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596-0101 / 42

UNCLASSIFIED

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

ROCAP

PROJECT PAPER

INCAE MANAGEMENT DEVELOPMENT

AMENDMENT

LAC/DR:80-8/1

Project Number:596-0101

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add
 C = Change
 D = Delete

Amendment Number

1

DOCUMENT CODE

3

2. COUNTRY/ENTITY

ROCAP

3. PROJECT NUMBER

596-0101

4. BUREAU/OFFICE

Latin America

05

5. PROJECT TITLE (maximum 40 characters)

INCAE MANAGEMENT DEVELOPMENT

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY

06/31/83

7. ESTIMATED DATE OF OBLIGATION

(Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 80

B. Quarter 4

C. Final FY 82

8. COSTS (\$000 OR EQUIVALENT SI =)

A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	400		400	1,800		1,800
(Grant)	(400)	()	(400)	(1,800)	()	(1,800)
(Loan)	()	()	()	()	()	()
Other U.S.						
1.						
2.						
Host Country						
Other Donor(s)						
TOTALS	400		400	1,800		1,800

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS-TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) EH	680	669		400		1,400		1,800	
(2)									
(3)									
(4)				400		1,400		1,800	
TOTALS									

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To assist INCAE to meet immediate and short-term operational needs; thereby enabling the institution to continue its operations, prepare for classes of MBA candidates and other advanced management and special programs, and implement plans necessary to improve its financial and institutional viability.

14. SCHEDULED EVALUATIONS

MM YY MM YY

Interim

Final

MM YY

0782

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000

941

Local

Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a page PP Amendment)

17. APPROVED BY

Signature

Henry H. Bassford

Title

Acting Director

Date Signed

MM DD YY

02/13/81

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

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A = Add
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Amendment Number

DOCUMENT CODE

3

2. COUNTRY/ENTITY

ROCAP

3. PROJECT NUMBER

596-0101

4. BUREAU/OFFICE

Latin America

05

5. PROJECT TITLE (maximum 40 characters)

INCAE Management Development

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY
03 31 81

7. ESTIMATED DATE OF OBLIGATION
(Under "B" below, enter 1, 2, 3, or 4)

A. Initial FY 80 B. Quarter 4 C. Final FY 80

8. COSTS (\$000 OR EQUIVALENT \$1 =)

A. FUNDING SOURCE	FIRST FY 80			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	400		400	400		400
(Grant)	(400)	()	(400)	(400)	()	(400)
(Loan)	()	()	()	()	()	()
Other U.S.						
Host Country						
Other Donor(s)						
TOTALS	400		400	400		400

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) EH	680	660				400		400	
(2)									
(3)									
(4)									
TOTALS						400		400	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters).

To assist INCAE, in the short term, to meet immediate operational needs, thereby enabling the institution to continue its operations, prepare for a Fall 1980 class of MBA candidates, offer advanced management programs, and prepare plans and analyses necessary to improve its financial and institutional viability.

14. SCHEDULED EVALUATION.

Interim MM YY M YY Final MM YY
04 81

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a page PP Amendment.)

17. APPROVED BY

Signature

Henry Bassford

Title

Acting Director

Date Signed

MM DD YY
08 27 80

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

AGENCY FOR INTERNATIONAL DEVELOPMENT
R O C A P



ROCAP/GUATEMALA CITY or c/o American Embassy
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66352 / 53
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PROJECT AMENDATORY AUTHORIZATION NO. 1

Name of Entity: Central American Institute for
Business Administration

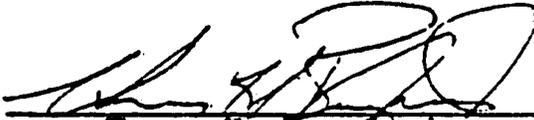
Name of Project: INCAE Management Development

Number of Project: 596-0101

1. Paragraph 1 of the Authorization is deleted in its entirety and substituting in lieu thereof:

"Pursuant to Section 105 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the "INCAE Management Development" project for the Central American Institute for Business Administration (INCAE), involving planned obligations of not to exceed \$1,800,000 in grant funds over the planned life of project of two years from the date of initial obligation, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project."

2. All terms and conditions contained in the original Authorization remain in full force and effect.


Henry H. Bassford
Acting Director

2/17/61
Date

INCAE MANAGEMENT DEVELOPMENT -- PP AMENDMENT

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I. SUMMARY AND RECOMMENDATIONS

A. Face Sheet

B. Recommendations

ROCAP recommends an amendatory authorization of the INCAE Management Development grant (596-0101), of \$1.4 million to provide additional assistance to the Instituto Centroamericano de Administración de Empresas (INCAE). The grant will be funded over a period of three years as follows: \$400,000 in FY 1980, \$900,000 in FY 1981, and \$500,000 in FY 1982..

C. Grantee and Executing Institution

The Grantee and Implementing Institution will be the Instituto Centroamericano de Administración de Empresas (INCAE), a private institution under legal charter in Nicaragua which provides managerial training and technical assistance for the Central American region..

D. Goal and Purpose

The goal of the project is to rebuild, expand and improve the level of management training in the Caribbean and Central and South America. The specific Project purpose is to assist INCAE to meet immediate and short term operational needs; thereby enabling the institution to continue its operations, prepare for classes of MBA candidates and other advanced management and special programs, and implement plans necessary to improve its financial and institutional viability.

E. Summary Rationale and Project Description

Due largely to the civil strife in the region, INCAE suffered a precipitous decline in levels of enrollments, revenues and faculty in 1978 and 1979. This in turn created serious financial problems for the Institution leading ultimately to the need for short term concessionary assistance or alternatively closure of the institution. Concurrent to the need for grant assistance was the need for a comprehensive plan to return the institution to financial solvency and institutional viability. INCAE has recently developed a detailed five year turn around management plan in which the years 1980-1982 are the most critical. A.I.D. assistance will be provided to enable INCAE to implement this plan.

The project consists of budgetary and institutional support to INCAE spanning three academic years: 1979-1980, 1980-1981 and 1981-1982. This support is essential in that it will provide INCAE the required resources to implement the five year turnaround management plan whose major objectives, inter alia, include the following

- rebuilding the MBA and advancement management programs to their normal levels;
- expanding executive training programs to include participants from the Caribbean and Andean countries;
- implementing programs to improve efficiency in internal administration;

- developing programs to increase the size and quality of INCAE faculty; and
- strengthening the research and case writing activities of the School.

F. Summary Findings

On the basis of previous A.I.D. grant assistance^{1/} and an external audit of INCAE^{2/} and the intensive project review, ROCAP has determined that the Project is financially, institutionally, and socially feasible. The planned activities are within the capabilities of the institution. The Project Committee has reviewed and found adequate the financial considerations necessary for successful project implementation. Finally, the social analysis indicates that the project activities are socially sound and that the Project will have national and regional support as required.

-
- 1/ In August 1980, ROCAP provided \$400,000 to INCAE to enable the institution to remain open while the turnaround management plan was designed. This project paper/^{amendment} is an extension of that assistance. The current project design is an increase of grant support to INCAE based principally on the previous project design and the now identified critical need for grant assistance through FY 1982.
- 2/ As a covenant to the original grant assistance, in the Fall of 1980 Arthur Anderson & Co. undertook an independent audit of INCAE. Its findings are incorporated in the project design.

G. Summary Financial Plan

The total cost of the A.I.D. project is \$1.8 million.

Resources will be allocated as follows:

<u>FINANCIAL PLAN</u>	
(US\$ 000.)	
FY 1980.	\$ 400
FY 1981	900
FY 1982	<u>500</u>
Project Total	<u>\$1,800</u>

H. Project Beneficiaries

The beneficiaries of the project are the current and potential members of the MBA, advanced management, and special programs. With continued growth of these programs and the anticipated expansion into the Caribbean and Andean countries, it is expected that the Project will enable a greater number of both public and private sector institutions and people to have access to quality management training and expertise. Secondary benefits to be derived from the project include increased employment, production, and income as the managerial training and expertise provided is put to effective use.

I. Project Issues

1. Relationship with the GRN

Relationships between the government and the private sector have improved measurably over the past several months.

While there is still private sector apprehensiveness about the longer-term direction of the government, many private sector people now believe that an enduring mixed economy is feasible. They are encouraged by the effective GRN-private sector dialogue which has been initiated. INCAE had encountered some problems with the government over institutional autonomy and course offerings. The new dialogue gives hope that these problems have been eliminated.

2. INCAE Viability

The amended project provides essential two-year support for a five-year turnaround management plan. At the end of project life, INCAE will have significantly advanced toward the five year objective of financial and institutional viability, but it will continue to have program and budgetary needs which will require external support. This project is not designed to provide the total support needed by INCAE to reach self-sufficiency, but rather to move it in that direction by strengthening it both financially and institutionally. Inherent in the project design is the need for continued resource mobilization efforts on the part of INCAE during and after the project.

J. Project Development Committee

Arthur Warman, Capital Projects Development Officer,

USAID/N

Rob Berrett, Controller, ROCAP

Harry Strachan, Rector, INCAE

Mark Lindenberg, Academic Director, INCAE

K. ROCAP Project Review Committee

Henry H. Bassford, Acting Director

John Eyre, Acting Deputy Director

The project review committee recommends this project
for approval.

II. BACKGROUND AND DETAILED PROJECT DESCRIPTION

A. Background

I. Formation and Evolution of INCAE

The Instituto Centroamericano de Administración de Empresas (INCAE) is a privately-supported graduate school of business administration founded in 1964 by the Central American business community, the Agency for International Development, and Harvard University's Graduate School of Business in response to the region's needs for skilled private and public sector managers. The institution strives to raise the quality of management education, to improve managerial competence, to encourage private sector support for regional integration, and to conduct research on management practices and problems in the Central American region.

Located in Nicaragua and initially patterned after Harvard Business School, INCAE currently offers a two-year Masters Degree Program, a six-week Advanced Management Program, a variety of three day seminars, and management consulting services for industries and Governments in the Central American region and in neighboring South American countries. Although initially founded to serve the private sector, INCAE's programs have increasingly focused on generic management to serve the public sector as well.

INCAE is supported by tuition fees, donations from the private sector, and grants and loans from international agencies. Among the countries served, all usually provide

annual donations. However, not all countries are current with their annual donation due to continued political and economic problems in the region.

In the early 1970's INCAE's staff prepared a long term plan for service expansion and financial self sufficiency. In order to meet the needs of Central American managers, INCAE proposed to increase the size of its masters level class and expand its executive and special programs. As part of this long term plan, A.I.D. in 1972 lent the Institute \$3.9 million to enlarge its physical facilities, establish a student loan fund, and to underwrite the cost of developing new educational programs. As a result, MBA first year enrollment doubled from 45 to 90 students per year, more executive management seminars were developed and management consultancy was introduced as a new source of revenue. In 1976-77, the growth strategy began to show positive results, Enrollments and offerings in all areas went up and the institution's operating deficit was significantly reduced. In fact, with a modest operating budget of \$18,000 by the end of the 1976-77 academic year, the institute reached financial equilibrium one year ahead of schedule.

2. The Revolution in Nicaragua

The revolution in Nicaragua erupted as the institution was turning its attention to the establishment of an endowment fund which would ensure its financial stability and continued development. Nicaragua was gripped

by a political and economic upheaval which would ultimately bring an end to the Somoza regime. INCAE management was finally forced to abandon its plans for an endowment fund-raising campaign in order to concentrate on ensuring short-term survival. Notwithstanding the Institute's efforts to balance its budget, enrollments dropped, and the 1977-78 academic year closed with an operating deficit of US\$172,000. INCAE's financial status continued to deteriorate during the course of the war. By the end of classes in the 1978-79 academic year, the enrollment in the first year of the MBA program dropped from 87 students to 64 students who would return for the second year, and many revenue-generating activities such as seminars had to be cancelled. Consequently, the 1978-79 year closed with a deficit of US\$302,000, forcing the institution to increase its short-term debt.

The anti-Somoza forces triumphed in July, 1979. In August of that year, the Trustees of INCAE met to decide the future direction and role of the Institute under the new Government of National Reconstruction (GRN). A decision was reached to maintain the school in Nicaragua with its traditional programs and to offer special management assistance to the new government in its efforts to reactivate the economy.

With the conclusion of the war, INCAE was faced with sharply declining enrollments, loss of faculty, and an operating budget once again in the red. As is more fully explained in the financial analysis section of this paper, post civil war Nicaragua found INCAE facing three serious and interrelated financial problems: the operating budget crisis, the liquidity crisis and the solvency crisis.

3. The A.I.D. Response

In December of 1979, A.I.D. contracted Arthur D. Little, Inc. (ADL) to conduct a study of INCAE's financial and organizational problems and to formulate recommendations for possible A.I.D. assistance. ADL was able to identify INCAE's major problem areas and critical needs. One basic problem was that an entering MBA class that was less than half the normal size combined with a reduced scope of activity in some of the other programs sharply curtailed revenue. Despite drastic reductions in the size of the faculty from 38 to 25, substantial fixed costs, as well as continued inflation, prevented reductions in expenditures sufficient to balance the budget. Moreover, interest on short-term loans continued to drain savings in operating expenses.

Thus, INCAE's immediate need, according to the ADL report, was short-term debt relief and operating budget assistance applied within the context of the need for a longer term development strategy. The first phase of such a strategy, "stabilization", would require cost cutting and a reallocation

of resources to revenue-generating activities such as seminars, fund raising, and increasing the MBA program enrollment for the 1980-81 academic year. ADL considered A.I.D. grant support during the 1979-80 academic year crucial to a successful design and implementation of any long-term development strategy and, ultimately, INCAE's survival.

A.I.D. responded with a \$400,000 grant project entitled INCAE Management Development. The purpose of the project was to assist INCAE, in the short term to meet immediate operational needs; thereby enabling the institution to continue its operations, prepare for a fall 1980 MBA class, after advanced management programs, and prepare plans and analyses necessary to improve its financial and institutional viability. The assistance was allocated as follows: \$80,000 to assist in the restoration of a portion of the over \$200,000 which INCAE had drawn from the student loan fund and the remaining \$320,000 was used for expenditures incurred during the 1979-80 academic year. Inherent in the design of the A.I.D. grant was the full awareness that while this assistance would provide immediate short term relief, substantial longer term concessional aid would be needed in the near future.

4. Request by INCAE for Additional A.I.D. Assistance

As a covenant to the original A.I.D. grant support to INCAE, an independent audit was undertaken in the fall of 1980. The results of the audit combined with program reviews provided the basis for INCAE to develop a tightly structured

medium range plan to restore the institution to financial viability.

The turn-around management plan spans five years, with the next two being critical. The cost of the plan includes requested additional A.I.D. grant support to INCAE of \$1.4 million. This follow on support to INCAE in conjunction with moderately increased donations and contributions from other private and public sector supporters will enable INCAE to reduce operating budgets and increase activity levels, reduce past deficits, and permit normal debt servicing of long term loans. The analyses included within this Project Paper Amendment support the proposed level of A.I.D. support to INCAE.

B. Detailed Project Description

1. Rationale for Project Design

In the past, almost all projects financed by INCAE's traditional donors were specifically focused on one or more activities. However, given the financial crises of the past year and the increasing scope and complexity of INCAE's operations, it is essential to strive for achievement of an integrated overall medium-term development plan. The proposed project design provides essential support to enable INCAE to carry out its five year turnaround management plan, which will permit INCAE to continue to meet the managerial training and technical assistance requirements of the region, the respective governments and the donor community.

The proposed turnaround management plan addresses INCAE's three basic financial problems: operating budget, liquidity, and solvency. It is proposed that under this revised project, A.I.D. will provide the majority of required capital support while other donors (e.g., CABEI and private and public sector institutions and individuals) will continue to supply the necessary budget support to the areas in which there are current and identified needs.

2. Nature of the Project

The Project is designed to assist in developing INCAE as a solvent institution. Objectives for the realization of the foregoing include:

- a. reducing the short term, high cost liabilities and overhang which will allow

- increased operational efficiencies;
- b. providing essential working capital liquidity;
- c. assisting in the restoration of the student loan fund;
- d. providing for critical capital equipment repairs and purchases; and
- e. reducing the current negative net worth of the institution.

3. Goal, Project Purpose and EOPs

a. Statement of Goal

The goal of the project is to rebuild, expand and improve the level of management training in the Caribbean and Central and South America.

Project activities to be carried out to achieve the goal include, rebuilding the MBA and advanced management programs to their normal levels, expanding executive training programs to include participants from the Caribbean and Andean countries, implementing programs to improve efficiency in internal administration, rebuilding the special programs, developing programs to increase the size and quality of the INCAE faculty, and strengthening the research and case writing activities in management.

b. Assumptions for Achievement of Goal

1) The need for management training will play a vital role in the vitalization of the productive sectors

in the Caribbean and Central and South America.

2) INCAE will continue to operate as an independent institution serving the managerial needs of both the private and public sectors.

3) INCAE will continue to play a significant role in managerial training and will continue to receive the required donor and governmental support.

c. Statement of Purpose

The specific project purpose is to assist INCAE to meet immediate and short-term operational needs; thereby enabling the institution to continue its operations, prepare for classes of MBA candidates and other advanced management and special programs, and implement plans necessary to improve its financial and institutional viability.

d. Conditions Expected at the End of the Project (EOPs) Indicating Achievement of Project Purpose

The key components of the project purpose can be utilized to classify the principal achievements expected upon completion of the project.

1) Operational Needs. The over-hang will be reduced and a higher degree of solvency and financial stability will have been developed for INCAE.

2) MBA Training. The level of MBA training will have been restored and a full-time enrollment of MBA candidates will have been achieved.

3) Advanced Management and Special Programs. The advanced management programs will have been restored to their normal levels and special programs in development banking, agribusiness and public management will have been strengthened.

4) Implementation of Plan. By the end of the project INCAE's five-year turnaround management plan will be in full implementation and providing INCAE with the requisite feedback to ensure long-term viability of the institution.

4.. Project Description

In response to the turnaround management plan and to the identified need for medium-term concessional assistance, this project has been expanded to provide additional A.I.D. assistance through FY 1982. Based upon the initial \$400,000 support to the project and the financial and institutional analyses A.I.D. has completed, additional A.I.D. grant support to the project of \$1.4 million will be required during FY 81 and FY 82. This will bring the total A.I.D. grant support to the project to \$1.8 million. Because INCAE is again in a cash crisis with creditors not being paid and payrolls not being met, \$500,000 of the proposed \$900,000 for FY 81 will be required immediately.

As is indicated in the financial plan, the increased aid support is exclusive of the required loan servicing of A.I.D.'s loan to INCAE.

FINANCIAL PLAN
SUMMARY COST ESTIMATES
(\$000)

<u>COMPONENT</u>	<u>FY-80</u>	<u>FY-81</u>	<u>FY-82</u>	<u>TOTAL</u>
A. Restoration of Student Loan Fund	80	250	---	330
B. General Operational Support for the 1979-80 Academic Year	320	---	---	320
C. Equipment Repairs and Purchases	---	50	100	150
D. Operational Deficit and Working Capital	---	<u>600</u>	<u>400</u>	<u>1,000</u>
TOTALS	<u>400</u>	<u>900</u>	<u>500</u>	<u>1,800</u>

III. PROJECT ANALYSIS

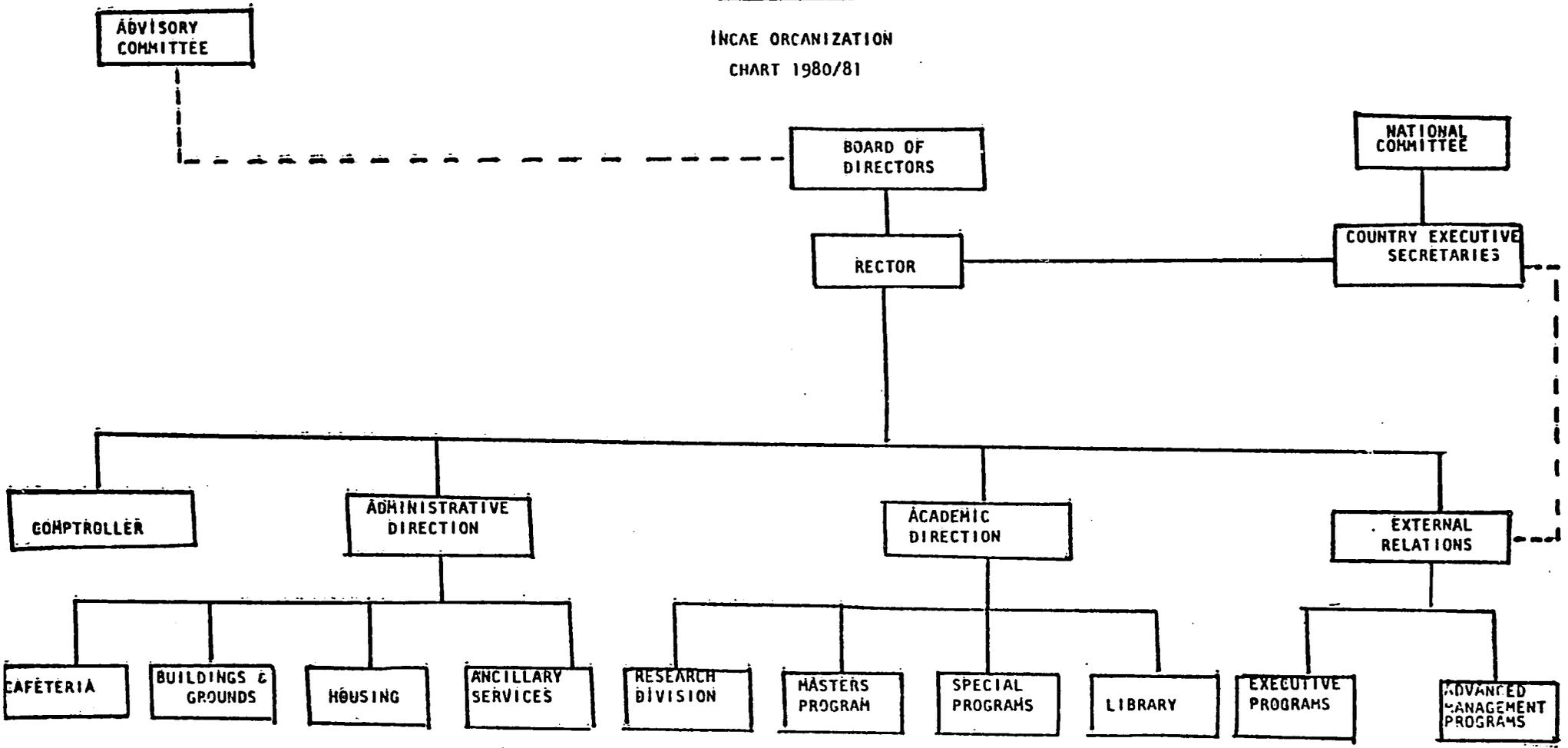
A. Institutional Analysis

1. Current Organization of INCAE

INCAE is governed by an eight-member Board of Directors consisting of one representative from each of the Central American countries, the President of the Board, and the Rector. The board receives advice from a 13 member advisory committee consisting of distinguished scholars, businessmen and public sector officials from Latin America and the United States. The Rector of the institution is selected by the Board of Directors and manages the internal and external relations of the institute.

At the operating level there are four divisions: the comptroller's division, the administrative division, the academic division, and the division of external relations. The comptroller's division handles all matters related to financial management. The administrative division manages all support services for the institution. The academic division is comprised of the masters program, special programs, the research program and the library. Finally, the division of external relations is responsible for fund raising, short seminars, executive programs, and the summer advanced management programs. The external relations of the institute in each of the Central American countries are managed by six national INCAE committees and operational activities are handled by six country

TABLE III A.1
 INCAE ORGANIZATION
 CHART 1980/81



executive secretaries. The rector meets with the national committees periodically and is responsible for the functioning of the executive secretaries.

More than 150 people currently work at INCAE. Of these, 30 are academic faculty and staff, or members of the division of external relations. In 1980/81 there were 19 teaching faculty, three research and consulting faculty, 8 administrators, and two faculty on leave.

TABLE III.A.2.

FACULTY DISTRIBUTION BY TYPE AND COMMITMENT

	<u>1979-80</u>				
	<u>Teaching</u> ^{a/}	<u>Research and Consulting</u> ^{a/}	<u>Admin.</u>	<u>On Leave</u>	<u>Total</u> ^{b/}
Resident	12	3	6	1	22
Visiting ^{c/}	<u>8</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8</u>
Full Time (A+B)	20	3	6	1	30
Part Time	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>
TOTAL ^{b/}	21	3	6	1	31
	<u>1978-79</u>				
Resident	15	6	6	-	27
Visiting	<u>2</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2</u>
Full Time (A+B)	17	6	6	-	29
Part Time	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>
TOTAL ^{b/}	18	6	6	-	30

a/ Reflect type of appointment rather than actual allocation of time.

b/ Head count.

c/ Full time faculty serving less than full academic year.

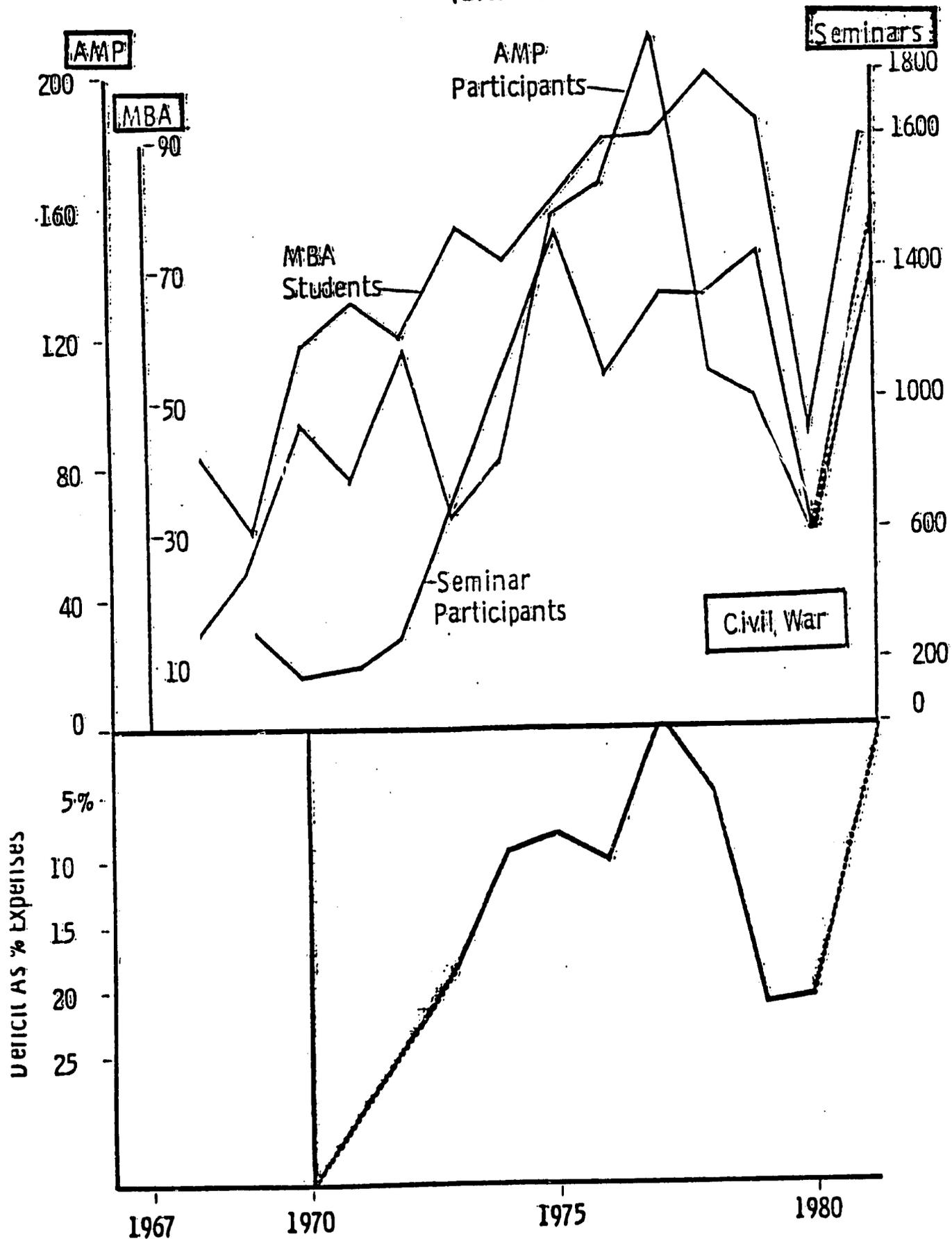
As can be seen in Table III.A.3., entering student enrollment in the MBA program has fluctuated over the years from a high of 100 in 1977 and a low of 47 in 1979. The advanced management programs and seminars have also correspondingly been affected by the civil war of Nicaragua. Declines in each program directly affected the level of deficit under which the institution was forced to operate. Since the conclusion of the war, all programs have been regaining their normal levels. Currently, the 1980 MBA program contains 137 full-time students (of which 44 are returning students) and the advanced management and other special seminars are returning to their normal levels.

2. The Crisis and Turnaround Management Plan

From late 1977 through mid-1980, INCAE suffered major financial losses. This was due to two interrelated causes: the Nicaragua civil war and the inability or unwillingness of the then existing management to closely examine and plan for future growth. Combined, these forced INCAE to substantially reduce its program offerings and operate with an ever increasing deficit.

During the last half of 1980 an ad hoc group of directors, faculty and advisors analyzed INCAE's situation and developed a five-year turnaround management plan to revitalize the institution. This group reviewed INCAE's basic strategy in light of the growing financial crises and the changing political conditions in Central America. It

TABLE III.A.3
INCAE'S PERFORMANCE
(1967 - 1980)



worked closely with the faculty to develop a realistic program of activities and budgets for 1980-1985, and discussed these plans with faculty and staff, creditors and the donor community. The key programmatic elements of the new strategy included: 1/

- a. Development of a series of new special programs to respond to the changing needs of the region.
- b. Diversification of INCAE activities into South America and the Caribbean to compensate for program shortfalls due to political tensions in Central America.
- c. Aggressive expansion of executive programs.
- d. Reduction of operating expenses through cost cutting and increased productivity by INCAE staff and faculty.
- e. Creation of a US based endowment fund from which the interest would help service long term debt and provide for contingencies.
- f. New efforts at fund raising in Central America itself.

3. Key Assumptions to Achieving the Turn Around

The strategy of the plan assumes that there are markets for diversification in South America and the Caribbean which INCAE can effectively serve. It is estimated that with diversification INCAE will be able to survive even if violence or revolution shuts down one or two of the Central

1/ See Table III.B.4 for corresponding financial elements to the plan.

American markets in any given year. Initial work in Colombia, Ecuador and the Dominican Republic suggest there is great potential for INCAE outside of Central America. This is supported as applications this year from the rest of Latin America are high and 15% of the full entering MBA class in 1980 came from outside Central America.

The strategy also assumes that donors in Central America and the U.S. will contribute at targeted levels, even in the midst of turbulence and with depressed economic conditions. This will not be easy, but the response of the local committees to the new Rector and this plan have been encouraging. For example, in Guatemala in October of 1980, \$51,100 in pledges were received toward a projected goal of \$81,000, which would be nearly double the highest historic donation level for that country.

The resumption of violence in Nicaragua or a marked deterioration in relations between Nicaragua and other Central American countries and the U.S. poses a crisis to successful achievement of the plan. However, since 1978, relations with the Nicaraguan government have improved and are now cordial. Moreover, INCAE's administration and faculty believes itself to be in a good position relative to the Nicaraguan government. This is based upon:

- a. The unhindered design and control of its curriculum.

- b. The ability to recruit faculty without government supervision.
- c. The ability to gain free entry and exit for faculty and students and their possessions.
- d. The ability to receive educational materials from outside of the country without hinderance.

No one can predict with certainty the course of relations, but it is believed that if INCAE plays its role aggressively and successfully the odds of a deteriorated situation are reduced. Also, to the extent INCAE can show vigor and improve its financial situation, it is much better positioned to develop an alternative strategy if forced to respond to new political uncertainties in Nicaragua or the region as a whole.

B. Financial Analysis

1. The Financial Crisis

Largely as a result of conflict in the Region, in particular the Nicaragua civil war, INCAE suffered losses of faculty and students, declining revenues, and major financial losses. The then management team at INCAE failed to fully recognize the rapidly deteriorating financial health of the Institution and appropriate measures to cut costs parallel with sharply declining revenues were not taken. Three interrelated financial problems resulted: the operating budget crisis, the liquidity crisis and the solvency crisis.

(a) The Operating Budget Crisis

During the war in Nicaragua, MBA enrollments fell from 100 in 1977 to a low of 47 in 1979. In addition, INCAE did not generate the volume of revenue activity anticipated, in part because of disruptions in some of INCAE's principal markets and in part because of the impact of events in Nicaragua on the personal lives and productivity of some faculty members. The total combined operating losses during the 1978-79 and 1979-80 academic years was approximately \$1,834,000, the origin of which may be traced to the following areas:

- Executive Programs, caused principally by the cancellation of seminars in politically troubled El Salvador and

Guatemala, plus low attendance in the Advanced Management Program, due in part to late and ineffective promotion;

- Special Programs, due to the failure to secure continuing grants for these programs and to initiate large-scale public sector training programs in mid-1980 as planned;

- Fund-Raising, due to the weakened position of the private sector in several of the countries, and the unwillingness of some of the more conservative constituents to support an institution in Nicaragua; and

- Consulting, resulting from an institutional decision to abandon large consulting projects because of their relatively low margins and high risks.

The mounting operating crisis was not acknowledged nor acted upon in part because essential information was lacking. The Comptroller hired in December 1979 (to replace the previous incumbent who left in June 1979) left in early 1980, leaving much of the responsibility with the already overburdened Administrative Director. The situation was not resolved until a new Comptroller was named by the Rector in June 1980. The full extent of the budget crisis began to reveal itself as the new Comptroller put together an income and expense statement for the September 79 - July 80 period. Yet, by this point the operating deficits had given rise to a second crisis, the liquidity crisis.

(b) The Liquidity Crisis

In order to keep its doors open during the political unrest while enrollments and program offerings deteriorated, INCAE was forced to rely on short-term loans at high rates of interest, to draw down its restricted funds, to defer its payments to creditors and to draw on advances on future program income. With all sources of long and short-term borrowing exhausted, the Institute financed its cash flow between January and September of 1980 by drawing nearly \$400,000 from its own restricted funds (\$213,000 from the student loan fund and \$181,000 from capital funds) and by lagging its accounts payables in an effort to use next academic year's income (1980-81) to finance current costs. Furthermore, its inability to make even token interest payments on its short and long term loans made it impossible to negotiate restructuring of loan packages with creditors. By the end of the 1979-80 academic year, short term liabilities exceeded short term assets.

(c) The Solvency Crisis

In the early 1970's to finance the building of facilities at INCAE to permit expansion and to underwrite the costs of some of its new programs, INCAE received \$4,715,800 in long term loans from USAID and CABEI. INCAE's mounting

operating budget and liquidity crises made it impossible to service this long-term debt in 1979 and 1980, creating a solvency crisis.

An independent audit of INCAE which was done by Arthur Anderson and Co. shows that as of August 31, 1980, the institution had a negative net worth, exclusive of restricted funds and land revaluation, of nearly two million dollars.

2. The Turnaround Plan

The immediate financial crisis came to a peak for INCAE in late summer 1980, at which point the institution was essentially bankrupt and totally lacked the liquid assets needed to continue functioning. By late July it became clear that if major financial assistance did not reach INCAE by mid September, 1980, it would likely have to close its doors.

Once the magnitude of the problem was fully recognized by INCAE, the turnaround management plan, detailed in the institutional analysis section of this paper, was initiated. Originally, it contained two essential elements: (a) AID would provide dollars 400,000 in the form of an emergency cash grant to allow INCAE a margin of operating latitude and a few months time during which (b) the INCAE management team would refine and implement a tightly structure medium range turnaround plan to restore INCAE to financial viability.

The plan was initially successful. INCAE was able to remain operating, offer new seminars, admit a new MBA class, and refine the turnaround management plan. As revised, the plan spans five years, with the next two being critical. It calls for major changes in INCAE's strategy and operations, including substantial increases in program performance while holding real costs constant. Operational plans and budget projections have been modified and are being put into effect. Concurrently, fund raising efforts, both in the U.S. and Central America, are being considerably intensified. Debts are to be restructured with high-cost, short-term credits liquidated as rapidly as possible, and the longer term CABEI loan is to be renegotiated and extended. (The independent external audit has now been completed and the tentative agreement which has been reached between CABEI and INCAE to renegotiate the loan can begin to focus on specific new terms and conditions). Perhaps the single most vital element in the plan is a new management team, which includes a new Rector and Academic Director.

The cost of the plan includes additional A.I.D. grant support of \$1.4 million, a potential new loan from CABEI of up to \$1.5 million, and increased donations and contributions from other public and private sector supporters.

3. Viability of the Plan

Barring renewed and intensified political strife in the region, the plan appears readily achievable.

As the data in table IIIB.5 indicates, INCAE is projected to be able to restore operational income equilibrium by the end of the 1982-83 school year, with profitability gradually increasing in subsequent years. Concurrently, the net cash flow will remain approximately constant after liquidation of high-cost overhead in 1981 and 1982.

The AID assisted plan will not eliminate INCAE's negative net worth, although it will reduce it to approximately one million in five years. Thus, although the balance sheet by traditional standards will remain weak, the Institution will become liquid and financially viable by the third year.

The projected figures are conservative and should be well within INCAE's reasonable ability to achieve. Contingencies have been developed for each major element of revenue and expense and are incorporated in the projected statements. The cumulative effect of these, net of calculated exchange rate gains, is to reduce projected operational revenue by \$310,000 in 1980/81 and \$415,000 in 1981/82. Similar contingency reserves have been factored into subsequent years over the life of the plan. Gains and losses from currency exchange and possible blocked currencies have also been considered in anticipation of increasing fluctuations and lack of convertibility of the region's currencies.

TABLE III.B.1

INCAE
INCOME AND EXPENSE
PROJECTIONS
(THOUSAND \$US)

	1979/80	80/81	81/82	82/83 ^{2/}	83/84 ^{3/}	84/85 ^{4/}
TOTAL INCOME ^{1/}	2,415.7	2,928.8	3,768.7	4,376.5	4,914.1	5,530.5
TOTAL EXPENSES	<u>3,156.6</u>	<u>3,369.6</u>	<u>3,978.8</u>	<u>4,376.5</u>	<u>4,814.1</u>	<u>5,405.5</u>
TOTAL SURPLUS (DEFICIT)	(740.9)	(440.8)	(210.1)	(0)	100	125
AID FUNDS	<u>400</u>	<u>900</u>	<u>500</u>	<u>-</u>	<u>-</u>	<u>-</u>
REVISED SURPLUS (DEFICIT)	<u>(340.9)</u>	+ <u>459.2</u>	+ <u>289.9</u>	<u>0</u>	<u>100</u>	<u>125</u>

- ^{1/} With fund raising but without AID grant of 1979 or proposed AID 80/81, and 81/82. Net of endowment income/Capital budget/Student Loans.
- ^{2/} Assumes 10% inflation increase in income and expenses + \$50,000 in increased contribution from executive programs, \$100,000 in fund raising and \$60,000 in special programs.
- ^{3/} Assumes 10% inflation increase + \$100,000 additional contribution evenly divided among executive programs, special programs and fund raising.
- ^{4/} Assumes 10% inflation increase + \$125 additional contribution evenly divided among executive programs, special programs, and fund raising.

TABLE III.B.2

(THOUSANDS US\$)

1979 - 85

INCAE
BALANCE SHEETS

	79/80	80/81	81/82	82/83	83/84	84/85
ASSETS						
Cash	207.2	211.0	205.3	177.7	196.1	181.1
Receivables + Inventory	766.2	366.2	366.2	366.2	366.2	366.2
S.T. Current Assets	<u>973.4</u>	<u>577.2</u>	<u>571.5</u>	<u>543.9</u>	<u>562.3</u>	<u>547.2</u>
L.T. Student + Loans	1,105.2	1,456.2	1,756.2	2,056.2	2,356.2	2,656.2
Land + Buildings	3,109.0	3,022.6	2,986.2	2,959.8	2,944.4	2,941.0
TOTAL ASSETS	<u>5,187.6</u>	<u>5,056.0</u>	<u>5,313.0</u>	<u>5,559.9</u>	<u>5,862.9</u>	<u>6,144.4</u>
LIABILITIES + FUNDS						
Payables (Non Bank)	486.4	101.6	51.6	51.6	51.6	50.0
Advanced Prog. Receipts	179.9	179.9	79.9	79.9	79.9	--
Com. Bank Obligations	390.6	240.6	90.6	90.6	50.6	.6
S.T. Liabilities	<u>1,056.9</u>	<u>522.1</u>	<u>222.1</u>	<u>222.1</u>	<u>182.1</u>	<u>50.6</u>
USAID + CABEI DEBT	4,715.8	4,659.8	4,927.8	5,123.8	5,316.8	5,504.8
TOTAL LIABILITIES	<u>5,772.7</u>	<u>5,181.9</u>	<u>5,149.9</u>	<u>5,345.9</u>	<u>5,498.9</u>	<u>5,555.4</u>
RESTRICTED FUNDS	551.4	551.4	551.4	601.4	651.4	751.4
REVALUATION LAND	825.5	825.5	825.5	825.5	825.5	825.5
GENERAL FUND	(1,962.0)	(1,502.8)	(1,212.9)	(1,212.9)	(1,112.9)	(987.9)
TOTAL ALL FUNDS	<u>(585.1)</u>	<u>(125.9)</u>	<u>164.0</u>	<u>214.0</u>	<u>364.0</u>	<u>589.0</u>
TOTAL LIABILITIES AND FUNDS	<u>5,187.6</u>	<u>5,056.0</u>	<u>5,313.0</u>	<u>5,559.9</u>	<u>5,862.9</u>	<u>6,144.4</u>

TABLE III.B.3

INCAE
1979 - 85
(THOUSAND US\$)

OPERATING CASH FLOW	79/80	80/81	81/82 ^{2/}	82/83	83/84	84/85
Operational Income + Local Gifts		2,928.8	3,768.7	4,376.5	4,914.1	5,530.5
Operational Expenses		3,369.6	3,978.8	4,376.6	4,814.1	5,405.5
Operational Surplus (Deficit)		(440.8)	(210.1)	(0)	100	125
Depreciation		136.4	136.4	136.4	136.4	136.4
Other		-	-	-	-	-
Operating Cash Flow		-	-	-	-	-
Suplus (Deficit)		(304.4)	(73.7)	136.4	236.4	261.4
SHORT TERM NON OPERATING CASH FLOW						
Fund Raising Student Loans		100 ^{1/}	300 ^{3/}	300 ^{3/}	300 ^{3/}	300 ^{2/}
Other Fund Raising		0	-	50	50	100
USAID		900	500	-	-	-
OBLIGATIONS						
- Payables		100	50			51.6
- Commercial Debt ^{4/}		150	150		40	-
- Advances		156	100			79.9
Repayment USAID/CABEI Debt			32	104	107	112
Student Loans		250	300	300	300	300
Capital Expenditures		50	100	110	121	133
Short Term non operating						
Cash Flow		294.0	68.0	(164.0)	(218)	(216.5)
Net Cash		(10.4)	(5.7)	(27.6)	18.4	(15.1)
Cash Balance End	221.4	211.0	205.3	177.7	196.1	181.0

1/ INCAE Local Fund Raising

2/ Current Dollar where applicable
at 10% rate of increase for each year after 81/82

3/ Includes CABEI loan of 1.5 million U.S. dollars for Student Loans (Now Being Processed)

4/ CABEI Interest and Commercial Bank Interest Deferred via Negotiations

INCAE
OPERATING BUDGET

TABLE III-D-1

ITEM	1980/81 Budget ^{1/} (Thousand 1980 US\$)			1981/82 Budget (Current 1981 US\$) ^{9/}		
	Revenue	Expenses ^{3/}	Net	Revenue	Expenses	Net
Executive Programs	1.282.1	891.8	390.3	1.698.4 ^{5/}	1.207.9 ^{5/}	490.5
Fund Raising	365.0	164.5	200.5	401.5	180.9	220.5
Associates+Alumni	65.0	53.9	11.1	71.5	59.4	12.1
Subsidy	175.0	0	175.0	192.5	0	192.5
Other	112.1	96.7	15.4	123.3	106.3	16.9
Sub Total	<u>1.999.2</u>	<u>1.206.9</u>	<u>792.3</u>	<u>2.487.2</u>	<u>1.554.5</u>	<u>932.5</u>
Special Programs	658.8	613.9	44.9	700.3 ^{6/}	401.5 ^{6/}	298.8
Rent	243.0	251.4	(8.4)	273.4	275.7	(2.3)
Cafeteria	251.4	264.5	(13.1)	276.5	308.9	(32.4)
Educational Services ^{10/}	191.5	160.0	31.6	216.2	177.6	38.6
Other	5.0	1.5	3.5	0	0	0
Sub Total	<u>1.349.8</u>	<u>1.291.3</u>	<u>58.5</u>	<u>1.466.6</u>	<u>1.163.9</u>	<u>302.5</u>
Masters Program	345.7	546.6	(200.9)	490.2 ^{7/}	661.4 ^{7/}	(171.1)
Library	0	66.0	(66.0)	0	(72.6)	(72.6)
Rector and Academic Adm.	0	148.3	(148.3)	0	(162.8)	(162.8)
Internal ADM	0	290.3	(290.3)	0	(319.)	(319.)
Buildings+Grounds	0	245.1	(245.1)	0	(269.6)	(269.6)
Other	15.0	46.2	(31.2)	0	(34.7)	(34.7)
Sub Total	<u>360.7</u>	<u>1.342.5</u>	<u>(981.8)</u>	<u>490.2</u>	<u>1.520.2</u>	<u>(1.030.0)</u>
Total without Contingency	3.709.7	3.840.7	(131.0)	4.444.	4.239	205.
Contingency	(780.9) ^{2/}	(471.1) ^{2/}		(675.3) ^{8/}	(260.2) ^{8/}	(415.1)
Total with Contingency	2.928.8	3.369.6	(440.8) ^{4/}	3.768.7	3.978.8	(210.1)
Subtracted						

- 1/ Represents board approved 1980/81 budget Sept. 1980 (called second budget at INCAE minus contingency fund)
- 2/ Contingency reflects income and expense adjustments and foreign exchange gains and losses for cordoba transactions (see Appendix 1)
- 3/ Interest expenses are spread through programs.
- 4/ With depreciation the deficit is reduced to 286.8-152.0 = 134.8
- 5/ Second, third and fourth quarters of 1980/81 annualized
- 6/ 94% of second, third and fourth quarters annualized
- 7/ Full classes both first + second year
- 8/ Contingency assumes exchange rate gains + losses balance due to floating rates
- 9/ Assumes 10% rate of US dollar inflation and 15% contingency for income and 6% for expenses
- 10/ Includes other in 1981/82

29-D.

INCAE
ESTIMATES OF 1980/81 OPERATING
BUDGET CONTINGENCIES 1/

		INCOME			EXPENSES
Total Income INCAE		<u>3,709.9</u>	Total Expenses		<u>3,840.7</u>
Approved operating budget			INCAE approved operating		
1980/81			budget 1980/81		
Adjustment to reflect			Adjustment to reflect		
Contingencies			Contingencies		
(1)	% Reduction Revenues :		(1)	Reduction Revenues	
	(25%) Ex Programs	320.5		(8%) Ex Programs	71.3
	(25%) Fund raising	151.3		(0%) Fund raising	0
	(15%) Special Programs	98.8		(5%) Special Programs	30.6
	(5%) Services	40.9		(0%) Services	0
	(10%) Masters	<u>34.6</u>		(0%) Masters	<u>0</u>
	Sub Total	646.1		Sub Total	101.9
(2)	Exchange (gains) 2/	134.8	(2)	Exchange Rate	369.2
				Gains 2/	
	Total Contingency	780.9		Total Contingency	471.1
		<u>(780.9)</u>			<u>(471.1)</u>
	Total Income			Total Expenses	
	Minus Total Contingency	2,928.8		Minus Total Contingency	3,369.6

1/ Prepared after quarterly programs review to reflect conservative assumptions about program performance

2/ See appendix 2

TABLE III.B.6

INCAE

1979/80 and 1980/81

ANALYSIS OF GAINS & LOSSES OF CORDOBA EXPENSES & INCOME

(Thousand US\$)

1979/80

Total Expenses	3,156,600	
Cordoba Exch. at 10:1 1/	976,000	30. % Total Exp.
Cordoba Exch. at 15:1	<u>650,000</u>	20. %
Gain on Exch.	326,000	10.3%
 TOTAL INCOME	 2,815,704	
Cordoba Exch. at 10:1 U.S.	374,200	13.2% Total Income
Cordoba Exch. at 15:1 U.S.	<u>249,000</u>	8. % Income
Loss on Exch.	125,200	3.6%
 NET GAIN	 <u>200,800</u>	 6. % Total Exp.

1980/81: Exchange Gains Treated as same proportions of
Income and Expenses as of 1979/80 2/

1/ Official exchange rate 10/1, 15/1 floating rate

2/ Floating rate changed from 15/1 to 20/1

TABLE III.B.7

(US\$ 000)

GRAPHIC DISPLAY OF THE TURNAROUND MANAGEMENT PLAN

	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>
OPERATING BUDGET	Reduction of deficit from (\$900) to a range between (\$400) and 0 on a cash balanced basis	Reduction from (400) to a range between (200) and + 100	Between cash balanced 0 and 0 after depreciation.	+100 after depreciation.	+125 after depreciation
REDUCTION OF PAYABLES AND COMMERCIAL DEBT	1/3 of the million dollar overhang reduced	1/3 of the million dollar overhang reduced	No change	No change	Final 1/3 of the overhang reduced
LONG TERM DEBT SERVICING	Begin anew	Regular debt servicing	Regular debt servicing	Regular debt servicing	Regular debt servicing
STUDENT LOANS	INCAE replaces \$290 in student loan fund \$100 fund raising	Receives \$300 CABEI Student loan fund becomes fully solvent.	\$300 CABEI	\$300 CABEI	\$300 CABEI
CAPITAL FUNDS AND EQUIPMENT	Small equipment replacements in all years.				

TABLE IV.A.1

(\$000)

DISBURSEMENT SCHEDULE FOR AID GRANT FUNDS

<u>YEAR</u>	<u>AMOUNT</u>	<u>DATE</u>	<u>JUSTIFICATION</u>
FY 80	400	September 3, 1980	To replenish the Student Loan Fund and provide immediate budgeting support.
FY 81	500	February 1, 1981	To cope with immediate cash flow problems.
	400	June 1, 1981	To offset the usual cash flow shortage which normally takes place at the end of May; provide INCAE with the liquidity to finance front-end costs for extensive summer programs; and to offset anticipated operational losses.
FY 82	200	December 1, 1981	To address cash flow shortfalls in the beginning of the new academic year.
	100	January 1, 1982	To compensate for projected operational losses and retain liquidity.
	100	April , 1982	"
	100	June 1, 1982	"

C. Social Analysis

1. INCAE's Contribution in Central America

Several evaluations of INCAE have been performed at the request of A.I.D. These include the Coleman Report of 1976 and the Arthur D. Little Report of 1979. Each have commented on the impact of INCAE on the Central American region. Overall, given its short life span as an educational institution, these reports detail that INCAE has become the best graduate school of business administration in Central America and probably in Latin America.

In addition, the impact on economic development and stability of the more than 2,000 MBA's and graduates of executive programs (most of whom are in Central America), cannot be underestimated. These people, imbued with the spirit of rational decision-making and equipped with the tools to apply it, are now working in the top and middle echelons of the public and private sectors of the six Central American countries.

The political orientation of particular governments does not seem to affect the demand for INCAE graduates. This is well exemplified by the fact that while there were several INCAE alumni at ministerial and vice ministerial level in the Somoza administration, there are now others at similar levels in the new Nicaraguan government. Similarly, there are several INCAE graduates in high government positions in the new Salvadorean government.

2. The Role of Women

Although in its early years INCAE's attention to the role of women in development was limited, some of its new programs and its masters enrollment reflect the institution's increased concern for the inclusion of women in management training. For example, enrollment of women in the masters program during INCAE's first 13 masters classes was generally less than one percent of the entering class. Yet, as a result of a new effort by the masters program recruiter 14 of the 93 enterants in the 1980/81 academic year, or 16%, of the MBA XIV entering class were women. In addition, the institute offered in January 1981 a special seminar on women in development. INCAE researchers have also helped perform a special study on agricultural sector employment in Nicaragua in which the role of women is being carefully analyzed.

IV. IMPLEMENTATION ARRANGEMENTS

A. Administrative Considerations

The project grantee and implementing organization will be the Instituto Centroamericano de Administración de Empresas (INCAE). The Rector, or his designate, will be responsible for overall direction, coordination and liaison with ROCAP, external donors, and regional governments as necessary to implement project activities. The Rector will rely principally upon his Academic Director and faculty to carry out all program development and expansion.

B. Disbursements

Obligations for financing activities under the project will be with both Development Assistance (DA) and Economic Support Fund (ESF) monies. The first obligation of \$400,000 in FY 80 was taken from DA monies and the additional assistance of \$900,000 for FY 81 will be taken from ESF monies. The third and final obligation to the project will be made in FY 82 using either DA or ESF resources. Table IV.A.1 details disbursement under the project.

C. Procurement

INCAE procurement procedures will be utilized to the extent that they do not conflict with A.I.D. statutory restrictions. All goods and/or services financed under the project will have their source and origin in the Central American Common Market or the United States.

D. Implementation Plan

The project is planned for implementation over a fiscal three-year period. Work will begin in August 1980 and be concluded in September 1982. The anticipated scheduling of major events in implementation of project activities is as follows:

Project Approved	August 1980
Grant Agreement Signed	August 1980
First Disbursement (\$400,000)	September 1980
Balanced Operating Budget	September 1980
Independent Audit	September 1980
Turn-around Management Plan	December 1980
Amendatory Agreement Authorized	January 1981
Amendatory Agreement Signed	February 1981
Second Disbursement (\$500,000)	February 1981
Restoration of Student Loan Fund	March 1981
Third Disbursement (\$400,000)	June 1981
AID Progress Review	November 1981
Fourth Disbursement (\$200,000)	December 1981

Fifth Disbursement (\$100,000)	January 1982
Sixth Disbursement (\$100,000)	April 1982
Final Disbursement (\$100,000)	June 1982
A.I.D. Evaluation	July 1982

E. Evaluation Plan

An evaluation of the project is planned for the Summer of 1982. The evaluation will include analyses of (a) achievement of project goal, purpose and EOPs, (b) the financial solvency of INCAE, (c) the status of implementation of the turnaround management plan, and (d) the projected growth patterns of the institution. The evaluation is to be financed by non-project funds and undertaken by an independent organization.

F. Conditions and Covenants

1. Covenants

Under the amended project, INCAE will continue to be subject to the covenants agreed to under the original project agreement.

2. Conditions Precedent to Disbursement in FY 1982

As a Condition Precedent to Disbursement of FY 1982 funds, an assessment of the Project will be made to ascertain the progress in implementing the turnaround management plan and the need for continued grant support.

STATUTORY CHECKLIST

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? YES
 HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PRODUCT? YES

A. GENERAL CRITERIA FOR PROJECT

1. FAA Sec. 634A. (a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than \$1 million over that figure)?

Project was included in the ESF Supplemental package for Nicaragua. FY 1980 and 1981 assistance is within OYB. An advice of Program Change will be needed for FY 1982.

2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$100,000, 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?

Yes

3. FAA Sec. 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 purpose of the assistance?

Not Applicable

4. FAA Sec. 611(b); FY 79 App. Act Sec. 101. If for water or water-related land resource construction, has project met the standards and criteria as per the Principles and Standards for Planning Water and Related Land Resources dated October 25, 1973?

Not Applicable

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?

Not Applicable

6. FAA Sec. 209. Is project susceptible of execution as part of regional or multilateral project? If so why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

No

A.

7. FAA Sec. 601(a). Information and conclusions whether project 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.

Project will directly foster international trade and the private sector through increased managerial training.

8. FAA Sec. 601(b). Information and conclusion on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

This project will use U.S. commodities as appropriate

9. FAA Sec. 612(b); Sec. 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.

Not Applicable

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No

11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes

12. FY 79 App. Act Sec. 608. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar, or competing commodity?

Not Applicable

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(b); 111; 113; 281a. Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained

Project promotes economic involvement of the poor through increased levels of employment and production resulting from the training provided.

B.1.a.

basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

b. FAA Sec. 103, 103A, 104, 105, 106, 107.

Is assistance being made available: (include only applicable paragraph which corresponds to source of funds used. If more than one fund source is used for project, include relevant paragraph for each fund source.)

(1) [103] for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, is full account taken of needs of small farmers;

(2) [104] for population planning under sec. 104(b) or health under sec. 104(c); if so, extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems and other modes of community research.

(3) [105] for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development;

Project makes formal education more relevant by focusing upon current developmental needs.

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:

(i) technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

(ii) to help alleviate energy problems;

(iii) research into, and evaluation of, economic development processes and techniques;

(iv) reconstruction after natural or manmade disaster;

B.1.b.(4).

(v) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

(vi) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

c. [107] Is appropriate effort placed on use of appropriate technology?

Yes

d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or has the latter cost-sharing requirement been waived for a "relatively least-developed" country)?

e. FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to the Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"?

No

f. FAA Sec. 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 civil education and training in skills required for effective participation in governmental and political processes essential to self-government.

Project directly involves host nationals in the training programs and provides them with skills necessary to promote economic development and political stability.

g. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase or productive capacities and self-sustaining economic growth?

Yes

2. Development Assistance Project Criteria:
(Loans Only)

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.

b. FAA Sec. 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?

B.

3. Project Criteria Solely for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance support promote economic or political stability? To the extent possible, does it reflect the policy directions of section 102?

b. FAA Sec. 533. Will assistance under this chapter be used for military, or paramilitary activities?

Yes. Project will promote stability through fostering public and private sector initiatives. Project reflects policy directions of 102.

No.

STANDARD ITEM CHECKLIST

Listed below are statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of goods and services financed? Yes
2. FAA Sec. 604(a). Will all commodity procurement financed be from the U.S. except as otherwise determined by the President or under delegation from him? Yes
3. FAA Sec. 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will agreement require that marine insurance be placed in the United States on commodities financed? No
4. FAA Sec. 604(e). If offshore 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? Not Applicable
5. FAA Sec. 608(a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items? Yes
6. FAA Sec. 603. (a) Compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates. Yes
7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis? If the Yes

A.7.

facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

8. International Air Transport. Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available?

Yes

9. FY 79 App. Act Sec. 105. Does the contract for procurement contain a provision authorizing the termination of such contract for the convenience of the United States?

Yes

B. Construction

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

Section B is not Applicable.

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the United States not exceed \$100 million?

C. Other Restrictions

1. FAA Sec. 122 (e). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter?

Not Applicable

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?

Not Applicable

3. FAA Sec. 620(h). Do arrangements preclude promoting or assisting the foreign aid projects or activities of Communist-bloc countries, contrary to the best interests of the United States?

Yes

4. FAA Sec. 636(i). Is financing not permitted to be used, without waiver, for purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States, or guaranty of such transaction?

Yes

C.

5. Will arrangements preclude use of financing:

- a. FAA Sec. 104(f). To pay for performance of abortions or to motivate or coerce persons to practice abortions, to pay for performance of involuntary sterilization, or to coerce or provide financial incentive to any person to undergo sterilization? Yes
- b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? Yes
- c. FAA Sec. 660. To finance police training or other law enforcement assistance, except for narcotics programs? Yes
- d. FAA Sec. 662. For CIA activities? Yes
- e. FY 79 App. Act Sec. 104. To pay pensions, etc., for military personnel? Yes
- f. FY 79 App. Act Sec. 106. To pay U.N. assessments? Yes
- g. FY 79 App. Act Sec. 107. To carry out provisions of FAA sections 209(d) and 251(h)? (Transfer of FAA funds to multilateral organizations for lending.) Yes
- h. FY 79 App. Act Sec. 112. To finance the export of nuclear equipment, fuel, or technology or to train foreign nations in nuclear fields? Yes
- i. FY 79 App. Act Sec. 601. To be used for publicity on propaganda purposes within United States not authorized by the Congress? Yes

ANNEX 2

AGENCY FOR INTERNATIONAL DEVELOPMENT
R O C A P



ROCAP/GUATEMALA CITY or c/o American Embassy
APO MIAMI 34024 Guatemala City, Guatemala C.A.

Telephones: 321739
66352 / 53
66373 - 66309
Cable: ROCAP/ Guatemala

PROJECT AUTHORIZATION

Name of Entity : Central American Institute for Business Administration

Name of Project : INCAE Management Development

Number of Project: 596-0101

1. Pursuant to Section 105 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the "INCAE Management Development" project for the Central American Institute for Business Administration (INCAE), involving planned obligations of not to exceed \$400,000 in grant funds over the planned life of project of one year from the date of initial obligation, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project.

2. The Project consists of assisting INCAE, in the short term, to meet immediate operational needs, thereby enabling the institution to continue its operations, prepare for a Fall 1980 class of MBA candidates, and to offer, where possible, Advanced Management Programs and special seminars. Other INCAE activities to be carried out during this period will provide prerequisite analyses and plans to improve INCAE's financial position. With these analyses accomplished, it is expected that the Institute will be better able to make appropriate program adjustments and define future financial assistance requirements and, given such assistance, will be better able to ensure its long-term institutional viability.

3. The Project Agreements which may be negotiated and executed by the officers to whom such authority is delegated in accordance with AID regulations and Delegations of Authority shall be subject to the following essential terms

- 2 -

and covenants and major conditions, together with such other terms and conditions as AID may deem appropriate.

4. Source and Origin of Goods and Services

Goods financed by AID under the project shall have their source and origin in the Central American Common Market or in the countries included in AID Geographic Code 000 except as AID may otherwise agree in writing. Ocean shipping financed by AID under the project shall, except as AID may otherwise agree in writing, be financed only on flag vessels of the United States.


Henry H. Bassford
Acting Director, ROCAP

8/28/90
Date:

ANNEX 3

DATOS FISCALES

FISCAL DATA

Consignación:

Appropriation:

Asignación:

Allotment:

Número de Proyecto: 596-0101

Project Number: 596-0101

Financiamiento Previsto para
Vida de Proyecto: \$1,800,000

Anticipated Total Life of
Project Funding: \$1,800,000

Total Suma Previamente
Convenida: \$400,000

Total Previously
Obligated: \$400,000

Total de esta
Enmienda: \$900,000

Total this
Amendment: \$900,000

INITIAL ENVIRONMENTAL EXAMINATION

PROJECT LOCATION: Nicaragua

PROJECT TITLE: INCAE Management Development

FUNDING: \$400,000 (Grant)

LIFE OF PROJECT: One (1) year

IEE PREPARED BY: Carlos E. Crowe *Carlos Crowe*
Chief Engineer
August, 1980

RECOMMENDED THRESHOLD DECISION:

Negative Determination (see attached)

MISSION DIRECTOR'S CONCURRENCE

Henry H. Bassford
Henry H. Bassford
Acting Director

8/27/80
Date:

THE PROJECT

The project will provide support to the Central American Institute for Business Administration, INCAE, to enable it to continue its current educational programs and to allow it time to perform the requisite analyses and planning which would ensure its institutional viability in the future.

DISCUSSION

AID Handbook 3 Appendix 5C paragraph 216.2 (a) and (b) of AID's Environmental Regulations do not require the preparation of an Environmental Assessment (or an Environmental Impact Statement) for such projects as (a) Education or Training Programs not directly affecting the environment and (b) controlled experimentation exclusively for the purpose of research which is confined to small areas and carefully monitored.

CONCLUSION AND RECOMMENDATION

It is concluded this project meets the requirements of the exceptions noted above. Therefore, based upon these considerations a Negative Determination is recommended.

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project: From FY 80 to FY82
TOTAL US Funding: \$1,800,000
Date Prepared: 1/81

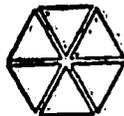
Project Title and Number: INCAE Management Development (596-0101) 524-0188, 524-0189

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions
<p><u>GOAL</u> To rebuild, expand and improve the level of management training in the Caribbean and Central and South America.</p>	<p>Increases in the level of managerial expertise in the Caribbean and Central and South America.</p>	<p>Survey of graduates of the MBA, advanced management and special programs. Examination of results of the special consulting services performed by INCAE.</p>	<ol style="list-style-type: none"> 1. There is a need for greater managerial expertise in the Caribbean, Central and South America. 2. Market expansion of INCAE will extend to the Caribbean and Andean countries 3. INCAE will continue to operate on independent constitution serving the managerial needs of both the private and public sectors. 4. INCAE will continue to receive required donor support.

Purpose	Conditions Expected by the End of Project	Means of Verification	Assumptions
<p>To assist INCAE to meet immediate and short-term operational needs; thereby enabling the institution to continue its operations, prepare for classes of MBA candidates and other advanced management and special programs, and implement plans necessary to improve its financial and institutional viability.</p>	<ol style="list-style-type: none"> 1. Reduction of overhang and a higher degree of solvency. 2. Level of MBA training will have been restored and a full-time enrollment of MBA candidates will have been achieved. 3. Advanced management and special programs restored to their normal levels. 4. Implementation of INCAE's five year turnaround management plan will be underway. 	<ol style="list-style-type: none"> 1. Annual Audit Report 2. Student Enrollment Figures 3. Enrollment Figures 4. Quarterly Progress Reports 	<ol style="list-style-type: none"> 1. Overhang can be reduced to a manageable level. 2. Demand for INCAE training will continue to ensure full MBA enrollment. 3. Need for INCAE advanced management special program continues 4. The five year plan is essential to and forms part of INCAE's ability to remain open.

Outputs	Verifiable Indicator	Means of Verifications	Assumptions
<ol style="list-style-type: none"> 1. Balanced budget by 1982. 2. Higher Degree of solvency. 3. Approximately 50-70 MBA graduates per school year. 4. Approximately 40-60 advanced management and special programs annually 	<ol style="list-style-type: none"> 1. A reduction of costs corresponded by an increase in income. 2. Reduction of negative net worth to approximately \$1.0 million 3. Class enrollment figures 4. Applications and enrollment figures 	<ol style="list-style-type: none"> 1. Annual Report 2. Annual Report 3. Quarterly and Annual Progress Reports 4. Quarterly Reports 	<ol style="list-style-type: none"> 1. INCAE can balance its budget by following the management plan. 2. Inputs will enable the reduction to a manageable level. 3. Full student load can be maintained. 4. Market demand continue exists for such programs.

Inputs	Verifiable Indicator	Means of Verification	Assumptions
1. FY-1980 \$400,000	Restoration of Student Loan Fund	Annual and quarterly reports	Inputs are essential to achieving a successful implementation of the five-year turnaround management plan.
2. FY-1981 \$900,000	General Operational Support Provided		
3. FY-1982 \$500,000	Overdue Supplier credits paid Over drafts liquidated Equipment repaired or purchased Operating Deficit reduced		



ANNEX 6

INCAE

INSTITUTO CENTROAMERICANO DE ADMINISTRACION DE EMPRESAS

APARTADO POSTAL 2485
MANAGUA, NICARAGUA, C. A.
CABLE: INCAE

PHONE: 80402/08

TELEX: 1300

January 17, 1981

Mr. Henry Bassford
Acting Director, USAID/ROCAP
c/o American Embassy
Guatemala City, Guatemala
Central America

Dear Mr. Bassford:

The purpose of this letter is to request additional AID assistance to INCAE of \$1,400,000 in grant monies during FY1981 and 1982 (\$900,000 in FY1981 and \$500,000 in FY1982). These funds are essential to enable the institution to successfully sustain its financial recovery from the revolution in Nicaragua and political unrest in the region. As you are no doubt aware, INCAE's programs suffered substantially during the last two years of political turmoil in the region. As a result, enrollments in our masters and executive programs dropped substantially, and we were forced to curtail our levels of activity in some countries substantially.

Beginning in the month of July 1980, selected members of the INCAE faculty, administration and board developed a turnaround management strategy to reduce operating budgets and increase activity levels, to help reduce past deficits by paying its creditors, and to renegotiate and restructure some of its long term debt as well as maintain debt service payments on other portions of this debt. The additional AID grant monies being requested will have a vital role in this turnaround management process by helping the institution substantially to counter the effects of current as well as past operating deficits. We look forward to your active consideration of this matter in the near future.

Sincerely,

Harry Strachan
Rector, INCAE
Apartado Postal 2485
Managua, Nicaragua

HS/ncg

cc: Files (2)
M. Lindenberg
J.A. Duarte