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UNITED STATES AID MISSION TO ECUADOR
INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
QUITO, ECUADOR

Cooperative Agreement No.
518-0035-A-00-6109-00

Amendment No. 1

June 4, 1987

ACTION:	
DIR	
D/DIR	
O/DP	✓
O/PE	
EXO	
O/CONT	✓
O/DR	✓
GDO	- 2
FHD	
U/H	
RDO	
PSD	
TRG	
ING. VELA	
DPS	
TIC	
RF	
M&R	✓
EMB	
WASH	5
RLA	1
RCO	

Mr. Juan Chiriboga
Vice President
Fundación Privada Ecuatoriana
Casilla 923
Guayaquil, Ecuador

Dear Mr. Chiriboga:

Pursuant to the authority contained in the Foreign Assistance Act of 1961, as amended, the Agency for International Development, (hereinafter referred to as "AID"), granted to the Fundación Privada Ecuatoriana (hereinafter referred to as "FPE"), on August 13, 1986, the sum of Three Million Five Hundred Thousand United States Dollars (US\$3,500,000.00) to provide support for a program to establish a Graduate Management Institute in Guayaquil, Ecuador. The project was fully described in the Attachment 1 entitled "Schedule" and Attachment 2 entitled "Project Description".

This Cooperative Agreement is hereby amended as follows:

1. Attachment 1 entitled "Schedule" is hereby deleted in its entirety and a new Attachment I is substituted therefor.
2. Attachment 2 entitled "Project Description" is hereby deleted in its entirety and a new Attachment 2 is substituted therefor.

INTERNATIONAL MAIL ADDRESS:
U. S. AID Mission to Ecuador
c/o American Embassy
Quito - Ecuador

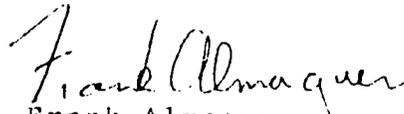
U. S. MAIL ADDRESS:
USAID - Quito:
Agency for International Development
Washington, D. C. 20523

CABLE ADDRESS: USAID QUITO
Phone: 521100

This Amendment 1 is effective as the date of this letter.

Except as herein amended, the Cooperative Agreement remains in full force and effect. As the duly authorized representative of F.P.E., please sign and return the original and three (3) copies to acknowledge your acceptance of Amendment No. 1.

Sincerely,


Frank Almaguer
Mission Director

Attachments:

1. Schedule
2. Project Description

Acknowledged:

FUNDACION PRIVADA ECUATORIANA

BY:


TYPED NAME: Mr. Juan Chiriboga

TITLE: Vice President

DATE: June 11, 1987

SCHEDULE

A. Purpose of Cooperative Agreement

The purpose of this Cooperative Agreement is to provide support for the establishment of a Graduate Management Institute (GMI), or Instituto Post-Grado de Administración de Empresas, in Ecuador as more specifically discussed in Attachment 2 to this Agreement entitled, "Project Description."

B. Period of Agreement

1. The effective date of this Cooperative Agreement is August 13, 1986. The expiration date of this Cooperative Agreement is January 31, 1992, or such other date as the Parties may agree in writing.

2. Funds obligated hereunder are available for project expenditures for the estimated period of August 13, 1986 to January 31, 1988 as shown in the Financial Plan below.

C. Amount of Agreement and Payment

1. The total estimated amount of this Cooperative Agreement for the period shown in B.1. above is \$10,000,000.

2. A.I.D. hereby obligates the amount of \$3,500,000 for project expenditures during the period set forth in B.2 above and as shown in the Financial Plan below.

3. Payment shall be made to the Recipient in accordance with the procedures set forth in Optional Standard Provision 1 entitled "Payment - Periodic Advance," of Attachment 3.

4. Additional funds up to the total amount shown in C.1. above may be obligated by A.I.D. subject to the availability of funds, and to the requirements of the Standard Provision of the Agreement, entitled "Revision of Agreement Budget."

5. All payments are conditional upon understandings set forth in Paragraph E. Substantial Involvement Understandings of this Agreement.

6. All costs incurred under this Agreement in excess of those budgeted for and set forth in the "Budget" shall be paid by the Recipient.

D. Financial Plan

1. The following is the Budget for this Agreement. Revision to the Budget shall be made in accordance with the Standard Provision of the Agreement entitled, "Revision of Agreement Budget."

BUDGET
(US\$000)

<u>Cost Element</u>	<u>Obligated</u> <u>Amount</u> (8/13/86 to 01/31/88)	<u>Estimated</u> <u>Additional</u> (11/1/87 to 01/31/92)	<u>Total</u> <u>Estimated</u> <u>Amount</u>
Technical Assitance*	945,000	4,870,500	5,815,500
Training*	297,500	---	297,500
Phisical Plant/ Equipment*	986,500	---	986,500
Operating Expenses**	1,171,000	1,489,500	2,660,500
Evaluation*	<u>100,000</u>	<u>140,000</u>	<u>240,000</u>
TOTAL	3,500,000	6,500,000	10,000,000

Nota Bene:

* A.I.D. is the authorized agent for the commitment of these funds and they are not available to the Recipient.

** A.I.D. is the authorized agent for the commitment of US\$1,741,000 of the Total Estimated Amount of Operating Expenses and the Recipient may commit no more than US\$919,500 of the Total Estimated Amount of Operating Expenses in accordance with the provision of the Substantial Involvement Understandings.

2. Within the total obligated amount of this Agreement the Recipient may adjust individual line items by up to 15% as is reasonably necessary for the performance of project objectives set forth herein.

3. The recipient shall open a special account for the sole purpose of this Agreement prior to receiving any funds under this Agreement.

4. The recipient shall provide AID with a copy of each financial audit conducted on the Recipient. The audit report shall include a section detailing AID project receipts and related expenditures by program component.

5. The recipient is authorized to use U.S. dollars for Local Cost Financing so long as commitments have been approved by AID in accordance with the Substantial Involvement Understandings of this Agreement and in accordance with the Optional Standard Provision entitled, "Local Cost Financing with U.S. Dollars."

E. Substantial Involvement Understandings

It is understood and agreed that A.I.D. will participate in the activities under this Cooperative Agreement in the following manner:

1. On behalf of FPE, USAID will contract directly with the U.S. university consortium headed by the University of Houston with funds provided by this Cooperative Agreement, which contractor will be responsible for developing and implementing the project in conjunction with FPE. The contractor will provide technical assistance (long and short-term), training for a core faculty and administrative staff, and procurement of equipment and supplies over the estimated five year period of the contract, as described more fully in Attachment 2. AID and the FPE will jointly review annual workplans and budgets for this contract.

2. No funds provided under this Agreement shall be committed by the Recipient until approved by AID in writing.

3. AID will review and approve in writing detailed annual operating plans for the GMI prior to disbursement of funds for implementing such plans.

4. AID will approve in writing the selection of participant trainees prior to disbursement of funds for training.

5. AID will review in writing on a quarterly basis the FPE'S progress in meeting its commitments to raise an Endowment Fund. The FPE shall provide to A.I.D. evidence satisfactory to AID that substantial progress is being made by the FPE in providing for the long-term self-sufficiency of a high-quality graduate management institution.

6. FPE's failure to meet targets to endow the GMI's Endowment Fund as provided by this Agreement shall, at AID's discretion, constitute cause to terminate or suspend this Agreement, in accordance with the Standard Provision entitled, "Termination and Suspension."

F. Reporting and Evaluation

1. The Recipient, in conjunction with the contractor, will prepare and provide to USAID/Ecuador an annual progress report, providing information on the level of outputs achieved in such areas as enrollment, number of graduates, courses taught, etc. The report shall also discuss obstacles to achieving program objectives and modifications taken, or to be taken, to eliminate such obstacles. Prior to the completion of the project, the Recipient, in conjunction with the contractor, will prepare and submit to AID a final report on the implementation of the project.

2. USAID/Ecuador shall procure from an outside expert annual evaluations; as well as two in-depth evaluations during the third and sixth years of the project. In order to establish baseline data for the evaluations, the Recipient will establish and maintain a functioning alumni organization which can track alumni throughout their careers. The first in-depth evaluation shall report on the status of reaching project objectives, as well as the perceived benefits which have accrued to participants in the school and training programs; the degree of access to the school by lower-income individuals through scholarships and other financial aid programs; evaluation of the FPE's fund-raising efforts; an assessment of the participant training activity; adequacy of the physical plant and equipment; and progress towards an efficient Ecuadorean administration of the school. The second in-depth evaluation shall report on the same elements, but on an end-of-project basis.

G. Special Provisions

The Recipient covenants and agrees that it shall:

1. Over the life of this project and in accordance with the time-phased plan found in the Project Description, the Recipient shall carry out a fund raising campaign to increase the Endowment Fund in an amount not less than US\$1,500,000 (US\$ or equivalent) over the amount pledged prior to the execution of this Agreement.

2. Recruit additional members of the Foundation from major Ecuadorean cities outside Guayaquil in the manner and to the extent described by the FPE by Letter to AID dated March 26, 1986;

3. Provide a building for the Graduate Management School on an appropriate site within Guayaquil;

4. Create a Board of Trustees for the GMI;

5. Structure the Endowment Fund so that it is dedicated solely to the GMI and that the investments of the Fund may be in dollar-denominated financial instruments;

6. Provide for an annual audit of the GMI by an outside auditor;

7. Organize a student loan fund at positive interest rates in one or more Ecuadorean banks which will be accessible to students with modest resources; no AID funds made available under this Agreement shall be used for the establishment of this loan fund;

8. Ensure that admission to the GMI is based strictly on academic qualifications without discrimination on the basis of sex, origin or income level.

9. Use its best efforts to obtain for the GMI such legal capacity as is necessary so that the GMI can award recognized degrees.

10. In order to establish baseline data for the evaluations, the Recipient will establish and maintain a functioning alumni organization which can track alumni throughout their careers.

H. Title of Property

Title to all property financed under the Agreement shall vest in the Recipient, subject to the terms and conditions as provided in the Optional Standard Provision entitled "Title To and Use of Property (Grantee Title)".

I. Authorized Geographic Code

The authorized source for procurement of goods and services under this Agreement is the United States (Code 000) or Ecuador, except as A.I.D. may otherwise agree in writing.

J. Overhead

The Recipient agrees that no overhead, indirect or administrative costs other than for the purpose of this Agreement shall be paid from Agreement funds.

K. Alterations to Standard Provisions

1. The Standard Provisions for this Agreement shall be Attachment 3 to this Agreement which are incorporated herein and made a part hereof deleting the following Optional Standard Provisions:

- a. 2 -- "Payment - Cost Reimbursement"
- b. 10 -- "Patent Rights"
- c. 13 -- "Voluntary Population Planning"
- d. 15 -- "Negotiated Overhead Rates -- Provisional"
- e. 16 -- "Government Furnished Excess Personal Property"
- f. 18 -- "Title To and Use of Property (U.S. Government)"
- g. 19 -- "Title To and Use of Property (Cooperating Country)"

A. Project Goal and Purpose.

The project goal is to upgrade the quality and increase the quantity of managers for Ecuadorean private sector enterprises. The project purpose is to establish a high quality graduate management school in Ecuador.

B. Project Objectives.

1. General Nature of the Graduate Management Institute.

The project will result in the development and implementation of a high quality Graduate Management Institute (GMI), or Instituto Post-Grado De Administracion de Empresas (IPAE), in Ecuador. This institution, when fully operational, should, at a minimum, produce approximately 75 to 80 masters level graduates per year. In addition, at least 400 persons per year will attend executive development seminars. Applied research activities will also be undertaken. The GMI's program will be designed to respond to the needs identified for an increased supply of well trained managers in areas such as banking, finance, international marketing, production management, and agribusiness. Although modern (U.S.) management techniques will be taught, the curriculum will be adapted to fit Ecuadorean needs and conditions. The project, as designed, will create an institution which will have a critical minimum mass to succeed on a long term basis. However, based on the experience of similar insititutions in other Latin American countries, it is expected that the GMI will expand its scale and scope of operations after the project is completed.

The school will be located in Guayaquil which is the major center of Ecuador's commerce and industry. It will be implemented by a non-profit organization, the Fundacion Privada Ecuatoriana (FPE), which was established in 1984 with twenty-one founding members consisting of organizations and individual businessmen. This non-profit organization will have a membership which includes all segments of the Ecuadorean business community. The Foundation will appoint the board of directors of the school, will undertake the local fund-raising effort, and will be financially responsible for the long-term viability of the school.

The school will be established with technical assistance from a consortium which includes three U.S. universities, the University of Houston (lead institution), the University of Indiana, and Florida International University, as well as INCAE. The U.S. university consortium was contracted competitively to

carry out the final feasibility and design studies through the Collaborative Assistance Mode of Contracting. Upon signature of this Cooperative Agreement another contract will be negotiated with the Consortium for project implementation. The consortium will be responsible for developing and implementing the initial academic program. It will provide specialized administrative support to the school as well as a core teaching staff including three to four full time professors and a number of visiting professors for a period of five and one-half years while a select group of Ecuadoreans is being trained in the U.S. over the same period. Those Ecuadoreans who successfully complete the training, which will also be coordinated by the consortium, will replace the U.S. professors and will become the core staff for the school. In addition to the full time (dedicacion exclusiva) faculty, additional part time faculty and research staff will eventually be contracted.

C. Operational Plan.

1. Specific Project Outputs.

a. A Fully Developed Academic Program.

A key element in the eventual success of the school is the degree to which its program and curriculum respond to the management needs of the Ecuadorean private sector and to the realities of the Ecuadorean environment. The academic program will have three basic components, a 15 month full-time master's level program, an executive development program, and an applied research program. The full-time master's program will provide the fundamental base upon which the long-term quality and viability of the other two components must be based because it justifies the core staff of highly qualified faculty which is necessary to implement the other two components over the long term.

(1.) Master's Level Program. The 15 month master's level program is a relatively highly structured program composed of five trimesters which is designed to provide a curriculum which is generally equivalent in quality to that found in U.S. institutions but adapted to regional needs and, consequently, eliminating many U.S. courses which are specifically directed to the unique characteristics of the more complex business system in the U.S. The Master's level program will provide a fundamental core or foundation business curriculum adapted to Ecuadorean needs in areas such as accounting, finance, marketing, organizational development, management, in-

roduction to computers, macro-economics, data analysis, and managerial economics. In addition, it will include a series of more applied functional and managerial courses specific to the Ecuadorean environment such as export marketing, entrepreneurship, agribusiness, business policy and environmental analysis. Elective courses are necessarily limited and will be provided only during the last trimester. In addition, the program will include training in English and other skills which, while not part of the core curriculum, need to be included. In addition to English language training, entering students will be given a brief 2-4 week refresher or leveling course which emphasizes basic math and analytical skills. Students will also be provided training in written case analysis.

(2.) Executive Development Programs. The Graduate Management Institute will also offer an Executive Development Program which will provide practical training which addresses the day-to-day concerns and knowledge requirements of businessmen (and public sector administrators) in Ecuador. The programs will target both top executives and mid-level managers. The programs will be conducted by the Institute's faculty; however, initially some courses will be taught by visiting professors and/or be jointly sponsored by INCAE. The executive development courses will be offered not only at the Institute's Guayaquil facility but also in Quito, Cuenca, Manta and other cities, as part of the Institute's mission to serve as a national resource for Ecuador. A four tier executive development program is contemplated. Tier 1 will be short 1/2 day sessions with distinguished speakers, primarily from the U.S., which will be targeted toward top level executives and which will serve primarily to promote the Institute. Tier 2 will be practical one day workshops on topic such as the use of personal computers in business, the principles of cost-benefit analysis, personnel management, etc. which will be targeted for mid-level managers. Tier 3 will be 2-4 day sessions which focus on the latest developments in key areas of interest to top Ecuadorean executives such as strategic planning, international marketing, control, as well as timely topics such as developments in export finance, globalization of capital markets, etc. Tier 4 will be an ongoing executive development program which will be offered at night or on weekends over a three month period and which will focus on traditional subjects such as marketing, finance, and management for mid-level managers. Upon successful completion of these programs, participants will receive certificates of specialization. The Institute will also offer specialized, contract programs to institutions such as the Central Bank.

(3.) Applied Research Program. As an adjunct to the master's and executive development programs, the Institute will carry out applied research on a contract basis for Ecuadorean private and public institutions as well as for international organizations. This research will constitute a small but important activity for the Institute. It will help enhance the Institute's prestige, keep participating faculty's research skills at a high level, and contribute to the production of new cases and other didactic materials. Research will be, as a rule, undertaken only when revenues derived from the research project can fully cover the direct costs of research.

b. A Functional Administration.

A key element in the successful operation of the school will be an efficient, functional administration which can maintain a quality academic program and assure selection of qualified students while minimizing operating expenditures. In order to facilitate the development of this administration, particular attention will be paid to the recruitment and training of three key Ecuadorean administrators: a rector, an academic director and an administrative director. Technical assistance will be provided by the U.S. university to assure adequate on the job training of these individuals. If necessary, specialized training will also be provided for these individuals at U.S. or Latin American institutions.

c. Trained Faculty

Approximately eight Ecuadoreans will be recruited and trained over a six year period in order to form a highly qualified faculty which will serve as the academic core around which the school will operate. Training will be provided in areas such as finance, marketing, accounting, management, organizational development, economics, and quantitative methods. Of these trainees it is expected that seven will complete their studies successfully and return to teach at the Institute. They will constitute a core Ecuadorean faculty for the GMI and will teach in the master's level and executive development programs as well as undertake applied research activities. These students will be trained to the doctoral rather than the master's level because of the better preparation for teaching and research which they will receive and because experience in similar schools in Latin America has demonstrated that there is a higher staff retention rate than when only M.B.A. training is provided. In order to assure that the participants do, in fact, teach in the GMI, they will be required to sign contracts which obligate them to teach at least two years for each year of training received or to repay the cost of the training.

d. Adequately Equipped Facilities.

In order to implement a quality graduate management program, an adequate physical plant with specialized equipment and facilities are required. The basic minimum specialized facilities which this project will support include a documentation center (library) with a minimum of 6,000 books, documents and periodicals, simultaneous translation equipment, and a computer center as well as space for at least two classrooms and offices.

2. Project Inputs.

a. Technical Assistance.

A major project input will be approximately 20 person-years of in-country long term technical assistance and 63 person-months of short term technical assistance which the University of Houston consortium will supply. The technical assistance will include a chief of party who will serve as the advisor to the school's administration and will organize and supervise the other technical assistance. A core faculty of three to four U.S. professors will also reside in Guayaquil and will constitute the Institute's long-term "permanent faculty". These professors will organize the academic program, develop the curriculum and teach courses while Ecuadoreans are being trained to assume these same responsibilities. The core staff will include professors of accounting, finance, marketing and management. In addition, the Consortium will provide a librarian for one person year in order to set up and begin operation of the documentation center.

In addition to these professors, approximately forty-five person-months of services of visiting professors will be provided to teach and/or develop specialized Master's level and executive development program courses for which the core faculty does not have the requisite expertise. This assistance would be provided by, for example, professors who would be in residence one quarter per year or who would be in country for two weeks to give executive development courses.

Specialized technical assistance requirements (18 person months) also exist for activities such as the organization of the documentation and computation centers as well as for a financial control systems expert. This expertise is required to assure that the major support services (library, computer center) function effectively and efficiently and that the financial management of the GMI is fully developed and operational prior to the completion of A.I.D.'s assistance.

In addition, there will be requirements for a project manager (4.25 person years) and support staff (12.75 person years) located at the University of Houston. The University of Houston based staff will be full-time during the first three and one-half years of the project and will then be part-time.

Table I summarizes the technical assistance which will be provided.

TABLE I

Technical Assistance Requirements

	<u>person-years</u>	<u>person-months</u>
Chief-of-Party	5.5	
Long Term Faculty	13.5	
Visiting Professors		45
Librarian	1.0	
Specialized Short-Term Technical Assistance		18
Project Manager	4.25	
Support Staff	12.75	
-----	-----	-----
TOTAL	37	63

Technical assistance costs amounting to approximately \$5.81 million will be financed with the A.I.D. grant.

b. Training

Approximately 16 person-years of training will be provided under the project. The major part of this training will be long-term Ph.D. level academic training for four future Ecuadorean faculty members. (Additional long-term training for four more future Ecuadorean faculty members is being funded outside the project.) Areas for long-term training include banking and finance, accounting, international marketing, and economics. Additional short-term training will be provided to administrative and academic staff as required. Specialized training requirements include educational administration, financial control systems, library science, or computer center operations. Training will be coordinated by the U.S. consortium; however, training will be arranged at the most appropriate location. Some short term training may be provided

by INCAE. Training costs will be approximately \$297,500 and will be financed with grant funds. However, additional training is already being financed by A.I.D. outside of the project budget. Four additional Ecuadoreans are being or will be trained to the doctoral level in subjects such as organizational development, production management and management information systems.

c. Instructional Equipment and Materials.

The A.I.D. grant will finance specialized equipment cost as described below, through the direct contract between AID and the consortium or by direct payment to FPE. The total contribution will amount to approximately \$721,000.

(1.) Library Acquisitions. A capital expenditure will be required for the initial acquisition and cataloging of 1,000 books, documents and back copies of periodicals which are necessary to create the minimum collection for the documentation center. Acquisition and cataloging costs are expected to average \$44 per book or approximately \$44,000, while a similar amount is budgeted for acquisition of documents and back copies of periodicals. Total investment for a starting minimum collection would be approximately \$88,000. In addition, an annual recurring expenditure, which will total approximately \$133,762 over the life of the project, is required to expand the collection to an eventual total of 10,000 volumes, and to maintain subscriptions to periodicals. This recurring expenditure is included as an operating on-going cost.

(2.) Computer System. A relatively modest computer system will be financed under this project. The system will consist of 24 personal computers with 256K of memory and dual disk drives tied together with a 400 megabyte magazine drive (IBM 36 or similar), a tape backup system, and several different types of printers. This system is estimated to cost \$182,600, including basic software.

(3.) Class-Room, office and Kitchen furniture and Equipment. Basic class-room, office and kitchen furniture and equipment is estimated at \$255,944, including freight and contingency/error factor for small items.

(4.) Transportation Cost. The acquisition of a 9 passenger van and a standard automobile for transportation of staff is estimated to cost \$30,000, including freight.

(5.) Miscellaneous. \$30,694

d. Physical Plant.

As part of the feasibility studies carried out during project design, it was determined that a non-residential campus within the environs of Guayaquil would be the most feasible alternative from the stand point of cost. The physical facilities will be primarily provided through contributions of the Ecuadorean private sector. The FPE is to provide a "bare-walls" structure which then would be finished by the AID contribution. The total area to be provided is 1,600 square meters. It is estimated that the value of the FPE's contribution for land and construction of minimal facilities will be \$400,000. An estimated amount of \$265,000 of A.I.D. grant funds would be used for costs of finishing the facility. However, it is expected that much of the physical plant could be built with in-kind donations, e.g., land, architectural and construction services, and construction materials. An appropriate temporary site has been located and is ready for occupancy with minimal renovation. In the event that a temporary rented facility is necessary and that renovations may be required, these will be financed from grant funds at an estimated cost of \$65,000. AID funds for the physical plant for construction or rent will be provided through the direct contract between AID and the consortium.

e. Operating Expenses.

The operating expenses for a high quality graduate management school are substantial. During the first five years of operation of the GMI it is estimated that total operating expenses will amount to approximately \$4,182,700. This figure includes all Ecuadorean professional and staff salaries as well as costs for curriculum development, translation, reproduction, promotion and other costs associated with both the Master's level and executive development programs. Revenues from tuition, fees research, consulting, short courses related to the executive development program and fund raising, which are initially minimal but grow rapidly during the project life, will total \$1,522,200 or about 40 percent of operating costs. A.I.D. will finance, initially through its direct contract with the University of Houston and subsequently directly with the FPE/GMI, the remaining operating costs to allow adequate time for the GMI to become financially self-supporting.

f. Endowment Fund.

The FPE will raise \$2.5 million for an endowment fund by the project's activity completion date (January

31, 1992). This endowment fund, which will have a total value of \$2,675,000 including capitalized interest earnings, will finance the operating deficit which the institution is expected to have in the years subsequent to completion of the project and will provide a small amount of revenue to be used for capital improvements. The endowment fund will be established by the FPE in the name of the Board of Trustees of the GMI. It will be managed by a sub-committee of the Junta Directiva of the Board of Trustees. In order to allow the fund to maintain its value in dollar terms, the principal of the fund may be invested in the U.S. or in dollar denominated instruments. The FPE has already secured pledges in real terms ("indexed sucres") for the equivalent of US\$1 million and sucres equivalent to approximately US\$100,000 have been paid into the FPE. (This amount does not include pledges of land valued at approximately US\$100,000.) The FPE is committed to an aggressive fund-raising plan to obtain the remaining US\$1.5 million in commitments in the first eighteen (18) months of the Project with payment targets as follows:

	1986	1987	1988	1989	1990	1991
	(US\$000)					
Initial US\$1 million	240	155	155	155	150	145
Additional US\$1.5 million	-	300	300	300	300	300
Total US\$2.5 million	240	455	455	455	450	445

3. Project Administration.

This section describes the nature of the proposed administrative arrangements including the responsibilities of the Fundación Privada Ecuatoriana, The Graduate Management Institute, the University of Houston Consortium and A.I.D. It also discusses the viability of such arrangements and identifies factors which will have to be monitored during implementation to assure that the Graduate Management Institute is an administratively self-sufficient and fully operational organization at the completion of the project.

a. Administrative Arrangements.

The administrative structure is geared to the creation of an Ecuadorean managed, independent, privately funded program of high quality while at the same time assuring that the inputs from A.I.D., the FPE, and the University of Houston

consortium are fully and effectively integrated. This cooperative agreement between A.I.D. and the FPE establishes a direct relationship between A.I.D. and the FPE which will permit A.I.D. the substantial involvement it requires to assure the creation of a viable high quality graduate management institute. A.I.D. will negotiate a follow-on contract with the University of Houston consortium under the collaborative assistance mode of contracting. The consortium will have responsibility for implementing all project activities.

In order to create an overall governance and policy making mechanism for the GMI, the FPE will create a Board of Directors for the GMI comprised largely of Ecuadorean members of the FPE but also including representatives of the Ecuadorean and international academic community. Total membership of this Board of Directors will be approximately 30. Because of the large size of the Board, practical management oversight will be vested in a five member Junta Directiva appointed by the Board. The Junta will establish private sector advisory committees for agribusiness, marketing, etc. to advise on program content and to assist in placing students. The Junta Directiva, with the assistance of committees as deemed necessary, will: evaluate and approve strategic decisions made by the University of Houston chief-of-party/GMI administration; approve the GMI's annual budget; be responsible for assuring that fund-raising activities are carried out; advise the GMI administration on the needs of the Ecuadorean business communities; assist in selecting the Rector; manage the GMI's Endowment Fund; and monitor the progress of the project; assist in proposing and selecting Ph.D. candidates.

Initially, the principal administrator of the GMI will be the University of Houston chief-of-party. However his responsibilities will be shared by an Ecuadorean rector who will assume more responsibility according to a time-phased plan which will be annually reviewed and modified, as needed.

b. Interaction between the FPE, A.I.D. and the Consortium

The most critical element in the administrative arrangements is the interaction between the Consortium, the Foundation and A.I.D. For successful management of the project, there must be a clear understanding of the contributions of each entity in the collaborative assistance mode and well-defined assignments of responsibilities among the various actors. In addition, there must be a joint understanding of the manner in

which responsibility for the GMI will shift increasingly to the hands of Ecuadoreans, as the consortium phases out its role in the project. In order to assure that there is a successful transition to Ecuadorean management of the GMI, the administrative responsibilities of the various parties as well as a time-phased transition plan are included in the following two sections to this Cooperative Agreement between A.I.D. and the FPE and in the University of Houston consortium contract. The adequacy of the administrative arrangements and the time-phased plan will be assessed annually as part of the joint annual project review.

c. Administrative Responsibilities

(1.) Overview.

University of Houston Consortium:

- Secure Chief of Party, Project Manager, Faculty and other U.S. personnel required for the GMP
- Assist in obtaining and setting up temporary site, library, computer system and translation facilities.
- Administer funds provided to consortium by AID as well as any funds generated for the operating expenses of the GMP
- Administer the Academic, Executive Development and Research Programs of the GMI
- Train a sufficient number of Ecuadorean Ph.D. candidates to staff the GMI in its independent phase
- Prepare project evaluations in conjunction with the GMI's Junta Directiva and AID/Quito

Fundación Privada Ecuatoriana/Board of Trustees/Junta Directiva:

- Establish a separate endowment for the long term support of the GMI
- Carry out fund raising activities to achieve the goals for the endowment specified in the financial plan
- Provide a site and a bare-walls building for the permanent facility of the GMP
- Assist in identifying and recruiting faculty for the GMI

USAID/Ecuador:

- Fund the project during the implementation phase in accordance with the specifications of the Financial Plan

- Participate in the annual reviews of the project
- Approve annual operational plans and budgets
- Monitor project activities.
- Review progress towards raising the Endowment Fund
- Evaluate the progress of the project
- Provide technical guidance to the GMI, the FPE and the University of Houston consortium

(2.) Responsibilities and Relationships.

A.I.D. will serve not only as the principal financial supporter of the project during implementation but will also review, monitor and evaluate the performance of the consortium and the Fundacion Privada Ecuatoriana in such critical areas as the GMI's administration, the quality of the Masters program and executive programs, financial integrity, fund-raising efficiency and the impact of the Graduate Management Program on Ecuador's economic and social development.

The pivotal Ecuadorean institution in the development of the GMI is the Fundación Privada Ecuatoriana (FPE). Founded in 1984, the Fundación represents the Ecuadorean private sector and has played the leading role in promoting the project's development and in initial fund-raising for the GMI.

During the project's implementation phase, the FPE will be responsible for the creation of the GMI's Board of Trustees and the selection of its members. The FPE is also responsible for legally restructuring the current endowment fund to ensure the availability of monies to the future support of the GMI. During the implementation phase, the FPE will continue fund-raising for the new institution's endowment and will be responsible for assuring that the GMI has an adequate physical plant.

The Board of Trustees will serve as the governing body of the GMI. Its members will include current members of the FPE, as well as representatives of the private sector, the public sector, and the national and international academic communities. It is expected that the the Board of Trustees under these guidelines will come to number at least thirty. While this expanded group will be more representative of national interests and enhance the fund-raising capabilities of the new school, it is also a number that is far too cumbersome for effective oversight of the institution's operations. Therefore, many of the functions traditionally vested in a Board of Trustees will be assigned to a Junta Directiva, designated by

the Board of Trustees. The other function of the Board under this plan then is to review and approve the major policy decisions of the Junta Directiva on an annual basis.

The Junta Directiva will consist of five members to be selected by the Board of Trustees. Those members should include four representatives of the Ecuadorean private and public sectors, and a representative of the international academic community. The members of the Junta will each assume specific areas of responsibility for the school's development including: fund raising, liason with the private sector, institutional administration, academic programs and government relations. They will be assisted by committees as deemed appropriate.

The specific responsibilities of the Junta are described below. It should be noted that in terms of the GMI's head administrator, the terms Chief of Party and Rector are used in tandem. This is because the Rector will be recruited and appointed during the implementation phase of the project, as soon as a suitable candidate is indentified. The Rector will learn the functions of his positions during implementation and gradually assume increasing responsibilities until by the end of the project he has assumed full responsibility for the administration of the GMI. This process is described in section d. "Time Phased Transition Plan" below.

The functions of the Junta Directiva are as follows:

- Evaluates and approves strategic decisions by the Chief of Party/Rector
- Studies and approves the project's annual budget
- Is responsible for fund raising
- Advises the Chief of Party/Rector on the needs of the business and academic communities as well as the public sector which can be met by the new institution
- Assists in proposing and selecting the Rector
- Manages the institution's endowment
- Monitors the progress of the project
- Assists in proposing and selecting Ph.D. candidates

d. Time Phased Transition Plan.

Over the five year implementation phase, the Rector will progressively assume increased control of the institution. This process will occur in a series of phases.

The sequencing of those phases is predicated upon the assumption that the Rector's strongest experience will be in business management. This transition process and the administrative arrangements will be assessed annually. The progressive sequence would occur as follows:

- Year 1 - External relations for the GMP
- Year 2 - Oversight of Administrative Director's responsibilities for physical plant and staff
- Year 3 - Responsibility for the academic program
- Year 4 - Full financial responsibility for the institution
- Year 5 - Supervise Management of the institution
- End of
- Year 5 - Management of the endowment fund

Thus, by the fifth year of implementation, the Rector will have assumed full control of the institution with the Chief of Party's role reduced to that of an advisor with joint sign off responsibilities on only those funds still being expended by the consortium. By the end of the fifth year, the Rector will have assumed the full responsibilities for administration of the GMI.

e. Technical Assistance.

All technical assistance will be provided under a direct A.I.D. contract with the University of Houston consortium. Because the Collaborative Assistance Mode has been employed, the Chief-of-Party and the University of Houston project manager are already fully involved in project design and PD&S funded pre-implementation. The first full-time U.S. professor is currently being identified and selected. The selection process for the second and third professors will begin as soon as the project implementation contract is signed with the University of Houston consortium. Short-term technical assistance will be obtained from members of the University of Houston consortium, including INCAE. Visiting professors will be recruited from among members of the consortium, other U.S. universities, and from Latin American institutions according to the specific requirements of the GMI and the availability of qualified professionals, and with prior AID approval.

f. Training Plan.

All long and short term participant training will be arranged by the University of Houston consortium. Under the project, four Ecuadoreans will be selected for doctoral training

in business subjects. In addition, at least six other long-term participants, financed by A.I.D. through other mechanisms, will receive doctoral level training. With the exception of one participant who will be completing her doctoral studies in Organizational Development at Yale in 1987, all participants will be identified and preliminarily selected by the University of Houston. Doctoral training will be done primarily at the University of Houston and the University of Indiana which will make special efforts to work with the Ecuadorean students to assure that they complete their studies in the minimum time possible. To date more than sixty Ecuadoreans have been interviewed and at least six are qualified for doctoral level training. The majority of eligible students (5 of 6) have Master's degrees from U.S. universities, primarily in engineering subjects. Ecuadoreans will be trained in finance, control, accounting, marketing, organizational development, and economics as well as in other areas according to the needs of the Institute and aptitudes of the participants. Initial training will focus on those subjects which are found to be the most difficult (finance, accounting) and those which are most culture-specific (organizational development). At least four students will be sent for training in the first or second semester of the 1986-87 calendar year. By the 1987-88 calendar year, seven students will be enrolled in doctoral programs and one student will have completed her Ph.D and will be teaching in the Institute.

In addition to the long-term academic training which will be provided, short term training in educational administration, financial control, library management, and the management of computer systems will be provided to appropriate faculty and staff of the Graduate Management Institute. This training will be specifically tailored to the needs of the staff of the GMI. While some of this training may be carried out in the U.S. much of it will be carried out at INCAE or other Latin American institutions such as IESA and ESAN, subject to prior AID approval.

g. Commodity Procurement.

A relatively small amount of commodities will be procured with project funds. Most A.I.D. -financed commodity procurement will be carried out by the University of Houston. However, some A.I.D. -financing local procurement may be carried out by the FPE/GMI once it has the capability to do so. (see h. Operating Expenses). Upon arrival of the U. of H. Chief of Party in Guayaquil, the procurement list will be reviewed with the administrative director of the GMI to determine what items may be procured locally (or be obtained as donations by the

FPE). All commodity procurement should be initiated within 90 days of the arrival of the Chief-of-Party in Guayaquil. Local procurement will be the responsibility of the GMI's administrative director assisted, as necessary, by the U. of Houston Chief-of-Party. U.S. procurement will be done through the University of Houston's procurement office following A.I.D. procurement regulations. Major items which must be imported include library materials and computer equipment. Core library materials will be acquired in accordance with the technical advice of INCAE which is now in the process of building a new library collection at its San Jose campus. As part of the feasibility analysis for the project an IBM 36 (or similar) with up to 24 networked PCs has been identified as the most appropriate alternative for the GMI considering its computational needs.

h. Operating Expenses.

Initially operating expenses will be provided and managed through the contract with the University of Houston. However, during the second year of the project, the GMI/FPE will have achieved the capability to directly manage its finances. When suitable accounting and financial systems are in place, the A.I.D. Controller will determine that the GMI has the capability to account for A.I.D. funds. As soon as this accomplished, A.I.D. will provide such funds to the GMI/FPE directly and in accordance with standard A.I.D. procedures. Until such time as the Controller makes his determination, funds for operating expenses will be provided through the Houston contract.

4. Reports and Evaluation.

In order to assure that the objectives of the project are being achieved in a timely and cost-effective way periodic evaluations will be carried out. Several evaluative mechanisms will be used. The consortium and the Junta Directiva will jointly issue an annual progress report which will be submitted to A.I.D. at the end of each year of the project. In addition, a team of outside experts selected by the American Assembly of Collegiate Schools of Business (AACSB), the accrediting institution for U.S. business schools, or by the Consejo Latinoamericano de Escuelas de Administración, CLADEA, will also evaluate the project. These reports include:

a. Annual Progress Report by the consortium and Junta Directiva - This report will be submitted each year to AID at the end of each project year and by a date to be specified by the Agency. The purpose of this report is to measure the level

of outputs achieved by the GMP in such areas as number of students, courses taught, etc., as well as the Junta's success in meeting fund raising targets necessary to establish the endowment outlined in the Financial Plan. It will also discuss adjustments or changes in the project which would necessitate higher levels of expenditure or modifications in the contract. This report will provide the basis for annual funding renewal by AID.

b. Quarterly Contractor Report - This report, to be prepared by the consortium, will focus on its inputs to the project. This will include personnel and equipment for the project in Ecuador, support mechanisms in the U.S., interfaces with the Junta Directiva and an evaluation of contractor performance with recommendations for any modifications deemed necessary. The report will be provided to both AID and the Junta Directiva.

c. Outside Expert Report - On an annual basis, A.I.D. will secure the services of outside experts with the extensive experience in graduate management programs to review and evaluate the progress of the institution. That report will focus on the quality of the masters programs, the efficiency of the administration and the overall financial condition of the institution. Copies of the report will be submitted for review and comment to the consortium, the Junta Directiva and AID. This report will provide additional inputs on possible modifications to be made in the project, and serve as an objective standard by which to judge the quality of the Annual Progress Report prepared by the Consortium and the Junta Directiva.

d. Final Report - Prior to the conclusion of the Implementation Phase, the consortium and the Junta Directiva will prepare and submit to AID a report on the implementation of the project. That report will trace the evolution of the GMP, adherence to the original plan, modifications made in design and implementation, the level of inputs provided by both the consortium and the Junta, the impact of the GMP in terms of courses taught, faculty trained, students graduated, and placed, executive programs conducted, and the overall impact of the program.

To the extent possible, the information gathered for these reports should be quantifiable. Such data would include the records of the Principal Investigator and Chief of Party, the financial records of the institution and the endowment fund, contract records of consortium members, and student academic

records. In addition, interviews with faculty, administrators and students of the school as well as representatives of the consortium, the Board of Trustees and AID officials can be included.

In addition, there will be two in-depth evaluations during the third and sixth years of the project. The first in-depth evaluation will examine the extent to which the project is achieving its objectives. It will measure, in addition to the quality of the academic program, aspects such as:

--the perceived benefits, including better jobs and salary increases, which have accrued to those individuals who have participated in the Master's level program and a sample of the individuals who have participated in the executive development program;

--the degree of access to the master's program by eligible middle and lower-income individuals through scholarships and loan programs;

--a detailed evaluation of the status of the FPE's fund-raising effort;

--an assessment of the progress of the participant training activity;

--adequacy of the physical facilities and equipment; and

--the progress toward an efficient, functional Ecuadorean administration.

Based on the findings of this evaluation, adjustments will be made in the implementation of the project. The second evaluation will measure the same elements as the mid-term evaluation but as they measure the end-of-project status. This evaluation will be used to determine whether the project has attained its objectives and to provide the GMI with a strategic plan for the next five years.

5. Project Monitoring.

Project Monitoring will be the responsibility of USAID's General Development Office (GDO). The GDO will be responsible for assuring that adequate communications with the FPE, the Junta Directiva of the GMI, and with the University of Houston's Chief of Party are maintained and that implementation

problems are identified and resolved in a timely fashion. The GDO will also: (1) take the lead in assuring that necessary A.I.D. approvals are obtained in a timely fashion, (2) have primary responsibility for reviewing the University of Houston's annual workplan; and (3) review Contractor's quarterly reports. USAID representatives, including the Mission Director, will take part in annual project reviews together with members of the GMI's the Executive Board and the Dean of the University of Houston consortium.

6. Overall Budget.

The cost of this five and 1/2 year program is \$14,422,200 of which the A.I.D. grant will provide \$10,000,000 through this Cooperative Agreement subject to the availability of funds. The Fundacion Privada Ecuatoriana will contribute approximately \$1.53 million raised through tuition, fees and other revenues for the Graduate Management Institute as well as approximately \$2.9 million composed of an endowment fund of \$2.5 million and in-kind contributions of land and building valued at approximately \$400,000. Table II contains an overall budget by project input and funding source. A.I.D. project funds will cover University of Houston consortium technical assistance and overhead costs, training costs in the U.S. for Ecuadorean faculty, costs for specialized equipment and materials, minor construction costs, evaluation, and part of the initial operating costs of the Institute. Institute funds derived from tuition and fees will partially cover operating expenses. The FPE will cover the cost of the physical plant and the Endowment Fund. Although A.I.D. project funds cover both initial start-up and operating costs, the latter will be fully covered by the end of the project through revenues and funds provided through the Endowment Fund which will be established by the FPE.

TABLE II
Summary Financial Plan
(\$000s)

	A.I.D Grant	Counterpart	Total
Technical Assistance	5,815.5	--	5,815.5
Physical Plant/ Equipment	986.5	400.0	1,386.5
Training	297.5	--	297.5
Operating Expenses	2,660.5	1,522.2	4,182.7
Evaluation	240.0	--	240.0
Endowment Fund	--	2,500.0	2,500.0
TOTAL	10,000	4,422.2	14,422.2