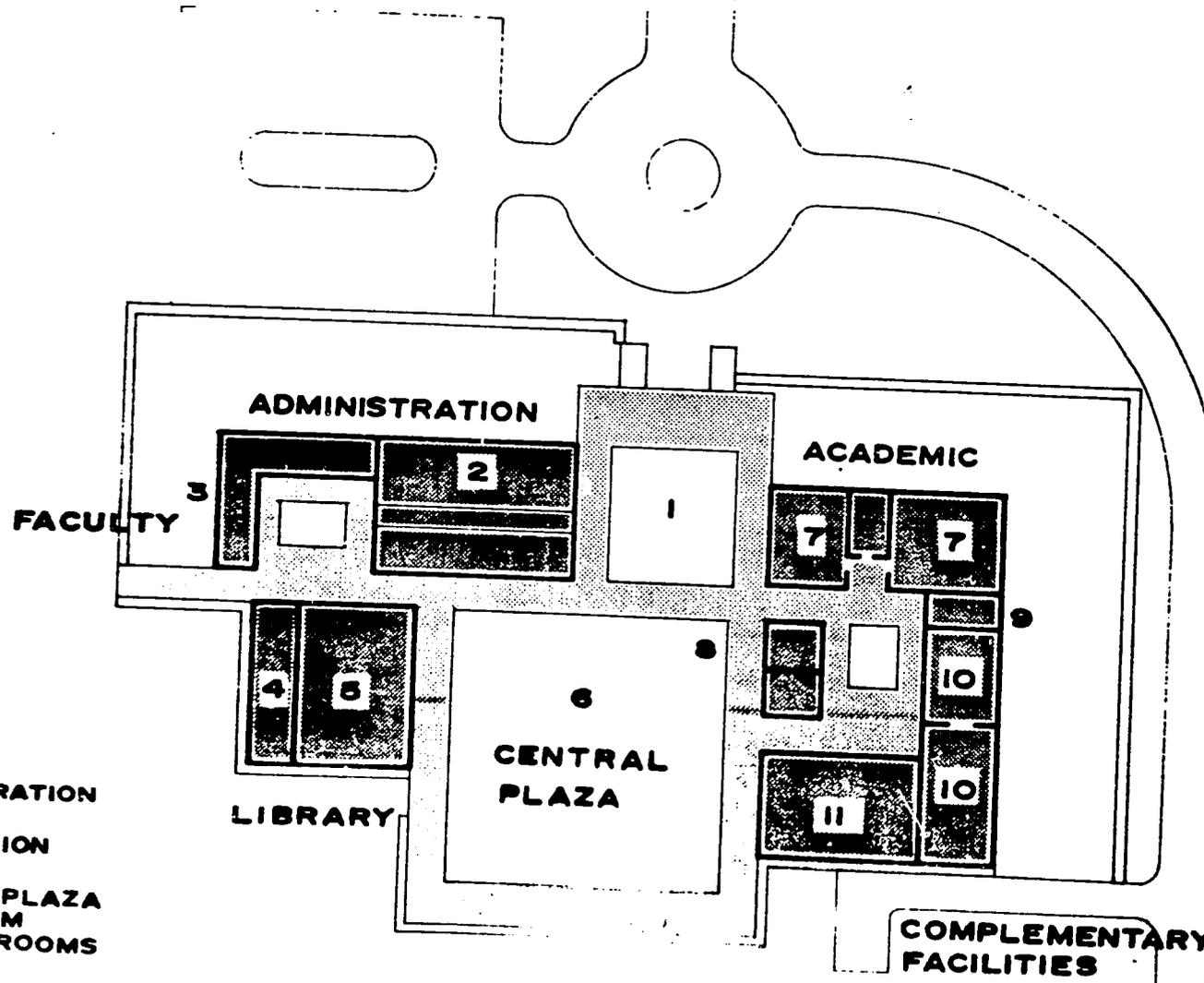
FOUNDATIONS	Reinforced Concrete, ACI 301-66; Uniform Building Code.
STRUCTURE	Walls : Reinforced Masonry Floors : Precast Concrete Units Roof : Wooden Beams Uniform Building Code
PARTITIONS	Reinforced Masonry
ROOFING	Clay Tile over Felt and Wood Deck.
CYLING	Exposed Planking and Concrete Units.
FLOORING	Cement Red Tile
WINDOWS	Wooden
DOORS	Hollow-Core
PLUMBING	Water Pipe : PVC CS256 Storm and Drainage Pipe : PVC CS256 Plumbing Fixtures : Vitreous China CS20
ELECTRICAL	NATIONAL ELECTRIC CODE Conduit : Black -WW-C-571A Conductors : TW Wiring Devices : W-P-455A W-S-755B W-S-00896D W-C-596A

SINGLE STUDENT HOUSING

FOUNDATIONS	Reinforced Concrete, ACI 301-66, Uniform Building Code.
STRUCTURE	Walls : Reinforced Masonry Roof : Wooden Beams Uniform Building Code
PARTITIONS	Reinforced Masonry
ROOFING	Clay Tile over Felt and Wood Deck
CEILING	Exposed Planking
FLOORING	Cement Red Tile
WINDOWS	Aluminum Louvers
DOORS	Hollow-Core
PLUMBING	Water Pipe : PVC CS256 Storm and Drainage Pipe : PVC CS256 Plumbing Fixtures : Vitreous China CS20
ELECTRICAL	NATIONAL ELECTRIC CODE Conduit : Black -WW-C-571A Conductors : TW Wiring Devices : W-P-455A W-S-755B W-S-00896D W-C-596A



# EXISTING FACILITIES



- 1 PATIO
- 2 ADMINISTRATION
- 3 FACULTY
- 4 TRANSLATION
- 5 LIBRARY
- 6 CENTRAL PLAZA
- 7 CLASSROOM
- 8 SEMINAR ROOMS
- 9 W. C.
- 10 DINING ROOMS
- 11 KITCHEN



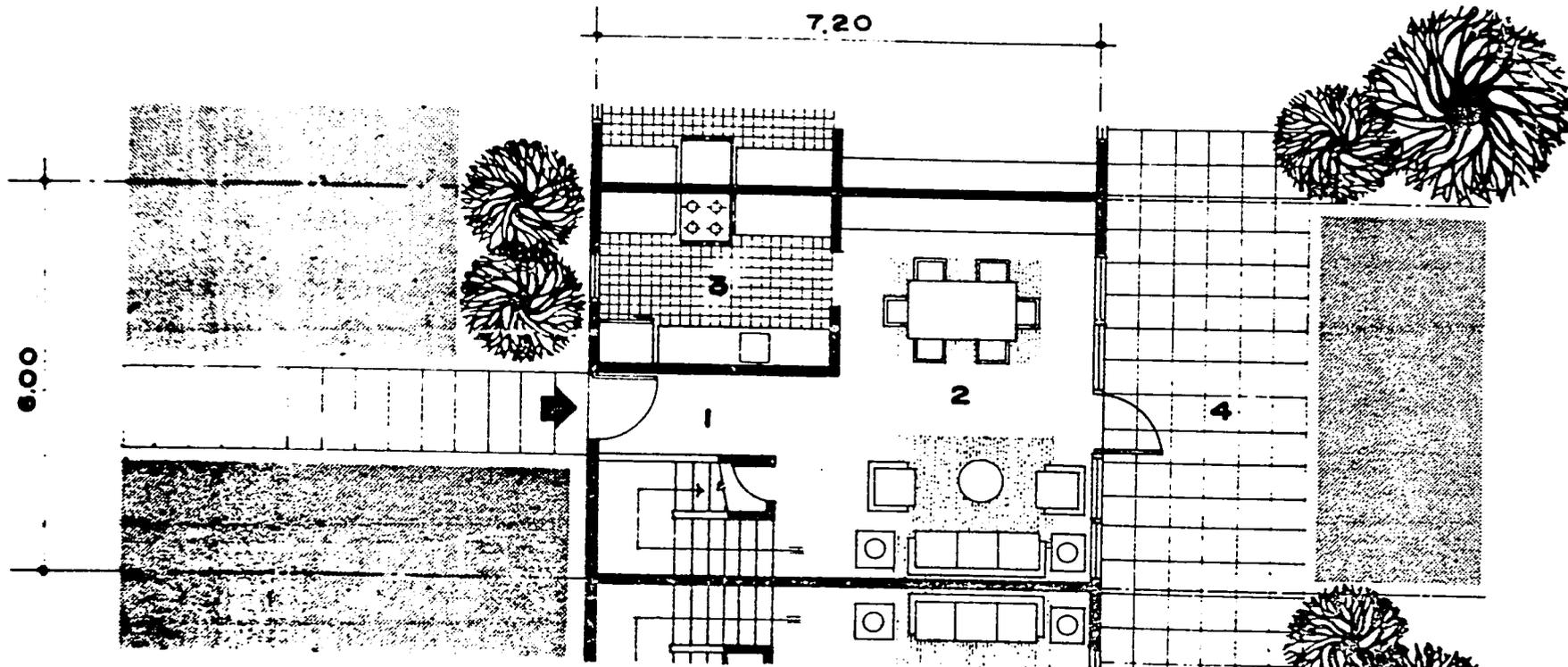
# DINING AND KITCHEN FACILITIES

UNCLASSIFIED  
ANNEX IV  
Exhibit D  
Page 3 of 6



- 1 MAIN DINING ROOM
- 2 KITCHEN
- 3 COLD STORAGE
- 4 STORAGE
- 3A EMPLOYEES W. C.
- 5B STUDENTS W. C.
- 6 PRIVATE DINING ROOM

MARRIED  
STUDENT  
HOUSING



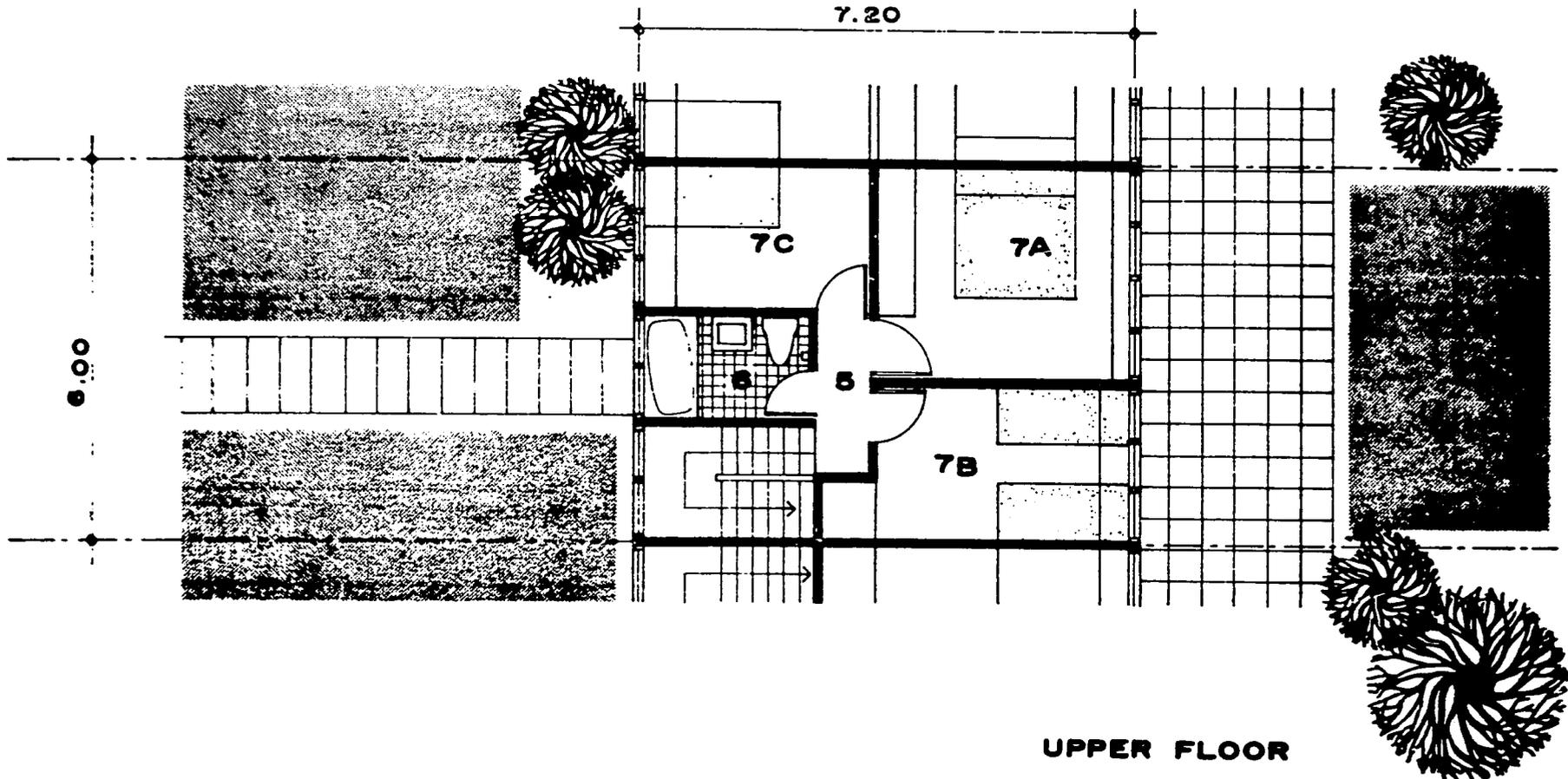
GROUND FLOOR

1	ENTRANCE	11.50 M <sup>2</sup>
2	LIVING / DINING	22.20 M <sup>2</sup>
3	KITCHEN	9.50 M <sup>2</sup>
4	TERRACE	

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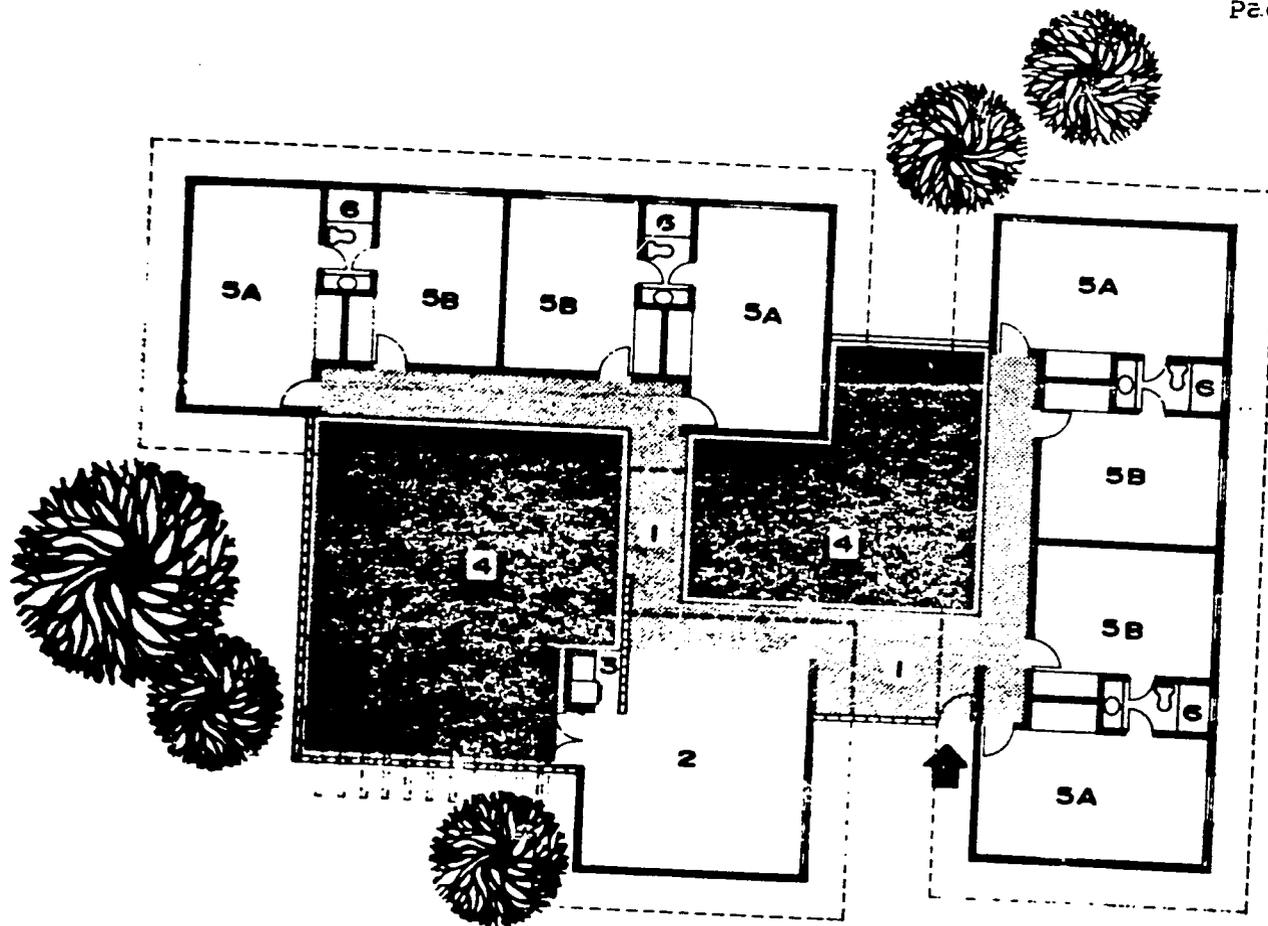
43.20 M<sup>2</sup>

**MARRIED  
STUDENT  
HOUSING**



5	CIRCULATION	2.30	M <sup>2</sup>
6	W. C.	4.50	M <sup>2</sup>
7A	MASTER BEDROOM	12.00	M <sup>2</sup>
7B	BEDROOM	10.00	M <sup>2</sup>
7C	BEDROOM	8.50	M <sup>2</sup>
		<u>37.30</u>	<u>M<sup>2</sup></u>

**SINGLE  
 STUDENT  
 HOUSING**



1	CIRCULATION	52.00 M <sup>2</sup>
2	LIVING	43.00 M <sup>2</sup>
3	PANTRY	6.00 M <sup>2</sup>
4	PATIO	6.00 M <sup>2</sup>
5A	BEDROOMS(4)	22.00 88.00 M <sup>2</sup>
5B	BEDROOMS(4)	20.00 80.00 M <sup>2</sup>
6	BATHROOMS	6.00 24.00 M <sup>2</sup>



LIST OF EQUIPMENT TO BE FINANCED UNDER AID LOANS  
(in thousands U.S. \$)

	1972/73	73/74	74/75	75/76	TOTAL
PRINTING & REPRODUCTION	26.1	-	12.0	2.2	40.3
Composers	5.0	-	12.0	-	17.0
Automatic Collator	12.0	-	-	-	12.0
Wise Stitcher	1.5	-	-	-	1.5
Addressograph	2.0	-	-	-	2.0
Paper Cutter	3.0	-	-	-	3.0
Printing	2.6	-	-	2.2	4.8
INTERPRETATION AND TRANSLATION	30.0	1.0	2.0	1.0	34.0
Simultaneous Interpreters	25.0	1.0	1.0	1.0	28.0
Dictaphone & Transcriber	5.0	-	1.0	-	6.0
OFFICE	4.9	3.0	3.0	5.8	16.7
Desk Calculators	1.9	-	-	2.8	4.7
Typewriters	2.0	2.0	2.0	2.0	8.0
Filing	1.0	1.0	1.0	1.0	4.0
AUDIO-VISUAL	6.0	-	-	1.0	7.0
Sound Movie Projector	1.0	-	-	-	1.0
Video-tape	3.0	-	-	-	3.0
Sound Recording	2.0	-	-	1.0	3.0
ELECTRONIC DATA PROCESSING	5.0	-	-	-	5.0
TELEPHONE	1.0	5.0	6.0	1.0	13.0
AUTOMOTIVE	10.0	5.0	-	10.0	25.0
LIBRARY	5.0	1.0	1.0	1.0	8.0
KITCHEN & CAFETERIA	2.0	10.0	1.0	3.0	16.0
OTHER	10.0	10.0	10.0	10.0	40.0
<b>TOTAL</b>	<b>100.0</b>	<b>35.0</b>	<b>35.0</b>	<b>35.0</b>	<b>205.0</b>

INSTITUTO CENTROAMERICANO DE ADMINISTRACION DE EMPRESAS  
BALANCE SHEET  
AS OF DECEMBER 31, 1971

A S S E T S

L I A B I L I T I E S

CURRENT ASSETS

Cash (Banks)	\$ 190,287
Accounts Receivable - courses	35,016
Funds in foreign saving account	24,136
Advances to officers and employees	3,686
Other current assets	58,099
Total Current Assets	\$ 311,224

INVESTMENTS

Shares and bonds	50,143
------------------	--------

FIXED ASSETS

Land	118,300
Buildings	666,354
Other installations	160,261
Furniture and equipment	86,004
Vehicles	17,923
Total Fixed Assets	\$1,048,842

OTHER ASSETS

Notes receivable - students	136,444
Less allowance for doubtful accounts	12,815
Other accounts receivable	2,183
Insurance	6,055
Miscellaneous Assets	157,497
Total Other Assets	314,994

TOTAL ASSETS \$1,567,706

CURRENT LIABILITIES

Accounts payable	\$ 74,511
Notes payable	18,494
Interests payable	19,716
Loans to banks - short term	57,142
Scholarships fund "Ernesto Regalado D."	7,346
Total Current Liabilities	177,209

LONG TERM LIABILITIES

Loans to Banks (CABEI)	645,000
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DEFERRED LIABILITIES

Documented Interests receivable	22,190
Deferred income - Master course	58,558
Tuition received in advance	308
Total	\$ 81,056

PATRIMONIAL

Accumulated patrimony	418,927
Restricted patrimony	155,000
Income	90,514
Total	\$ 664,441

TOTAL LIABILITIES AND CAPITAL \$1,567,706

INSTITUTO CENTROAMERICANO DE ADMINISTRACION DE EMPRESAS  
STATEMENT OF INCOME AND EXPENDITURES  
FOR THE YEAR ENDING AS OF DECEMBER 31, 1971

INCOME

MBA Program	\$ 65,100
AMP Program	112,200
Seminars	16,000
Consulting	-
Research Projects	10,000
Publications	-
Associates and Fund Raising	131,900
Housing	8,500
Cafeteria	30,700
Translation and Educational Materials	16,600
ROCAF	203,600
	<u>\$ 594,600</u>

EXPENSE

MBA Program	\$ 114,700
AMP Program	63,000
Seminars	12,200
Consulting	-
Research Projects	36,800
Publications	-
Associates and Fund Raising	29,300
Housing	3,600
Cafeteria	26,200
Translation Educational Materials	42,200
Building and Grounds	21,800
General Administration	96,600
Library	9,100
Interest	16,100
Contingencies	3,000
	<u>\$ 474,700</u>
Income during Period	\$ 119,900

INSTITUTO CENTROAMERICANO DE ADMINISTRACION DE EMPRESAS

BALANCE SHEET  
AS OF JUNE 30, 1971

A S S E T S	
<b>CURRENT ASSETS:</b>	
Cash	
Local Currency	\$ 19,246
Foreign currency	79,127
Funds in foreign saving account	44,132
	<u>142,505</u>
Notes and accounts receivable	
Notes receivable - students	56,677
Accounts receivable - courses	9,791
	66,468
Less: Allowance for doubtful accounts	( 8,245)
	58,223
Loans to students	9,676
Loans and advances to officers	9,809
	<u>77,708</u>
Book inventories, at cost	<u>1,904</u>
Prepaid expenses	
Advances	5,620
Insurance	3,787
	<u>9,407</u>
Total Current Assets	<u>231,524</u>
NOTES RECEIVABLE STUDENTS - LONG TERM	<u>93,606</u>
INVESTMENTS, at cost	<u>50,143</u>
<b>FIXED ASSETS, at cost</b>	
Land	118,300
Buildings	666,354
Other installations	160,261
Furniture and equipment	73,594
Vehicles	20,530
	<u>1,039,039</u>
<b>OTHER ASSETS</b>	<u>1,362</u>
	<u>\$1,415,674</u>

L I A B I L I T I E S	
<b>CURRENT LIABILITIES:</b>	
Bank loans payable	\$ 76,429
Notes payable	25,796
Accounts payable	61,282
Accumulated liabilities	19,687
Total Current Liabilities	<u>183,194</u>
<b>LONG TERM LIABILITIES:</b>	
Banco Centroamericano de Integración Económica	<u>645,000</u>
<b>DEFERRED LIABILITIES</b>	
Tuitions	8,738
Documented interest to students	22,280
	<u>31,018</u>
	<u>859,212</u>
<b>CONTINGENT LIABILITIES</b>	
P A T R I M O N Y	
Accumulated patrimony	<u>297,375</u>
Unrestricted donations	<u>101,802</u>
Restricted donations	<u>135,000</u>
Difference between income and (expenditures) of the period (See attached statement)	
Income	912,769
Expenditures	(890,484)
	<u>22,285</u>
	<u>556,462</u>
	<u>\$1,415,674</u>

INSTITUTO CENTROAMERICANO DE ADMINISTRACION DE EMPRESAS  
STATEMENT OF INCOME AND EXPENDITURES  
FOR THE YEAR ENDING AS OF JUNE 30, 1971

INCOME

Nicaraguan Government contribution	\$ 75,000
Contribution (ROCAP)	269,161
Financial Promotion Campaign	14,579
Other - Financial Promotion Campaign	2,458
Donations	7,800
Advanced Management Courses	113,250
Seminars	19,887
Master's Programs	230,678
Cafeteria sales (non students)	4,379
Income: Associates dues	33,375
Income: Studies and projects	19,871
Income Agribusiness	80,000
Bonds interests	4,850
Interests in saving accounts	2,368
Book sale	5,063
Other income	27,143
Other Contributions	2,907
	<u>912,769</u>

EXPENDITURES

MBA Programs expenses	253,030
Advanced Management Program Expenses	65,799
Seminars Expenses	14,656
Administrative Expenses: External	13,220
Administrative Expenses: Internal	297,076
Administrative Expenses: Room and Board	113,152
Administrative Expenses: Maintenance	43,546
Administrative Expenses: General	33,004
Administrative Expenses: Associates	29,509
Cost of Books sold	3,219
Expenses of previous periods	14,087
Studies and projects expenses	7,136
Financial Promotion Campaign	3,050
	<u>890,484</u>

Difference between Income and  
 Expenditures of the period

\$ 22,285

INSTITUTO CENTROAMERICANO DE ADMINISTRACION DE EMPRESAS  
CONSOLIDATED BALANCE SHEET  
AS OF JUNE 30, 1970

ASSETS	LIABILITIES
<b>CURRENT ASSETS:</b>	<b>CURRENT LIABILITIES:</b>
Cash	Bank loans payable \$ 75,715
Local currency \$ 64,644	Notes payable 25,528
Foreign currency 6,007	Accounts payable 37,352
Funds in foreign saving accounts 59,549	Accumulated liabilities 19,570
130,200	Total Current Liabilities 158,165
Notes and accounts receivable	<b>LONG TERM LIABILITIES:</b>
Notes receivable - students 28,753	Banco Centroamericano de Integración
Accounts receivable - courses 9,816	Económica 645,000
38,569	<b>DEFERRED LIABILITIES</b>
Less: Allowance for doubtful accounts ( 8,672)	Fellowships 66,067
29,897	Documented interest to students 19,797
Loans to students 3,866	85,864
Loans and advances to officers 7,556	889,029
11,422	
Book inventories, at cost 2,187	<b>PATRIMONY</b>
Prepaid expenses	Accumulated patrimony 286,567
Advances 9,894	Unrestricted donations 101,802
Insurance 3,732	Restricted donations 90,000
13,626	Difference between income and
187,332	(expenditures) of the period
<b>Total Current Assets</b>	(See attached statement)
<b>INVESTMENTS, at cost</b> 52,223	Income 593,967
<b>NOTES RECEIVABLE STUDENTS - LONG TERM</b> 119,144	Expenditures ( 583,130)
<b>FIXED ASSETS, at cost</b>	10,837
Land 73,229	489,206
Buildings 715,264	\$1,378,235
Other installations 156,422	
Furniture and equipment 59,915	
Vehicles 11,401	
1,016,231	
<b>OTHER ASSETS</b> 3,305	
\$1,378,235	

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ANNEX V

Exhibit C

Page 2 of 2

INSTITUTO CENTROAMERICANO DE ADMINISTRACION DE EMPRESAS  
CONSOLIDATED STATEMENT OF INCOME AND EXPENDITURES  
FOR THE YEAR ENDING AS OF JUNE 30, 1970

I N C O M E

Nicaraguan Government contribution	\$ 93,750
Contribution (ROCAP)	74,389
Financial Promotion Campaign	123,123
Other - Financial Promotion Campaign	10,150
Donations	12,143
Advanced Management Courses	55,450
Seminars	36,616
Master's Programs	172,350
Lodging	6,657
Book Sale	2,999
Other Income	6,338
	<u>\$ 593,965</u>

E X P E N D I T U R E S

Promotion Campaign Expenses	4,488
Expenses for Courses of Master's Degree	158,019
Advanced Management Program Expenses	29,733
Seminars Expenses	28,335
Administrative Expenses External	11,297
Administrative Expenses Internal	211,975
Administrative Expenses Lodging	59,016
Administrative Expenses Maintenance	56,791
Administrative Expenses General	18,216
Coffee Cultivation Expenses	166
Cost of Book Sold	2,601
Expenses preceeding period	2,491
	<u>583,128</u>

Difference between Income and Expenditures  
of the period

\$ 10,837

INSTITUTO CENTROAMERICANO DE ADMINISTRACION DE EMPRESAS  
CONSOLIDATED BALANCE SHEET -- AS OF JUNE 30, 1969

ASSETS

**CURRENT ASSETS:**

Cash	
Local currency	\$ 19,872
Foreign currency	18,128
Funds in Foreign saving accounts	<u>57,111</u>
	<u>95,111</u>
Notes and accounts receivable	
Notes receivable - students	53,122
Accounts receivable - courses	<u>18,035</u>
	71,157
Less: Allowance for doubtful accounts	<u>( 6,010)</u>
	<u>65,147</u>
Loans to students	2,415
Loans and advances to officers	<u>3,044</u>
	<u>5,459</u>
Prepaid expenses	
Advances	11,137
Insurance	2,770
Unexpired advanced documented interest	<u>3,381</u>
	<u>17,288</u>
Book inventories, at cost	<u>3,203</u>
Total Current Assets	<u>186,208</u>
INVESTMENTS, at cost	<u>105,070</u>
FIXED ASSETS, at cost	
Land	73,229
Constructions in process	755,187
Furniture and equipment	30,616
Vehicles	10,589
Installations	<u>64,888</u>
	<u>934,509</u>
OTHER ASSETS	<u>3,576</u>
	<u>\$1,229,363</u>

LIABILITIES

**CURRENT LIABILITIES:**

Bank loans payable (Note III)	\$ 42,857
Loans payable from other Institutions (Note IV)	49,496
Notes payable	8,812
Accounts payable	39,112
Accumulated liabilities	<u>1,688</u>
Total Current Liabilities	<u>\$ 141,965</u>

**LONG-TERM LIABILITIES**

Banco Centroamericano de Integración Económica (Note v)	<u>635,126</u>
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**DEFERRED LIABILITIES**

Fellowships and courses for master's degree	<u>18,904</u>
	<u>795,995</u>

PATRIMONY

Accumulated patrimony	<u>188,728</u>
Unrestricted donations	<u>101,802</u>
Restricted donations	<u>45,000</u>
Difference between income and (expenditures) of the period (See attached statement)	
Income	851,102
Expenditures	<u>( 753,264)</u>
	<u>97,838</u>
	<u>433,368</u>
	<u>\$1,229,363</u>

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ANNEX V  
Exhibit B  
Page 2 of 2

INSTITUTO CENTROAMERICANO DE ADMINISTRACION DE EMPRESAS  
STATEMENT OF INCOME AND EXPENDITURES  
FOR THE EIGHTEEN MONTH PERIOD AS OF JUNE 30, 1969

I N C O M E

Nicaraguan Government contribution	\$103,750
Contribution (ROCAP)	209,841
Financial Promotion Campaign	237,643
Donations	23,500
Advanced Management Courses	34,600
Seminars	11,558
Quotas from Members	165
Master's Programs	209,756
Lodging	2,898
Other Contributions	483
Other-Financial Promotion Campaign	7,303
Book Sale	1,508
Other Income	8,097
	<u>851,102</u>

EXPENDITURES

Promotion Campaign Expenses	84,039
Expenses for Courses of Master's Degree	318,451
Advanced Management Program Expenses	30,308
Seminars Expenses	8,544
Administrative Expenses	99,724
Administrative Expenses External	13,965
Administrative Expenses Internal	131,697
Administrative Expenses Lodging	19,424
Administrative Expenses Maintenance	22,539
Administrative Expenses General	22,263
Coffee Cultivation Expenses	832
Cost of Book Sold	1,478
	<u>753,264</u>

Difference between Income and Expenditures  
of the period

\$ 97,838

INCAE - BALANCE SHEETS

As of June 30<sup>th</sup> (000)

	Actual			Pro Forma				
	1969 (See audited statements)	1970	1971	1972	1973	1974	1975	1976
<u>Current Assets</u>								
Cash & Deposits	95	130	143	145	200	200	200	200
Receivables - Students	68	34	68	75	75	75	75	75
Advances - Officers	3	8	10	10	10	10	10	10
Prepaid Expenses	<u>17</u>	<u>13</u>	<u>9</u>	<u>9</u>	<u>9</u>	<u>9</u>	<u>9</u>	<u>9</u>
Total Current Assets	183	185	230	239	294	294	294	294
Investments	105	52	50	25	0	0	0	0
Notes - Prior Student Loans	-	119	94	94	69	37	1	0
Notes - Student Loan Fund					250	500	750	1000
Endowment Fund					30	69	98	138
Contingency Reserves					<u>29</u>	<u>62</u>	<u>92</u>	<u>129</u>
<u>Fixed Assets</u>								
Land	118	118	118	118	118	118	118	118
Buildings	666	666	666	666	1416	1916	1916	1916
Installation	109	160	160	160	160	160	160	160
Furniture & Equipment	30	60	74	74	174	209	244	279
Vehicles	11	12	21	21	21	21	21	21
Program Development					400	750	1050	1300
Other Assets	<u>7</u>	<u>6</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>
Total Assets	<u>1229</u>	<u>1378</u>	<u>1416</u>	<u>1400</u>	<u>2964</u>	<u>4139</u>	<u>4747</u>	<u>5358</u>
<u>Current Liabilities</u>								
Bank Loans Payable	92	76	76	26	0	0	0	0
Payables - Trade	48	63	87	87	87	87	87	87
Accumulative Liabilities	<u>2</u>	<u>19</u>	<u>20</u>	<u>20</u>	<u>20</u>	<u>20</u>	<u>20</u>	<u>20</u>
Total Current Liabilities	142	158	183	133	107	107	107	107
Loas - CABEI	635	645	645	645	645	645	645	645
Loas - AID					1530	2695	3300	3855
Deferred Liabilities	19	86	31	31	31	31	31	31
<u>Patrimony</u>								
Accumulative Patrimony	290	388	399	422	411	451	461	464
Restricted Donations	43	90	135	180	200	200	200	200
Income Exp. for period	<u>68</u>	<u>1</u>	<u>22</u>	<u>(11)</u>	<u>40</u>	<u>10</u>	<u>3</u>	<u>56</u>
Total Patrimony	401	479	557	591	651	661	664	720
Total Liabilities & Patr.	1229	1378	1416	1400	2964	4139	4747	5358

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ANNEX V  
Exhibit E, Page 1 of 4

I N C A E - INCOME AND EXPENSE STATEMENTS

Cost Centers	ACTUAL		P R O J E C T E D												
	69/70 <sup>2</sup>	70/71 <sup>2</sup>	71/72 <sup>2</sup>	72/73	73/74	74/75	75/76	76/77	77/78	78/79	79/80	80/81	81/82	82/83	83/84
<b>INCOME:</b>															
NSA	172	231	198	242	273	322	366	385	396	407	418	418	418	418	418
ANP	56	113	112	128	128	192	192	192	192	192	192	192	192	192	192
Seminars	37	20	64	140	184	208	240	272	296	328	328	328	328	328	328
Consulting	-	-	20	60	80	100	100	120	120	120	-120	120	120	120	120
Research Projects	-	100	128	160	125	150	175	200	225	250	250	250	250	250	250
Publications	-	-	-	2	4	6	8	10	12	15	18	21	21	21	21
Assoc. & Fund Raising	239	163	134	150	150	150	200	250	255	260	265	270	275	280	285
Housing	7	-	25	32	55	48	58	88	88	88	88	88	88	88	88
Cafeteria	6	4	40	65	70	70	70	70	70	70	70	70	70	70	70
Translation & Educ. Matls.	3	8	21	35	50	55	60	60	61	62	63	63	63	63	63
<b>TOTAL</b>	<b>520</b>	<b>644</b>	<b>742</b>	<b>984</b>	<b>1152</b>	<b>1341</b>	<b>1499</b>	<b>1647</b>	<b>1715</b>	<b>1792</b>	<b>1812</b>	<b>1820</b>	<b>1825</b>	<b>1830</b>	<b>1835</b>
<b>EXPENSES:</b>															
NSA	115	190	245	306	324	360	360	360	360	360	360	360	360	360	360
ANP	30	66	63	87	87	121	121	121	121	121	121	121	121	121	121
Seminars	38	19	56	143	160	177	199	222	239	261	261	261	261	261	261
Consulting	-	-	15	57	72	87	87	87	87	87	87	87	87	87	87
Research Projects	-	27	88	88	106	128	141	158	176	193	193	193	193	193	193
Publications	-	-	-	2	4	6	8	10	12	15	15	15	15	15	15
Assoc. & Fund Raising	16	45	70	122	127	132	138	138	138	138	138	138	138	138	138
Housing	59	113	13	14	31	31	31	31	31	31	31	31	31	31	31
Cafeteria	-	-	90	65	70	70	70	70	70	70	70	70	70	70	70
Translation & Educ. Matls.	44	41	95	88	89	91	92	92	92	92	92	92	92	92	92
Bldgs. & Grds.	57	11	15	60	80	80	80	80	80	80	80	80	80	80	80
General Admin.	151	254	140	137	137	137	137	137	137	137	137	137	137	137	137
Library	9	6	26	48	48	48	48	48	48	48	48	48	48	48	48
Interest	12	32	32	45	67	90	86	89	89	89	89	88	86	84	82
Contingencies	2	14	20	50	60	70	75	50	35	35	35	35	35	35	40
<b>TOTAL</b>	<b>50</b>	<b>890</b>	<b>1028</b>	<b>1311</b>	<b>1462</b>	<b>1619</b>	<b>1673</b>	<b>1693</b>	<b>1715</b>	<b>1757</b>	<b>1757</b>	<b>1756</b>	<b>1754</b>	<b>1752</b>	<b>1755</b>
<b>OPERATING SURPLUS</b> <b>or (DEFICIT) before</b> <b>AID Assistance</b>	<b>(64)</b>	<b>(246)</b>	<b>(286)</b>	<b>(330)</b>	<b>(310)</b>	<b>(277)</b>	<b>(174)</b>	<b>(46)</b>	<b>0</b>	<b>35</b>	<b>55</b>	<b>64</b>	<b>71</b>	<b>78</b>	<b>80</b>
<b>Tech. Assistance Exp.</b> <b>(AID)</b>				<b>(30)</b>	<b>(30)</b>	<b>(20)</b>	<b>(20)</b>								

<sup>2/</sup> The budgeting and accounting system is presently being converted to cost center format shown here. Costs included in centers for past and current year have been adjusted to the categories but are not strictly comparable with projections. Thus, for example, the apparent profit in 1971/72 on ANPs, Consulting and Research Projects is somewhat overstated because some administration costs of these programs are hidden in General Administration.

I N C A E - SOURCE AND APPLICATION OF FUNDS

	<u>ACTUAL</u>		<u>P R O J E C T E D</u>												
	69/70	70/71	71/72	72/73	73/74	74/75	75/76	76/77	77/78	78/79	79/80	80/81	81/82	82/83	83/84
<b><u>SOURCES:</u></b>															
Operating Income	520	644	742	934	1152	1341	1499	1647	1715	1792	1812	1820	1825	1830	1835
AID Grants	74	269	275												
<b><u>AID Loan:</u></b>															
Student Loan Fund (SLF)				250	250	250	250								
Construction				450	830										
Equipment				100	35	35	35								
Technical Assistance				30	30	20	20								
Program Development				400	350	300	250								
Restricted Donations			45	20											
Prior Student Loans				25	72	36	1								
Net to INCAE from SLF								(9)	(16)	34	55	74	90	101	78
Liquidation of Investments			25	25											
<b>TOTAL</b>	<b>594</b>	<b>913</b>	<b>1067</b>	<b>2234</b>	<b>2679</b>	<b>1982</b>	<b>2055</b>	<b>1638</b>	<b>1699</b>	<b>1836</b>	<b>1867</b>	<b>1894</b>	<b>1915</b>	<b>1931</b>	<b>1913</b>
<b><u>USES:</u></b>															
Operation Exp.															
Development Exp.															
<b>Sub TOTAL</b>	<b>583</b>	<b>890</b>	<b>1028</b>	<b>1114</b>	<b>1462</b>	<b>1618</b>	<b>1673</b>	<b>1693</b>	<b>1715</b>	<b>1757</b>	<b>1757</b>	<b>1756</b>	<b>1754</b>	<b>1752</b>	<b>1755</b>
Student Loan Fund				250	250	250	250								
Construction				450	830										
Equipment				100	35	35	35								
Technical Assist.				30	30	20	20								
<b><u>Loan Repayment</u></b>															
Banco de Amer.			50	26											
CABEI										30	31	33	35	37	99
AID															
<b>TOTAL</b>	<b>583</b>	<b>890</b>	<b>1076</b>	<b>2170</b>	<b>2607</b>	<b>1923</b>	<b>1978</b>	<b>1693</b>	<b>1715</b>	<b>1757</b>	<b>1787</b>	<b>1787</b>	<b>1787</b>	<b>1787</b>	<b>1891</b>
<b>CASH FLOW + (-)</b>	<b>11</b>	<b>23</b>	<b>9</b>	<b>114</b>	<b>72</b>	<b>59</b>	<b>77</b>	<b>(55)</b>	<b>(16)</b>	<b>79</b>	<b>80</b>	<b>107</b>	<b>128</b>	<b>144</b>	<b>22</b>

STUDENT LOAN FUND (U.S. \$ 000)

	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
<b>Class of 1972/73</b>	84.2	23.1	23.1	23.1	23.1	23.1									
/74	139.1	121.1	75.0	75.0	75.0	75.0	75.0								
/75		154.2	139.3	85.6	85.6	85.6	85.6								
/76			165.6	113.8	89.6	89.6	89.6	85.6							
/77				173.0	152.3	93.5	93.5	93.5	93.5	93.5					
/78					180.3	158.4	97.5	97.5	97.5	97.5	97.5				
/79						187.7	165.2	101.5	101.5	101.5	101.5	101.5			
/80							195.0	171.7	105.4	105.4	105.4	105.4	105.4		
/81								195.0	171.7	105.4	105.4	105.4	105.4	105.4	
/92									195.0	171.7	105.4	105.4	105.4	105.4	105.4
/83										195.0	171.7	105.4	105.4	105.4	105.4
/84											195.0	171.7	105.4	105.4	105.4
/85												195.0	171.7	105.4	105.4
/86													195.0	171.7	105.4
/87														195.0	105.4
<b>Net Flow of Loans &amp; Repayments</b>	(223.6)	(256.5)	(206.8)	(135.1)	(59.3)	20.3	81.0	101.0	120.8	136.6	148.5	156.4	160.3	160.3	160.3
<b>Net Delinquencies</b> <sup>1/</sup>	-	1.2	3.7	1.3	1.5	1.6	3.4	1.3	1.0	.8	.6	.4	.2		
<b>Losses (2% Repayments)</b>	-	.5	2.0	3.7	5.5	7.3	8.8	9.4	9.8	10.1	10.3	10.5	10.5	10.5	10.5
<b>Admin. Costs</b> <sup>2/</sup>	3.1	7.3	10.0	11.0	12.0	13.0	14.0	15.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0
<b>Expected Flows Before Interest</b>	(227.0)	(265.0)	(222.5)	(154.1)	(41.3)	(4.6)	54.4	75.3	94.0	109.7	121.6	129.5	133.6	133.6	133.6
<b>Cumu. Exp. Flows Before Interest</b>		(192.5)	(715.0)	(869.1)	(950.4)	(955.0)	(900.6)	(425.3)	(731.3)	(621.6)	(500.0)	(370.5)	(236.9)	(103.1)	30.5
<b>Int. &amp; Amortization</b>	5.0	10.0	15.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	51.0	51.0	51.0	51.0
<b>Net Flows After Int.</b>	(231.0)	(275.0)	(237.5)	(174.1)	(101.3)	(16.4)	34.1	55.3	74.0	89.7	101.6	79.5	82.6	82.6	82.6
<b>Net Cumu. Flows After Interest</b>		(506.0)	(743.5)	(917.6)	(1014.9)	(1035.3)									
<b>Calculations For Sources and Use:</b>															
<b>Disbur. Schedule</b> <sup>3/</sup>	(250.0)	(250.0)	(250.0)	(250.0)											
<b>Net Flow to INCAE</b> <sup>3/</sup>					(18.9)	(16.4)	24.1	55.3	74.0	89.7	101.6	78.5	82.6	82.6	82.6

Repayments  
New Loans

1/ Delinquencies are assumed to equal 5% of expected repayments and to be repaid the following year.

2/ 1 1/2% of outstanding balance up to \$16,000.

3/ Reasoning: AID Loan disbursements will cover all net flows after interest up to \$1,000,000 even though these may extend slightly beyond 4 year disbursement period. Net flows above \$1,000,000 in years 1976/77/78 will be covered by INCAE.

ESTIMATED TOTAL DEVELOPMENT COSTS BY COST CENTERS

<u>Cost Centers</u>	<u>1972/73</u>	<u>1973/74</u>	<u>1974/75</u>	<u>1975/76</u>
MBA	174	173	176	166
AMP	50	48	59	56
Seminars	82	85	87	92
Consulting	32	38	43	40
Research Projects	50	56	63	67
Publications	1	1	1	1
Assoc. & Fund Raising	70	67	65	64
Housing	-	-	-	-
Cafeteria	-	-	-	-
Transl. & Educ. Matls.	50	47	45	42
Buildings and Grounds	-	-	-	-
General Administration	78	73	68	63
Library	28	25	24	22
Interest	-	-	-	-
Contingencies	-	-	-	-
<b>Total</b>	<b>615</b>	<b>613</b>	<b>631</b>	<b>613</b>
AID Funded	400 (65%)	350 (57%)	300 (48%)	250 (41%)
INCAE Funded	215 (35%)	263 (43%)	331 (52%)	363 (59%)

ESTIMATED PROFESSIONAL STAFF TIME DEVOTED  
 TO DEVELOPMENTAL ACTIVITIES  
 (1972/73 - 1975/76)

<u>Position</u>	<u>Staff Allocation (Number)</u>	<u>Time on Development</u>			
		<u>72/73</u>	<u>73/74</u>	<u>74/75</u>	<u>75/76</u>
Rector	1	.50	.45	.40	.40
Teaching Faculty	11	.50	.45	.40	.35
Academic Dean	3/4	.75	.60	.50	.40
AMP Director	1/2	.75	.60	.50	.40
Seminar Director	1/2	.75	.60	.50	.40
Consulting Director	1/2	.70	.60	.50	.40
Research Director	1/2	.70	.60	.50	.40
External Affairs Director	1	.50	.40	.40	.40
Research Assistants	4	1.00	1.00	1.00	1.00
Program Assistants	4 1/2	.30	.30	.30	.30
Development Expense Ratio (Weighted Average) =		.57	.53	.49	.46

UNCLASSIFIED

ANNEX VI

Page 3 of 3

AID FINANCED DEVELOPMENT COSTS BY COST CENTERS

<u>Cost Centers</u>	<u>1972/73</u>	<u>1973/74</u>	<u>1974/75</u>	<u>1975/76</u>
MBA	113	99	84	68
AMP	33	27	27	23
Seminars	53	49	42	38
Consulting	20	22	20	16
Research Projects	33	32	30	27
Publications	1	1	1	1
Assoc. & Fund Raising	46	38	31	26
Housing	-	-	-	-
Cafeteria	-	-	-	-
Transl. & Educ. Matls.	33	27	21	17
Buildings & Grounds	-	-	-	-
General Administration	50	41	32	25
Library	18	14	12	9
Interest	-	-	-	-
Contingencies	-	-	-	-
	<u>400</u>	<u>350</u>	<u>300</u>	<u>250</u>
Total*				

-----  
\* \$1.3 million

ROCAP SUPPORT TO INCAE FY 1963 - FY 1972 (\$000)

<u>Support</u>	<u>FY 1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>Total</u>
Support for Operations of Development <u>a/</u>	-	-	-	30.9	48.5	89.5	139.8	100.1	309.6	254.1	972.5
Contract Support <u>b/</u>	206.6	280.0	257.7	365.5	45.0	24.5	-	327.9	85.2	15.1	1,607.5
<b>Total Obligations</b>	<b>206.6</b>	<b>280.0</b>	<b>257.7</b>	<b>396.4</b>	<b>93.5</b>	<b>114.0</b>	<b>139.8</b>	<b>428.0</b>	<b>394.8</b>	<b>269.2</b>	<b>2,580.0</b>

a/ Used principally for salaries of faculty and research assistants. Also, in support of administration and educational programs (i.e., library, translations, case reproduction).

b/ Used for Academic Advisor, Teaching Professor's, Short-term Advisor's for in-service training. (Support has included secretary, language training, office equipment, furniture, household equipment and interpreter services.)

PRIVATE AND PUBLIC SECTOR CONTRIBUTIONS TO INCAE  
 BY COUNTRY OF ORIGIN  
 U.S. \$000

	63 64	64 65	65 66	66 67	67 68	68 69	69 70	70 71	Cum. 63-71
Private*	25.2	8.8	44.9	170.7	201.8	181.9	153.8	24.5	811.6*
Guatemala	3.6	1.2	9.4	30.0	49.4	34.7	25.3	6.7	160.3
El Salvador	6.6	2.6	11.8	-	74.0	34.9	34.8	6.0	170.7
Honduras	3.3	1.0	-	11.4	17.4	21.9	15.0	1.0	71.0
Nicaragua	3.5	2.5	20.0	129.3	60.6	75.1	65.5	9.2	365.7
Costa Rica	3.9	-	0.5	-	0.2	15.3	8.2	0.8	28.9
Panama	4.3	1.5	3.2	-	0.2	-	5.0	0.8	15.0
Gov. of Nicaragua	-	-	-	75.0	93.7	75.0	75.0	75.0	393.7

\* Does not include land (carried at \$118,000 on INCAE's books but currently valued at \$2,000,000) nor gifts from United Fruit Co. (\$140,000) and Standard Fruit Co. (\$10,000).

M.B.A. PROGRAM CURRICULUM

During the first year of the program all students follow a uniform program of study which emphasizes the development of analytical skills within each of the fundamental management disciplines. The program is organized into the following courses: Management Control I & II: Design and Application of Management Control Systems; The Business Environment as a System; Environmental Analysis and Business Planning; Marketing I & II; Management of the Marketing Function; Organization I: The Individual and the Group; Organization II: The Design of Complex Organizational Systems; Finance I: Techniques of Short Term Financial Analysis and Decision; Finance II: The Financial Structure and Capital Budgeting; Production I & II: Management of the Production Function; Fundamental Mathematics for Business Analysis; Quantitative Methods for Business Decisions; Introduction to Automatic Data Processing; and Management Decision and Presentation.

The second year is comprised almost entirely of elective courses. Only the Business Policy course is required. In addition to the normal course work each student is expected to engage in at least two field research activities which give him practical experience in defining problem situations and in gathering the data necessary for problem analysis and solution. Each term one week is set aside for the gathering of field research data and students are encouraged to undertake projects which will involve data gathering in countries outside of Nicaragua. Frequently, new teaching cases result from this research which are subsequently used in the classroom. The following courses are presently offered during the second year.

Area I: Business, Government, and Society.

1. Underdevelopment, Private Business, and Planning.
2. Methods of Environmental Analysis and Business Planning.

Area II: Business Policy and General Management.

1. Business Policy I, II, & III.
2. International Business.
3. Management of New Enterprises.

Area III: Control and Planning.

1. Management Control Systems.
2. Computer-Based Management Systems.
3. Systems Analysis and Decision Making in Complex Organizations.

UNCLASSIFIED

ANNEX IX  
Page 2 of 2

Area IV: Finance

1. Capital Markets and Financial Institutions.
2. Advanced Corporate Financial Management I.
3. Advanced Corporate Financial Management II.

Area V: Agribusiness

1. Agribusiness Management.
2. International Agribusiness Marketing.
3. Agribusiness Policy.

Area VI: Marketing

1. Advanced Marketing.
2. Marketing of New Products.
3. Marketing Research.

Area VII: Organizational Behavior

1. Laboratory in Individual and Social Change.
2. Human Resources Development and the Management of Organizational Change.

Area VIII: Production and Operation Management

1. Management of the Process of Technological Change.
2. Operations Research.
3. Manufacturing Policy.

STUDENTS ENROLLED AND  
GEOGRAPHIC DISTRIBUTION OF M.B.A. ENTERING CLASSES

	1967	1968	1969	1970	1971	TOTAL
COLOMBIA	-	-	4	7	3	14
COSTA RICA	5	-	6	10	9	30
ECUADOR	-	-	-	1	2	3
EL SALVADOR	10	10	8	7	8	43
ENGLAND	-	-	-	-	1	1
GUATEMALA	7	3	7	10	11	38
HONDURAS	3	2	5	5	3	18
ITALY	-	-	-	-	1	1
MEXICO	-	-	-	-	1	1
NICARAGUA	8	12	24	22	17	83
PANAMA	8	3	3	2	3	19
PERU	-	-	1	1	2	4
SWITZERLAND	1	-	1	-	-	2
UNITED STATES	-	-	1	-	1	2
<b>TOTAL</b>	<b>42</b>	<b>30</b>	<b>60</b>	<b>65</b>	<b>62</b>	<b>259</b>
Returning Class	-	29	21	47	57	
<b>Total Enrollment</b>	<b>42</b>	<b>59</b>	<b>81</b>	<b>112</b>	<b>119</b>	

SALARY OF INCAE GRADUATES  
 (Based on 50% of Class I and II)

(\$U.S.)	<u>Guat.</u>	<u>Hond.</u>	<u>E. S.</u>	<u>Nic.</u>	<u>C. R.</u>	<u>Pan.</u>	<u>C. A.</u>
Av. Monthly Salary Entering INCAE	600	450	600	512	333	425	498
Av. Monthly Salary Upon Graduation	650	816	740	853	725	650	766
Average Increase	50	366	140	341	392	225	268

AVERAGE SALARIES OF INCAE GRADUATES WORKING IN NICARAGUA  
 (Classes I, II and III)

	CLASS YEAR			All Years
	<u>1969</u>	<u>1970</u>	<u>1971</u>	
A. Average Monthly Salary Entering INCAE (Standard Deviation)	421 (199)	460 (118)	550 (150)	504* (175)
B. Average Monthly Salary Upon Graduation (Standard Deviation)	742 (215)	839 (132)	807 (143)	833** (153)
C. Average Monthly Salary One Year After Graduation (Standard Deviation)	972 (115)	1076 (229)	-- -	-- --
D. Number in Sample	6	8	21	29 - 35

\* Sample size = 29

\*\* Sample size = 35

GEOGRAPHIC DISTRIBUTION OF AMP AND SEMINAR PARTICIPANTS

CUMULATIVE 1964 - 1971

	<u>AMP</u>		<u>SEMINARS</u>	
	<u>Number of Participants</u>	<u>Per Cent</u>	<u>Number of Seminars</u>	<u>Number of Participants</u>
GUATEMALA	40	8.5	3	91
EL SALVADOR	65	14.0	6	269
HONDURAS	31	6.5	7	216
NICARAGUA	129	28.0	10	288
COSTA RICA	52	11.0	4	115
PANAMA	50	10.8	9	187
COLOMBIA	78	16.7	2	64
OTHERS <sup>1/</sup>	21	4.5		
TOTAL	466	100.0	41	1,230

<sup>1/</sup> Includes: Chile, Ecuador, Germany, Italy, Mexico, Peru, Venezuela, and the United States.

PARTIAL LIST OF SPECIFIC REQUESTS FOR SEMINARS  
AS RECEIVED BY INCAE DURING THE LAST 8 MONTHS

During the last 8 months, as INCAE's programs have become better known, the Institution has received an increasing number of requests from private and public organizations for information about conducting seminars for their members. Following is a partial list of these requests.

The Asociacion Experimental Cafetalera of Guatemala requested INCAE to conduct an Agribusiness Seminar.

The president of an executive association in Ecuador has requested information about seminars for its members.

Three major companies in Colombia have inquired about private seminars for their executives.

ESSO, Central America, has inquired about seminars for its managers.

The Central American manager of Nestle requested INCAE to design a seminar for its branch managers.

Discussions are now under way with the Inter-American Development Bank (IDB) on the design of two programs, which the IDB will sponsor for administrators in Central America.

The labor advisor to the U. S. Embassy in Nicaragua has discussed the possibility of a seminar for labor leaders and management executives, to focus on the question of labor-management relations.

The president of the Advertisers Association of Nicaragua has contacted INCAE to make arrangements for a seminar on Marketing and Promotion.

Several managers of the insurance companies in Costa Rica have requested the design of a seminar on new trends in insurance management.

The National Committee of Honduras asked INCAE to design two new seminars for Honduras: one in Export Marketing and the second in the Effect of the Environment on Business Strategy.

The Management Association in Guatemala is interested in making arrangements for INCAE to conduct seminars for business managers.

A survey was made of 31 companies in Miami which have Central American operations, and the managers were asked if they were interested in a seminar directed toward their problems in administrating Central American operations. Of the above 31 companies, 22 indicated they would participate in such a seminar.

LIST OF MAJOR CENTRAL AMERICAN ORGANIZATIONS WHICH ARE  
POTENTIAL CLIENTS FOR THE CONSULTING SERVICES OF INCAE

1. The second largest city in a Central American republic has asked INCAE to make a study of the city government, in order to assist them in preparing a long range development plan.
2. A Ministry of Commerce in a Central American republic has requested INCAE to make a study of their particular organization and their relations with several semi-autonomous organizations in the country.
3. The Minister of Education of a Central American republic has requested assistance in making a review of his educational program, including a plan for an undergraduate business school.
4. The President of a Central American Bank, has asked for consulting services regarding the type of organizational behaviour now existent in his organization.
5. The general manager of a major sugar mill has requested INCAE to assist him in making an intensive review of his organization and operations.
6. The following is a list of major Central American companies which have been mentioned by faculty members or National Committee Members as potential clients for the consulting services of INCAE:

GUATEMALA

- a) Castillo Hnos.
- b) Granai & Townson
- c) INDE
- d) Cementos Novella
- e) GINSA

EL SALVADOR

- a) ADOC
- b) Grupo "SIGMA "
- c) Cementos CESSA
- d) CAESS
- e) Poma Hnos.
- f) La Constancia

HONDURAS

- a) Cervecería Tegucigalpa
- b) Químicas Dinant
- c) Banco de El Ahorro Hondureño
- d) Fosforera Hondureña
- e) Ernesto Sempé, S. A.

NICARAGUA

- a) Banco de América
- b) Banco Nicaragüense
- c) Sovipe
- d) La Cementera
- e) Fabritex

COSTA RICA

- a) Lachner & Sáenz
- b) Industrias Barzuna
- c) Fábrica Nacional de Cemento
- d) ICE

PANAMA

- a) Compañía Panameña de Fuerza y Luz
- b) Cementos Panamá
- c) Cervecería Nacional
- d) Grupo Vallarino
- e) Grupo Amado
- f) Compañías de Roberto Motta

LIST OF SOME AMERICAN COMPANIES AND OTHER FOREIGN COMPANIES  
WHO DO BUSINESS IN CENTRAL AMERICA AND ARE CONSIDERED  
POTENTIAL CLIENTS FOR THE CONSULTING SERVICES OF INCAE

1. A major oil company has requested INCAE to consult with them about the basic sales and distribution organization in three Central American countries.
2. A major european food marketing company has asked for consulting assistance on the interorganizational relations and managerial training of their departmental organizations in each Central American republic.
3. A major insurance company with a large affiliate in a Central American republic has requested consulting services on the effectiveness of their sales organization.
4. The branches of two major banks, one American and one European, have asked INCAE to consult with them about their internal organization and the training of their personnel.
5. At various times, faculty members or National Committee men have made reference to the affiliates of many american and european companies as potential clients.

INCAE has compiled a list of 32 major american companies that have international headquarters in Coral Gables, Florida. Visits were made to this group of companies on a fund-raising trip, and several indicated interest in consulting services.

In addition, INCAE has compiled a list of over 200 companies, American and European, with affiliates located in Central America, and which have been frequently mentioned as potential clients.

MINUTES\*

L.A. CAPITAL ASSISTANCE EXECUTIVE COMMITTEE

September 14, 1971

SUBJECT: IRR --CENTRAL AMERICAN INSTITUTE OF BUSINESS  
ADMINISTRATION

CAEC met 14 September consider subject IRR. Request approved for intensive review subject to following considerations and recommendations:

1. Appeared to committee that in view institute's financial difficulty and size of loan request to AID we must seek increased financial support from Central Americans. We believe such support should be forthcoming from CABEI. Therefore recommend that leverage proposed AID loan be used induce CABEI renegotiate its outstanding debt to include new 5 year grace period and 15 year amortization beginning 1977. Committee strongly recommends ROCAP initiative this approach especially in view of CABEI reported interest in human resources development. CABEI debt renegotiation should result reduction in size AID loan and greatly improve INCAE financial position over next few years.
2. CABEI-held mortgage on INCAE assets represents potential problem for AID with up to dols 4 million DL exposure. CAEC recommends that ROCAP reach written agreement with CABEI to provide for prior consultation before CABEI initiates any action to foreclose in default situation.
3. Intensive review should establish fact market demand exists now and will continue to exist for increased number of graduate MBA's planned (170 per year). Market study must be made on basis current high costs and ability repay loans.
4. Feasibility using part of the loan to stimulate private and public sector contributions should be examined. Using matching formula incentive, release of funds could be geared to, for example, contributions from Central American entities who obviously have interest in the viability of the institute.

5. Student loan fund feasibility should be reviewed with such elements in mind as: (A) student repayment capability given the interest rate and other terms (analysis should include description salary potential after student graduation), (B) inclusion of some test for need in view of the fact that majority student body will probably include upper income level of society who do not require any additional subsidies, (C) reducing high expense to the institute and to the student of an MBA education at INCAE; such examination should generate a more economical operation and thus reflect on demand student loans, (D) public and private sector entities should be encouraged to finance students in view of ultimate trained manpower benefits that will accrue to the, (E) maintenance of value should be made part of the loan contract. Best procedure seems to be denominate all student loans in dollars.
6. The loan paper should describe how the student loan fund will be administered. Potential for additional income to institute through more seminars, AMP's, fund-raising and institutionalizing consultant services should be firmly established in view of its importance to INCAE repayment capability. Consultant service operation should permit profit generation for the institute as well as consultant.
7. Consulting services should anticipate clientele in both private and public enterprises. AID now funds technical assistance to a number of public corporate organizations. Part of this assistance could be provided by INCAE. Loan paper should contain list of public and private corporations which represent the potential customers for INCAE consulting work. This list should be based on detailed survey and conversations.
8. Thorough and detailed cash flow reflecting INCAE's financial status should be developed during intensive review to establish size and terms of AID loan.
9. Construction and equipment expenditure projection should contain a contingency figure.

Please inform LA Bureau ASAP result of negotiations with CABEI on all relevant matters stated above. ROGERS

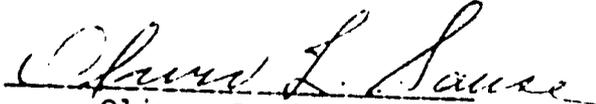
\* Incoming Telegram from Washington UNCLAS STATE 175914

Instituto Centroamericano de Administración de Empresas - "INCAE"

CERTIFICATION PURSUANT TO SECTION 611(e)  
OF THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, Oliver L. Sause, Director and Principal Officer of the Regional Office for Central America and Panama (ROCAP) of the United States Agency for International Development located at Guatemala City, Guatemala, having taken into account, among other things, the performance of INCAE in carrying out previous projects financed or assisted by the United States, do hereby certify that, in my judgment, INCAE has both the financial and human resources capability to effectively maintain, utilize and carry out the Capital Assistance Project consisting of a program to assist INCAE in becoming a self-sustaining regional institution of management education to meet the needs of the public and private sectors in Central America which is proposed to be financed, in part, by this proposed loan entitled: Central America: Instituto Centroamericano de Administración de Empresas - ("INCAE").

This judgment is also based, in part, upon the collective opinions of the staff members of ROCAP, some of whom have worked closely with INCAE for substantial periods of time, and are intimately familiar with the capabilities of INCAE and its personnel, and who have determined to their own satisfaction and to mine that INCAE has the all necessary prerequisites to successfully implement the proposed loan.

  
Oliver L. Sause  
Director, ROCAP

February 28, 1972

Date

DEPARTMENT OF STATE  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D.C. 20523

UNCLASSIFIED  
AID-DLC/P-1004  
ANNEX XVII  
Page 1 of 3

DRAFT  
LOAN AUTHORIZATION

Provided from: Alliance for Progress Funds  
Central America: Instituto Centroamericano de Administracion  
de Empresas ("INCAE")

Pursuant to the authority vested in the Deputy U.S. Coordinator, Alliance for Progress, by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan pursuant to Part I, Chapter 2, Title VI, Alliance for Progress, of said Act, to the Instituto Centroamericano de Administracion de Empresas ("INCAE"), ("Borrower"), of not to exceed three million nine hundred thousand United States dollars (\$3,900,000) to assist in financing the United States dollar and local currency costs of Borrower's Program to strengthen and expand its capabilities, programs and facilities.

1. Interest and Terms of Repayment:

Borrower shall repay the loan to the Agency for International Development ("A.I.D.") within forty (40) years from the date of the first disbursement under the loan, including a grace period of not to exceed ten (10) years. Borrower shall pay to A.I.D. in United States dollars on the disbursed balance of the loan interest at the rate of two percent (2%) per annum during the grace period and three percent (3%) per annum during the thirty year repayment period.

2. Other Terms and Conditions:

- (a) The loan will be guaranteed by the Government of Nicaragua.
- (b) Goods, services (except for ocean shipping) and marine insurance financed under the loan shall have their source and origin in the countries of Central America, or in countries included in Code 941 of the A.I.D. Geographic Code Book. Marine insurance may be financed under the loan only if it is obtained on a competitive basis and any claims thereunder are payable in freely convertible currencies. Ocean shipping financed under the loan shall be procured in any country included in Code 941 of the A.I.D. Geographic Code Book, excluding the countries of Central America.

- (c) United States dollars utilized under the loan to finance local currency costs shall be made available pursuant to procedures satisfactory to A.I.D.
- (d) Prior to the first disbursement or issuance of any commitment documents under the loan, the Borrower shall furnish to A.I.D. in form and substance satisfactory to A.I.D.:
- (i) Copies of Borrower's budget covering a period of at least 12 months after the loan agreement is signed presented in substantially the same format and including the same activities as the financial projections submitted by Borrower in support of its application for the loan authorized hereby.
  - (ii) A plan setting forth criteria for making student loans and setting forth policies and procedures for conducting the Student Loan Fund program including requirements for a bad debt reserve and restrictions, subject to charge only with A.I.D. approval in writing, on use of repayments of principal or payments of interest except to finance the costs to Borrower of administering the Student Loan Fund, the charges of the commercial bank servicing the fund and for further loans by the Student Loan Fund;
  - (iii) A Memorandum of Understanding signed by the Borrower and the commercial bank servicing the SLF describing, in detail, the arrangements for administering the Student Loan Fund in conformance with the written plan referred to in item ii immediately above.
  - (iv) Written confirmation from the Central American Bank for Economic Integration (CABEI) to Borrower confirming that it has agreed to amend the terms of the CABEI loan to Borrower revising the amortization schedule thereof in a manner acceptable to AID, providing for a Government of Nicaragua guaranty thereof and providing that it has or will formally release said mortgage and other security to the Borrower.
- (e) Except as A.I.D. otherwise agrees in writing, Borrower shall NOT:
- (i) borrow any money without the prior approval of A.I.D.;
  - (ii) expend A.I.D. loan funds other than in accordance with annual fiscal year budgets approved by A.I.D.;

- (iii) incur any indebtedness for a term exceeding one (1) year without the prior approval of A.I.D.;
- (iv) incur any indebtedness which would enjoy a position superior to the obligation incurred under the A.I.D. loan;
- (f) Until all funds have been disbursed under the loan, Borrower, except as A.I.D. otherwise agrees in writing, shall submit its annual fiscal year budget to A.I.D. at least sixty (60) days prior to the beginning of the next fiscal year. Unless A.I.D. otherwise agrees in writing, within thirty (30) days after said submission, Borrower agrees to send its representative(s) to a place and on a date designated by A.I.D. to meet with representatives of A.I.D. for the purpose of conducting a joint review of the progress of the loan program.
- (g) The loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

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Deputy U.S. Coordinator

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Date