

**EVALUATION STUDY OF INCAE AND ITS
SPECIAL PROGRAMS IN EXPORT MANAGEMENT
AND INTERSECTORAL POLICY DIALOGUES**

EXECUTIVE SUMMARY

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A. INTRODUCTION

INCAE - the Central American Institute of Management - is a private non-profit, multinational institution of higher education, dedicated to the study of management and development in Central America and South America. It was established in 1964 through the initiative of the Central American business community with the support of the U.S. Agency for International Development and the assistance of the Harvard University Graduate School of Business Administration. Since 1964, INCAE has been through various stages of development in which it first focused its activities on the training of private sector managers; it has now, however, broadened its base of activities to include managers in all key sectors of economic endeavors. The scope of this report is to evaluate (a) whether the INCAE expansion Project, 596-0113, accomplished the purpose formulated in the approved Project Paper, and (b) the overall status of INCAE as an institution, with particular attention to its financial viability.

B. Evaluation of INCAE Expansion Project

The purpose of the INCAE expansion project was to increase INCAE's short-term impact on Central America's critical socio-economic problems and to improve its long-term ability to contribute to development. The project consisted of three components.

Component 1: Construction of a second INCAE campus in Costa Rica.

The expansion project was completed in 1983 at a cost of about \$2.9 million. The new campus is in full operation and appears to be financially sound. Details related to the new campus are discussed in the institutional and financial analyses.

Component 2: Development and implementation of a private sector "training and organizational development" program in Guatemala, El Salvador and Honduras.

With the help of ROCAP, INCAE began to rethink its own programs and its own commitments to the development process. For example, the School decided that it must go directly to the key sectors of the regional economies and begin a dialogue about the nature of the economic crisis, its impacts on the region, and alternative models of development. The vehicle for accomplishing this task was the Intersectoral Policy Dialogue Seminars (IPDS), which were held in the three countries named above plus Costa Rica and Panama.

The IPDS are a series of seminars taught by INCAE faculty and sponsored by ROCAP and usually a national counterpart organization (for example FUSADES in El Salvador, FUNDAP in Guatemala, etc.). The seminars were designed to create six phases of activities in each country:

1. Assessment of the private sector.
2. Analysis of the strengths and weaknesses of the private sector
3. Seminars to broaden the developmental perspective of the private sector.
4. Seminars about alternative models of development.

5. Developing new strategies of dialogue between the private and public sectors.
6. Intersectoral dialogue sessions.

After evaluating the IPDS, the general conclusion that one can draw about these seminars is that the impact on virtually all participants was overwhelmingly positive. With this broad conclusion in mind, the following ideas reflect the positive sentiments expressed by the participants about the seminars:

1. The dialogue itself was important; if nothing else was accomplished, this was crucial.
2. Attitudes and traditional prejudices were challenged and changed.
3. The consideration of the various models of development (Taiwan, Singapore, etc.) provided valuable insights into alternative models for Central America.
4. The participants discovered that they shared common ideals regarding development - namely, economic participation, democracy, respect for diversity, the promotion of private enterprises and cooperative enterprise, the support of organized labor, rejection of violence, and a more open and trade-oriented economy.
5. Participants saw the seminars as means by which they could link their own organizations and/or professional activities to a more viable future.
6. Participants agreed to use the newly-initiated base of dialogue to create major policy changes in their respective sectors in order to create a new model of development.

The seminars were not without criticisms, however, and they are expressed as follows:

1. The seminars are costly and require subsidies.
2. Some groups or sectors were not included in the seminars. Examples were the informal sector, educators, and consumers.
3. The emphasis on exports may have overlooked the need to expand and build the domestic economy.
4. The dialogue must lead to action.
5. INCAE is doing the right thing in sponsoring these seminars but it must be careful not to become associated with any political movement.

The IPDS produced a series of outputs summarized below:

- a. Research Documents - Three in-depth studies were conducted in Guatemala, Honduras and El Salvador about the role of the private sector in these countries.
- b. Case Studies - Thirty-five cases were written on the role of the private sector and on major political and economic issues affecting the role of the private sector.
- c. Survey Research - An opinion survey about the economic and political crisis facing Central America was conducted in 1983 among four hundred leaders in the private sector.
- d. Teaching Activities - An array of seminars, meetings, and dialogue activities were carried out throughout the life of the project.
- e. Enhanced Expertise - As a result of all these activities, INCAE has initiated a new phase of its development with an improved expertise to deal with the social, political and economic dimensions of development.

Component 3: The sponsoring of export seminars on strategy, operations, finance and marketing for Central American businessmen and export management seminars for inclusion in the MBA program of INCAE.

Under this component, INCAE was asked to conduct approximately 30 seminars, typically of three days duration, with an average of 40 participants per seminar during the three years of the project. A total of 1,462 participants were attracted to seminars in four different countries: Costa Rica, El Salvador, Panama and Guatemala. A group of 24 cases were developed by the INCAE faculty for use in the export management seminars and for use in degree programs, as well. The materials developed for these purposes are all listed in the report. Finally, a series of interviews were conducted among the participants to illicit their comments on the quality of these seminars. Their responses, both positive and negative, are summarized as follows:

1. Most agreed that the seminars were excellent and that the content was very pertinent to the subject of export development. Many used the knowledge learned in the seminars to identify and analyze export opportunities and a few began the process of establishing export businesses. Even those currently involved in exporting felt the seminars were excellent.
2. Most participants felt the case method and its analytical pedagogy were helpful in learning about the real world of exporting. Some, however, believed this method of teaching was very concentrated and fast moving with little time to digest topics presented.
3. Most participants would like to see a more homogeneous group of people in the seminars. When the academic background is too varied, it slows down the pace and work of the seminar.

4. The cost of the seminars is a problem in some countries. In Guatemala and El Salvador, there is no future for the expensive INCAE seminars if there are no subsidies. In the case of Costa Rica, where inflation is relatively under control, possibly up to 25% of the participants would be willing to pay nearly full price.
5. The Salvadorans are aggressive exporters and they are interested in seminars that are very action-oriented -- that is, maquila, ornamentals and flowers, fresh produce, etc. In the other countries, however, there seems to be much interest in a broader range of seminars that address the nuts and bolts of exporting.

With these evaluative comments in mind, the project team arrived at the following recommendations:

- a. The mix of participants should be more homogeneous so that existing exporters and non-exporters are not involved in the same seminars.
- b. INCAE should develop the capability to teach about exporting to markets other than the United States - Canada, Europe and Asia, for example.
- c. The seminars must be more closely tailored to the different needs of each country market. The needs of El Salvador are not similar to the needs of other Central American countries. Marketing appears to be the only seminar in demand in all the countries.
- d. INCAE should use its own faculty as well as teachers not on its staff. It should supply more in-depth information about the seminars, and it should spend some time with the participants explaining the use of the case method.
- e. INCAE needs to improve its relationships with the bilateral AID missions in each country to assure continued support for its programs. It also needs to take advantage of alumni associations in each country that are willing to help in sponsoring these seminars.
- f. INCAE has developed three new courses in export management for its curriculum -- international finance and commerce, export management and productivity management -- but it needs to direct more resources toward research efforts regarding specific problems of export-led development in the region.

B. INSTITUTIONAL ANALYSIS

In the full report of this evaluation study, the project team has included a section entitled "A Response to the Coleman Report." The Coleman Report was completed in 1976 and outlines a number of problems regarding the academic goals and financial viability of INCAE as it existed in 1976. In very brief summary, the Coleman Report said

that INCAE's multinationalism was causing it problems both in the area of academic quality and financial viability. The update of the Coleman Report is included in this report and, basically, we find these two conclusions not to be valid in 1985. INCAE has indeed confronted the problems identified in this earlier report and now seems very much in control of its future. Summarized here are the reasons for drawing this conclusion.

I. Academic Quality

INCAE has modified its strategies and activities in order to define more firmly its role of leadership around development problems in the region. As such, the strategy of INCAE can now be stated as follows:

The global aim of INCAE's new strategy is one of geographic expansion and program diversification. The expansion was completed with the inauguration of the new campus in Costa Rica in 1983. This allowed INCAE to distribute more evenly its program activities throughout the region. The new programs initiated by INCAE have allowed it to diversify its activities, thus recognizing that the region's problems require more focused solutions than was the case in the past. In this regard, in addition to the traditional programs of the two year MBA, the Advanced Management Program and the executive seminars, INCAE has developed an array of new programs directed at the needs of specific sectors of the regional economies.

In order to carry forth this strategy, INCAE has attracted a faculty of 52 members, 33 of whom work at the Costa Rica campus, and 19 of whom work in Nicaragua. Eighty-two percent of the teaching professors have Ph.D.s and the rest, primarily researchers, have a masters degree or its equivalent. The pay scale for INCAE faculty ranges from \$18,000 to \$48,000, with an average of about \$30,000.

INCAE students come from a variety of backgrounds, thus maintaining the diversity which is necessary for academic excellence. Areas of specialty represented are engineering, administration, agriculture, economics, law and other liberal arts degrees. Eighty percent of INCAE graduates have stayed in Central and South America, which suggests that the phenomenon of the "brain drain" endemic to the developing world, and exacerbated in Central America due to economic problems, has not been great. These graduates work in all sectors of the region's economies and the average yearly salary of INCAE graduates in 1982 was \$26,160.

In keeping with the new strategic thrusts of INCAE, especially its increasing involvement in policy related issues, the project team recommends that the School establish a Center for Applied Economics and Policy Studies. The Center would become the umbrella organization which directs all the efforts in the area of policy studies, intersectoral dialogue and applied economics for decision makers. Indeed, the project team believes that this new center is absolutely essential for carrying out the goals of INCAE. In this regard, the team believes that INCAE has the institutional capacity to create this new entity for the simple reason that the School has already developed a track record in this area. What is lacking is the organization of these efforts in order that they will make an even more significant impact on the School.

2. Financial Analysis

INCAE has dramatically changed its system of financial management since the time of the Coleman Report. Prior to 1984/1985, INCAE had difficulty meeting its monthly U.S. dollar obligations, particularly its faculty payroll. In 1983, U.S. dollar salaries averaged 2-3 months due. In 1984, faculty payroll averaged one month due and 1985 monthly cash flow had improved to the point where faculty was paid on time each month. INCAE cash flow statement recording methods are good and its seasonal cash flow deficit has been reduced from February/June to April/June by better program control.

INCAE has taken steps to strengthen its long-term financial management system. It now has an endowment fund that will conservatively reach \$5.44 million in 1987. This fund consists of donations from governments, AID, INCAE counterpart funds and private sources. This is quite remarkable in the context of Latin American higher education, and this fund should give the School a solid financial base for the future. A parallel initiative in this regard, is the development of a new system of accounts management, exchange controls and cost reduction strategies. In its more sophisticated form, the School has installed the capability to link academic and financial planning to the generation of various cost and revenue projections (scenarios) over a multi-year period. In short, the team feels that the current administration of INCAE has responded with great maturity and creativity to the financial problems facing the School now and in the future. The key financial issue for INCAE will continue to be its sources of revenue, particularly revenues it receives from international agencies such as AID. INCAE must link its programs more closely to what the market will support and thus reduce its dependence on subsidies to a more manageable level.

In summary, the project team found INCAE to be a very viable academic institution in Central America which has successfully grappled with some of its historical problems as well as with some of its future challenges. What is positive about the School is the quality of its human resources and the dedication of these people to continually modify the strategies and programs of INCAE in order to maintain a position of leadership in the region. INCAE is clearly the leading institution of its kind in Central America, and perhaps in all of Latin America, and it is well-deserving of continued support from USAID.

I. INTRODUCTION

The purpose of this report is to provide an overall evaluation of INCAE, with specific emphasis placed on the following areas:

1. A response to an update of the Coleman Report on INCAE of 1976;
2. The evaluation of the Inter-Sectoral Policy Dialogue Seminars;
3. The successful completion of the Export Management Program funded by ROCAP under a previous grant;
4. The institutional capabilities of INCAE as they relate to a proposed five-year grant;
5. The financial viability of INCAE as a key development institution in Central America.

The above analyses were completed during the first three weeks of July, 1985, and this report is a summary of the findings and recommendations submitted by the members of the investigative team. These team members and their respective areas of responsibility are listed below:

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Mr. William Barbee
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The procedure for completing this evaluation study was fourfold in nature. First of all, each team member received a briefing from ROCAP and INCAE. Secondly, each person was provided access to all necessary information from INCAE and ROCAP and, two members of the team (Barbee and Wooton), were given an extensive list of interviewees in order to collect information on the two seminars being evaluated. (Please see the Appendix for a complete list of the people interviewed.) Thirdly, all members of the team had a debriefing meeting at INCAE with the Rector, Dr. Marc Lindenberg, and appropriate INCAE staff. Finally, each consultant wrote a summary of his work which was submitted to Mr. Wooton. This final report was then written and submitted to ROCAP by Mr. Wooton.

As team leader, I should like to express my sincere appreciation to my colleagues who contributed their expertise to this report. I should also like to thank Dr. Marc Lindenberg and the professors and staff at INCAE for their gracious openness and help throughout these three weeks. A special thanks should also go to the interviewees -- who constitute part of the INCAE family -- for their frankness and their helpful suggestions. Finally, special thanks go to Mr. Reynold Bloom and the staff at ROCAP for their efforts in providing guidance to the evaluation team and for creating a very comfortable and creative working environment.

A RESPONSE TO THE COLEMAN REPORT

The last extensive evaluation of INCAE was conducted by Dr. Alan B. Coleman in 1976 ("An Overall Evaluation of INCAE," July 12, 1976, ROCAP/Guatemala). Since many of the conclusions of this report are relevant to the current status and programs of INCAE, a brief discussion of the highlights of Dr. Coleman's evaluation is deemed in order. It should be remembered that his report was written during a period when INCAE was operating out of Managua and was facing a number of severe constraints regarding its overall strategy of operation. As such, one is little surprised that the Coleman Report is somewhat guarded, if not pessimistic, about the future of INCAE.

Academic Quality

In the Coleman evaluation, the academic quality of INCAE was never in question. The School had developed over its twelve years of existence the reputation for being perhaps Latin America's finest institution of management education. Its two-year MBA program was the center of its academic quality and it reflected the strong support of the Harvard Business School as well as the philosophy of that program. In addition, the seminars given by INCAE throughout Central America were

well received, even if their cost was pushing the limits of the market for these kinds of activities. Finally, the quality of the INCAE faculty was exceptional by Latin American standards and even competitive in comparison to U.S. and European standards. In short, the report raised few issues regarding the distinction of INCAE's programs.

The situation in July, 1985, is even more positive in this regard. In the evaluation made by our team, scarcely a word was ever raised about the quality of what INCAE does. The MBA program is even stronger today because it has been redesigned to reflect the developmental needs of Central America. So too have the seminars offered by the School, especially those in the fields of export management, applied economics and policy formation. Furthermore, INCAE is producing information relevant to the managerial context of Central America and thus relying very little on the mere translation of cases and other materials written in the United States. Finally, the quality of INCAE's faculty has, if anything, increased over the years. Professors from the very best universities are represented on the faculty and their long-term commitments to INCAE seems to be well in place. In short, academic excellence remains an enduring characteristic of the School and seems firmly planted in the life of INCAE.

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Financial Quality

It is in the area of financial well-being that the Coleman Report found fault with the status of INCAE in 1976. In rather stark words, INCAE was not financially viable if it continued on its present course. The reasons for this were as follows:

1. INCAE's structure was expensive to maintain. It was multinational, with offices in five countries, and thus had a very high expense ratio of facilities per person.
2. Its method of instruction was the most costly pedagogy in management education. Case writing and teaching is a very resource-intensive procedure, especially if the cases are constantly updated.
3. Its professors were highly paid by local standards, their academic load was not excessive, their rate of turnover was high, and their numbers were excessive.

4. Students lived in residence at Managua, thereby requiring high maintenance expenditures for board and room. In addition, a very high percentage of the students took out loans to cover tuition costs and the delinquency rates on these loans was high.

5. INCAE was not operating with efficient economies of scale. It was serving many small markets and maintaining facilities that were underused in terms of their ability to generate income.

6. Finally, INCAE had existed for many years with operational deficits. Revenues almost never matched expenses and yearly sustentation campaigns were costly and inadequate. Moreover, without any significant long-term endowment, the School had little prospect of designing a financial strategy that could lead to economic self-sufficiency in the foreseeable future. For all of these reasons, the Coleman Report was anything but a warm endorsement of the current state of affairs facing INCAE in 1976.

In the intervening nine years since the Coleman evaluation, INCAE has undergone some rather dramatic changes, to say the least. Many of these changes were mandated responses to shocks

in the environment of INCAE -- for example, the economic crisis of the 1980's, the change of government in Nicaragua and the virtual collapse of the Central American Common Market and its model of inward-looking economic development. One might think that these events, added to the rather difficult picture painted by the Coleman Report, would suggest that INCAE would today only be a minor concern in Central America. Such is not the case, however.

Beginning in the period 1979-1980, INCAE took stock of its situation and initiated a process of strategic planning and development that would cause the institution to rethink and refine its goals. Some of this involved the implementation of the recommendations contained in the Coleman Report, and other changes virtually turned what this report mentioned as a weakness -- multinationality, for example -- into a strength. As such, the INCAE of 1985 has preserved its traditional qualities of academic excellence and found a means to finance them over the long term. One can never predict with any sense of accuracy what might prevail in the future, but, whereas the Coleman snapshot found INCAE on the brink of financial troubles, one must conclude that the snapshot of 1985 finds an institution whose short-term and long-term financial viability on a different path. The reasons for this are as follows (See the Financial Analysis of this report for the details of the points mentioned below.):

1. INCAE has opened its second headquarters in San Jose, Costa Rica, and the financial arrangements for this addition are well manageable in the future. In this sense, its multinational flexibility may have been a significant key to surviving the shocks mentioned above.

2. The pattern of operating deficits has been broken for several years in a row and conservative predictions for the next five years show the emergence of small but significant surpluses.

3. A campaign was begun to raise an endowment sufficiently large enough to create a permanent base of long-term financial viability that has simply never been a reality at INCAE. The immediate goal of this campaign is to raise an endowment of at least 5 million dollars by 1987 and audited calculations by the evaluation team show that INCAE is well ahead of this schedule.

4. The School has redesigned its strategy for the future such that it has become a more active institution in the managing of economic change in Central America. Its programs are more diverse, they are reaching different markets, and they are creating new demands for INCAE activities. As such, the School has begun to face the issues of economies of scale mentioned in the Coleman Report.

5. Through some rather creative financial arrangements with USAID and the government of Costa Rica, INCAE has reduced its delinquency rates in the student loan accounts and turned part of its residencial housing into an income-generating function.

6. Its faculty are still highly paid and its case method of instruction continues to be very resource-intensive in nature. However, through the attraction of foundation support and through the creation of new centers of activities (such as the Center for Applied Economics and Policy Studies mentioned later in this report), the School is creating a base of revenue which should allow it to maintain the necessary expenses associated with these items.

In summary the evaluation team is impressed with the turnaround that INCAE has made since the beginning of this decade. It is now playing a role of leadership in redefining the model of development in the region and, as a result of this transition, it is creating a more durable financial base for the future. It is, by no means, free of economic risks, but it has put into practice the managerial tools which should allow it to face the next crisis with a more sophisticated administrative capability.

INTER-SECTORAL POLICY DIALOGUE SEMINARS

As was mentioned in the last section of this report, INCAE has begun to play a leading role in raising questions about the dominant model of development followed by virtually all of Central America. Briefly, this model can be described as follows: (1) an inwardly-focused perspective on development in Central America; (2) a paternalistic government policy which protects domestic markets and discourages foreign competition; (3) the lack of competitive private enterprises beyond the region of the Central American Common Market; (4) the dependence on exports of traditional products, especially commodities; and (5) the lack of cooperation among key sectors of the economy in formulating a viable industrial policy in each country. When the economic crisis of the early 1980's spread worldwide, Central American countries found this model to be an unworthy guide to the future. The dramatic decreases in exports, the even larger increases in foreign debt and interest rates, all coupled with the collapse of the overly-protected domestic economies, proved to be the catalyst for reshaping the development perspectives of managers in the area.

With the help of USAID-ROCAP, INCAE began to rethink its own programs and its own commitments to the development process. First of all, it decided that it must become actively involved in the promotion of non-traditional exports, especially to regions outside Central America. A series of export management seminars was designed and held throughout the region and they are evaluated in the next section. Secondly, INCAE began to modify its own curriculum in order to emphasize key topics important for a new model of development. These topics include the following areas:

1. Competitive strategy and management development;
2. Export promotion in world markets;
3. Public policy and its impacts on development;
4. Applied economic analysis at the enterprise level;
5. Entrepreneurial activities to develop non-traditional industries.

Finally, INCAE decided that it must go directly to the key sectors of the regional economies and begin dialogue about the nature of the economic crisis, its impacts on the region, and alternative models of development. The ¹vehicle for accomplishing the task were the Inter-Sectoral Policy Dialogue Seminars (IPDS) which were held in Costa Rica, El Salvador, Honduras, Guatemala and Panama. They are evaluated in the sections which follow.

What are the IPDS?

The IPDS are a series of seminars taught by INCAE faculty and sponsored by ROCAP and usually a national counterpart organization (for example, FUSADES in El Salvador, FUNDAP in Guatemala and CINDI in Costa Rica). The seminars taught throughout the region were designed to create six phases of activities in each country (no country has yet completed all the phases of activities). The sequence of these phases is stated as follows:

Phase I: Assessment of the Private Sector

This seminar consisted of conducting a study of the major problems facing this sector in each country. The seminar reported this information to the private sector participants.

Phase II: FODA Seminar ()

This session analyzed the strengths, weaknesses, threats and opportunities to improving private sector contributions to development.

Phase III: Informative Seminars to Broaden Perspectives

These sessions presented to the participants new ways of thinking about the development process.

Phase IV: Seminars about Models of Development

These seminars presented various models of development relevant to the context of Central America.

Phase V: Strategies for Dialogue ↗

The participants in these seminars developed their strategies for interacting with other sectors.

Phase VI: Intersectoral Dialogue

Participants from the various sectors met in plenary session to discuss the problems of development and to design solutions to these problems.

In summary, it was the belief of the INCAE faculty that since the old model of development described above had failed, whatever new model which might be appropriate for Central America must emerge out of a process of dialogue and consensus among key sectors of the economy. These sectors included private enterprise, government, politicians, cooperatives, the military, religious organizations, labor, micro-enterprises, and the communications' media. An evaluation of these seminars was made by Mr. Wooton by interviewing a group of participants as well as faculty who taught the sessions. INCAE also provided information from its own follow-up evaluations and its internal evaluation prepared by professor Julio S. Ramírez.

In order to provide the readers with a quick glimpse of the totality of activities sponsored by the IPDS, Table I below contains a matrix of the phase activities described above and the countries in which they were carried out. Where numbers appear in the column "Part of Project", they refer to seminars sponsored by the ROCAP program. The exact titles of these seminars are then contained in Table II. Where numbers appear in the column "In Addition", they refer to additional seminars taught under the auspices of the IPDS but not sponsored by ROCAP. In other words, INCAE generated these seminars through its own efforts. The exact titles of these seminars appear in Table III.

TABLE I
ACTUAL ACTIVITIES OF THE IPDS

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PHASES	I ASSESSMENTS		II FODAS		III INFORMATIVE SEMINARS		IV FORMATIVE SEM. MOTORES + POL.		V STRATEGY FOR DIALOGUE		VI INTERSECTORIAL DIALOGUE	
	PART OF PROJECT	IN ADDITION	PART OF PROJECT	IN ADDITION	PART OF PROJECT	IN ADDITION	PART OF PROJECT	IN ADDITION	PART OF PROJECT	IN ADDITION	PART OF PROJECT	IN ADDITION
GUATEMALA	1		1		4	2	0	9	YES			YES (AUG)
HONDURAS	1				3		2	2	NO	NO	NO	NO
EL SALVADOR	1	1	3		2	2	5	4	YES	NO	NO	YES (AUG)
PANAMA		1	1		1	2	2	8		YES	NO	YES
COSTA RICA		1		1		2		4		YES		YES
TOTALES	3	3	5	1	10	8	9	27	2	2	0	4

The above table summarizes the number of events carried out by the program during the period September/82 - July/85.

TABLE II

TITLES OF SEMINARS OF THE IPDS

PAIS	SEMINARIO	FECHA	# PART.
G U A T E M A L A	Sector Privado (FODA)	26-27/Nov./82	38
	Problemas y Alternativas de Desarrollo Económico	11 Feb./83	45
	Estudio Análisis del Sector Privado	Estudio	
	Tres Seminarios sobre Perspectivas Económicas/Políticas y Estrategias Emp. Frente a Problemas Políticas y Económicas.	82/83	105
E L S A L V A D O R	Análisis del Plan de Reactivación	15-16/marz/83	30
	Análisis Político en El Salvador	25/Mayo/83	32
	La Estrategia Fusades y su Estructura Organizacional	14/Marz/84	20
	Democratización y Regulación de Conflictos	24-26/May/84	43
	Grupos de Presión	20-21/Jun/84	23
	Taller (Fusades) I	8/set/84	28
	Motores de Desarrollo I	23-24/set/84	41
	Análisis Amb. y Diagnóstico de la Fundación.	27-28/Ene/84	29
	Motores de Desarrollo II	14/Dic/84	33
	Estudios Análisis del Sector Privado		
Seguimiento y Estrategia Inst. Fusades	Marzo/85	30	
H O N D U R A S	Problemas y Alternativas de Desarrollo Económico	26/Feb/83	40
	Análisis Político y Económico	12/abr/83	67
	Motores de Desarrollo I	31/5-2/6/84	69
	Motores de Desarrollo II	7-8/set/84	69
	Estudios Situación del Sector Privado Emp. Hondureña frente Persp. Económicas	23-25/oct/84	15

TABLE III

TITLES OF ADDITIONAL SEMINARS OF THE IPDS

PAIS	SEMINARIO	FECHA	PART.
G U A T E M A L A	FUNDAP-Nuevos Conceptos de Est. Empresarial	28-29/nov/84	18
	Seminario Perspetivas Económicas	82/83	60
	Seminario Perspetivas Políticas	83/84	60
	FUNDAP Motores Iglesias	23/may/85	60
	FUNDAP Sector Privado	22/may/85	40
	FUNDAP Medios de Comunicación	20-21/may/85	35
	FUNDAP Motores Militares	24/jun/85	40
	FUNDAP Partidos Políticos	25/jun/85	50
	FUNDAP Motores Sect. Púb.	26/jun/85	60
	FUNDAP Motores Laboral	27-28/jun/85	80
FUNDAP Sem. Intersectorial	6-7/agos/85		
E L S A L V A D O R	Motores Gabinete Sector Empresarial	Julio/85	
	Motores Ana. Econ. para Trabajadores	Julio/85	
	Motores Gabinete y Trabajadores	Agosto/85	
	Motores Gabinete y <u>Presiden</u> te	Agosto/85	
	Estudio Fusades	Junio/85	
	Perspectivas Económicas (E.S. y C.A.)	82/83	60
	Perspectivas Políticas (E.S. y C.A.)	83/84	50

PAIS	SEMINARIO	FECHA	# PART
H O N D U R A S	Motores Diálogo Intersectorial	82/83	35
	Perspectivas Políticas y Económicas	82/83	30
C O S T A R I C A	Sal Regional (Motores)		40
	Periodistas (Motores)		20
	Geopolítica		60
	Perspectivas Económicas y Políticas		60
	Estrategia Económica de Costa Rica (Motores)	17-18/may/84	60
	Política Industrial (Motores)	21-22/feb/85	60
	Política Agraria (Motores)		
	Estudio AID (Sector Privado)		
P A N A M A	Diagnóstico del Sector Privado	18-19/mar/83	28
	Motores de Desarrollo Sindicalistas	27-28/ago/84	20
	Motores de Desarrollo Fuerza de Defensa	8/ago/84	30
	Motores de Desarrollo UNADE	9/ago/84	35
	Motores de Desarrollo PRD	13-14/ago/84	40
	Motores de Desarrollo Legiladores	14-14/ago/84	40
	Motores de Desarrollo Periodistas	25/ago/84	37
	Taller CICYP I	24-25/ene/85	53
	Taller CICYP II Por realizarse		
	Motores de Desarrollo	19-21/jun/85	35
	Estudio CICYP Intercontinental	Dic./85	

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PAIS	SEMINARIO	FECHA	# PART
P A N A M. A	Motores Político Panamá	4-5/Jun/83	18
	Consejo Nacional de Inver siones	10-11/jun/83	40
	SAL	28-29/jul/84	32
	Política Industrial (Estudio + Seminario)		

TABLE IV

LIST OF ALL MATERIALS DEVELOPED IN THE

IPDS

<u>MARC LINDENBERG</u>	<u>JULIO S. RAMIREZ</u>	<u>BENJAMIN CROSBY</u>	<u>NOEL RAMIREZ</u>
Panamá III Panamá Ind. Leon Singapur Vivo Singapur Singapur Taiwan Vivo Taiwan Taiwan Korea Ind. C. R.	Conflictos Pol. E.S. El S. Privado y la Reforma Agraria El Salvador (A) y (B) El S. Privado y el control de cambio (Honduras) SEL (A), (B), y (C) FUSADES (A),(B),y(C) INDE (A) Documentos de evalua- ción del S. Privado Guat., Hond. El Salv.	Químicas Domés- ticas, S. A. Situación Polít- ica de Centro América. Divided we stand divide we fall: Public-private sectors relations in Central Ame- rica.	Costa Rica: Un Dilema de Política Económica Costa Rica: 1984 Caso Vivo Costa Rica: Buscando una Nueva Estrat Honduras: 1984 Honduras: Qué camino Seguir? Caso Vivo: El Salvador Buscando su Nueva Estrat. El Salvador: Reactivan do la Economía. Guatemala: Alternativa de Corto Plazo. Guatemala: Estabilizan do la Economía. Guatemala: Después de la estabilización Qué? Guatemala: Perspectiva Económicas. Política Industrial de Panamá: Perspectivas y Alternativas en 1984 (M. Lindenberg + I. Suballos Chile: Una Economía en Transición.

What was Positive About the IPDS?

The general conclusion that one can draw about these seminars is that the impact on virtually all participants was overwhelmingly positive. Obviously, INCAE had touched a nerve that caused a very creative and wholesome response on the part of those who attended the sessions. In fact, this high level of enthusiasm may have a negative future consequence in that expectations have been raised to such a high level, that anything less than an equally excellent follow-up program will cause some disappointment among the participants. However, no matter how difficult a problem this may be for INCAE in the future, it is certainly preferable to that which causes great dissatisfaction among seminar participants. With this broad perspective in mind, the following ideas reflect the positive sentiments expressed by the participants about the seminars:

1. The dialogue itself was important; if nothing else was accomplished, this was crucial. As President Monge of Costa Rica said, "the dialogue broke the ice; now we can talk."

↖

2. Attitudes and traditional prejudices were challenged, and changed. The seminars created a challenging but comfortable environment in which change was supported and accepted.

3. The consideration of the various models of development (Taiwan, Singapore, etc.) provided valuable insights into alternative models for Central America. Participants thought more creatively about their own context of development.
4. The participants discovered that they had a very broad base of ideas in common. For example, they were all committed to a development model which emphasized participation, democracy, respect for diversity, private enterprise, cooperative enterprise, organized labor, rejection of violence, and a more open and trade-oriented economy.
5. Participants saw the means by which they could link their own organizations and/or professional activities to a more viable future.
6. Participants agreed to use the newly-initiated base of dialogue to create major policy changes in their respective sectors in order to create a new model of development.

What Were the Criticisms of the IPDS?

The criticisms of the seminars were few but are expressed as follows:

1. The seminars are costly. INCAE sponsored programs are not inexpensive by local standards and, if some of the participants did not have subsidies from ROCAP or other sources, they may not have attended. This, of course, raises the question of whether or not INCAE could continue this activity without a subsidy.
2. Some groups or sectors were not included in the sessions. For example, the largest sector in most of these countries -- namely the informal sector -- did not participate; likewise, neither did the educational sector nor did the consumer sector have representation in the seminars.
3. The emphasis on exports may overlook the need to expand and build the domestic economy as well. All the models discussed in the seminar also have strong domestic economies.
4. The dialogue must lead to action. If it doesn't, people will lose interest in the dialogue.

5. INCAE is doing the right thing in sponsoring these seminars but it must be careful not to become associated with any political movement.

What Were the Outputs of the IPDS?

The dialogue program has been a tremendous incentive for developing information at INCAE and other sponsoring institutions regarding the role of the private sector in solving the problems of development in Central America. This is particularly important for INCAE since it develops and expands its "institutional memory" around these problems, thus creating a strong base for future research and teaching which will allow it to play a continuing role of leadership in this area. Secondly, INCAE must become the region's information center for development activities and it can only do this by expanding its research capabilities through projects such as the IPDS. This effort must become one of the foundations of excellence at INCAE and this report will discuss a more concerted effort in this area in ^{the} ~~this~~ section on the institutional analysis.

The specific outputs of the project can be summarized under the following categories: (Table IV contains a list of the written materials described below)

1. Research Documents - Three in-depth studies were conducted in Guatemala, Honduras and El Salvador about the role of the private sector in these countries. They formed the bases for the seminars on assessment, strengths and weaknesses, and informative topics.

2. Case Studies - A total of thirty-five cases were written on the role of the private sector and on major political and economic issues affecting the role of the private sector.

3. Survey Research - An opinion survey about the economic and political crisis facing Central America was conducted in 1983 among four hundred leaders in the private sector. The results of the survey were used to design the seminars, create research ideas and give feedback to the private sector on its preparation of the regional crisis.

4. Teaching Activities - An array of seminars, meetings, and dialogue activities were carried out throughout the life of the project and they are listed in Tables I-III mentioned above.

5. Enhanced Expertise - As a result of all of these activities, INCAE has initiated a new phase of its developed with its improved expertise to deal with the social, political and economic dimensions of development. Furthermore, through its expertise in creating intersectoral forums, INCAE has not broadened its scope of activities and will therefore develop a base of knowledge about managing development in all the key sectors of economic activity. As such, it will expand its capabilities to respond to the diverse needs of organizations throughout the region.

Observations and Recommendations

The following ideas emerged out of the evaluation and are intended to be observations and suggestions to INCAE and ROCAP:

1. INCAE is now identified as a leader in the process of advancing new ideas for resolving the problems of development in the region. This role should be further institutionalized at INCAE through changes in the MBA program, advanced training for faculty, carefully designed seminars and more resources channeled into research activities.

2. INCAE must have some buffer organization between itself and the political process. Its ideas are not neutral, but they must be presented in a professionally objective manner. Thus, organizations such as FUSADES, FUNDAP and CINDI must be fortified and must understand how important their role is in the IPDS. INCAE is essentially trying to create a new political "center" through the process of dialogue but it must not be politicized by that process.

3. The IPDS will create new forms of conflict. The traditional forms of "feudalistic" conflict (conflict among rather unyielding centers of power) will be replaced by a type of pluralistic conflict where many groups pursue the same goals but through different means. Thus, the IPDS must address the problems of conflict management in future seminars.

4. INCAE must continue to build its own infrastructure for the IPDS and it should become the base for all of its programs. This infrastructure has at least three components: (1) human resources developed through teaching; (2) organizational resources developed through entities like the Center for Applied Economics and Policy studies; and (3) information resources, developed and disseminated through research and case writing.

EXPORT MANAGEMENT PROGRAM

The purpose of this section is to determine how effective the Export Management Program has been. To determine this, interviews were held with participants who attended each of the seminars in Guatemala, El Salvador and Costa Rica. Interviews were also held with representatives of local institutions which sponsored some of the seminars, members of the INCAE National Committees and the INCAE Executive Director in each of the three countries. Appendix B lists the various people interviewed, Appendix C shows a draft Survey Questionnaire used in the interviews, and Appendix E contains the individual country evaluations.

Institutional Assessment Component

As a first step in establishing the Export Management Program, research was carried out in each of the Central American countries to assess the existing institutional framework in terms of how it was effecting exports as well as assess the principal problems confronting exporters who were exporting their products to international markets. As a result of this work, an institutional framework was developed for each country. In addition, a conceptual framework was developed for the execution of the Export Management Program.

Although the initial investigation was not completed under the most rigorous academic standards, a good grasp of the problems affecting Central American exporters was obtained. This has led to an effective Export Management Program. However, it would no doubt be profitable for INCAE to assess once again the ever changing institutional framework and conditions now affecting exporters. This would assist INCAE in focusing its Export Management Program in ways to have maximum impact.

From the interviews with seminar participants, it is evident that people in the region are becoming more familiar with institutions and policies which affect their exports or their potential export businesses. Although both the private and public sectors better understand the environment needed to foster an increase of exports, this understanding has yet to be translated into solutions and laws which will finally lead to the creation of ~~a~~ new export industries.

Case Studies Developed

A group of cases, in excess of the 24⁽¹⁾ funded by the ROCAP grant, have been developed for use in the export management seminars and for use in course work related to exports. A list of 24 case studies developed specifically for use in these

seminars is included in Appendix D along with a description of each case theme. As conditions in each Central American country have changed, a number of cases were withdrawn from use in the seminars since they were no longer pertinent and others were substituted which were more useful. Also, other cases which were originally developed for use in the Export Management Program, were found to be more pertinent to other programs such as finance.

Number of Seminars Conducted

Under the original ROCAP Expansion Project, INCAE was asked to conduct approximately 30 seminars, typically of three days duration, with an average of 40 participants per seminar during the three years of the project. This would be for approximately 1,200 participants. The format of four modules, 3 day per module, was decided upon as the most convenient one for both participants and professors. In the summary table below, each 3 day module was considered as a separate seminar. Seminars with more than 3 consecutive days of sessions, are reported as a number of seminars each of 3 days. A total of 30 export management seminars were conducted to date with 1,462 participants.

SUMMARY OF EXPORT MANAGEMENT SEMINARS HELD

<u>Seminar</u>	<u>% of Participants per Module or Seminar</u>	<u>Date</u>	<u>Days</u>	<u>Number of Seminars</u>	<u>TOTAL Participants</u>
Costa Rica					
PECR (1)	70	Feb. 83	1	1	70
EMP (2)	63	Oct/Nov. 83	7	2	126
EMP	50	Oct/Nov. 84	12	4	200
EMF (3)	26	Feb. 85	2	1	26
AEAC (4)	43	May/June 85	12	4	172
TOTAL				<u>12</u>	<u>594</u>
El Salvador					
EMP	51	Feb/Mar 84	12	4	204
FMIM (5)	30	June/85	6	<u>2</u>	<u>60</u>
TOTAL				<u>6</u>	<u>264</u>
Guatemala					
EMP	80	July/Aug. 84	12	4	320
EMP-Miami	30	July/83	12	<u>4</u>	<u>120</u>
TOTAL				<u>8</u>	<u>440</u>
Panama					
EMP	40	July/Sep. 84	12	4	164
TOTAL				<u>4</u>	<u>164</u>
TOTAL SEMINARS				30	
TOTAL PARTICIPANTS					1,462

- (1) Problemática de las Exportaciones en Costa Rica Seminar
- (2) Export Management Program Seminar
- (3) Export Management Follow-Up Seminar
- (4) Administration and Exporting for Agricultural Companies Seminar
- (5) Export Marketing to Third Markets Seminar

Technical Handbooks

Of the 6 technical handbooks originally to be developed, only one was completed. No further efforts were made to develop these because, as the program developed, it was found that excellent handbooks were already available which covered the subjects originally projected to be included in handbooks. These handbooks were incorporated into the export management seminars. The one handbook written covered working capital generation, export financing instruments and concepts of accounts receivable in exports.

New MBA Courses with Export Management Orientation

The original project paper called for development of two new MBA courses in export management. Three have been added.

1. **Export Management:** The course consists of four basic components: non-traditional exports; opportunities and initiatives; design of export strategies; implementation of export strategies; summary.
2. **International Finance and Commerce:** This covers basic knowledge of subjects needed to finance exports and international commerce from the company point of view as well as from the macro view of international finance.

3. **Productivity Management:** The course developed was based on a need identified in the Export Management Program. Course content covers the technical and personnel aspects of productivity management and its relationship to product competitiveness in export markets.

Evaluation of Seminars and Conclusions

Participants agreed that the seminars were excellent and that the content was very pertinent to the subject of export development. Many found that their eyes had been opened to the complexities of exporting after attending the seminars. Although there were no indications that any participant had started up a new export business or had increased exports since participating in the seminar, very positive comments were made on the impact of the seminar. Some people used the knowledge learned in the seminar to identify and analyze export opportunities and a few participants began the process of establishing export businesses. Others applied what was learned in the seminar to improve their present businesses with apparently positive results. In some cases, existing exporters have been able to improve their relationships and export posture with their clients. It was generally felt that the

participants who gained the most from the seminars were those without any prior exporting experience. However, even exporters who attended the seminars felt they were excellent.

Many participants liked the analytical skills they learned since they will not only help to identify export opportunities and develop strategies, but will also help to manage their own businesses and improve their decision making process.

Most participants interviewed liked the case teaching method and the cases presented, although some said that the method was very concentrated and fast moving with little time to digest topics presented. Participants generally found the cases presented to be relevant to their needs, especially the new "live case studies" where the general manager of the company in the case is invited to the seminar to interchange ideas with the participants. A few limited comments were made suggesting that seminars should be more oriented towards the country where ^{the} seminar is conducted.

In general, most participants would like to see a more homogeneous group of people in the seminar. This refers to the academic capacity of the participants. When the academic background is too varied, it slows down the pace and work of the seminar. Also, professors are forced to lower the level of

academic presentation so that those participants at the lower end of scale are not confused or completely lost. The last seminar held in Costa Rica in June 1985 had a very good mix of participants and was a good example of a well-targeted seminar. The theme of the seminar was Administration and Exporting for Agricultural Companies. Participants were all from farm management backgrounds and the seminar was specifically designed for them.

In reviewing the cost structure of the seminar with the participants, it was found that in Guatemala and El Salvador there is no future for the high cost INCAE seminars if there are no subsidies for participants. The recent devaluations have made it impossible for individuals and companies to pay the full price of the seminar. This will change in the next two to three years once people adjust to the new exchange rates and once inflation has decreased. There is some indication that the larger Salvadorian companies would be willing to pay the full charge if seminars were particularly pertinent for their people.

In the case of Costa Rica where inflation is relatively under control, possibly up to 25% of participants would be willing to pay nearly full price. In Costa Rica one senses that people are still trying to determine what exports are all

about. Some incentive should probably always be given to get key people to attend. However, the remaining participants would definitely need to be subsidized.

Unlike Costa Rica, the Salvadorians want to move quickly into exporting. They know they are ready to export and only want information which will show them specifically how to get it done. Guatemala appears to be only a little more aggressive than Costa Rica in its attempts to get into exports. Guatemalans still need information about exporting and they also want more specific information to assist them in moving into exports quickly. The recent devaluation has really brought home the need to export.

Future for Seminars

In Guatemala and Costa Rica, there seems to be a greater interest in more seminars than in El Salvador. Salvadorians interviewed want more seminars only if they are very specifically oriented to a particular industry; i.e. Mquila,² ornamentals and flowers, fresh produce exports, etc. Also, they want seminars to address particular subjects, such as CBI, International Marketing, etc.

The original export management seminars could probably be repeated in Costa Rica and Guatemala with good success. People are not as aggressive in these countries and are moving at a slower pace towards exports. At the same time, there are many people who are ready for follow-up seminars on much more specific themes, such as those mentioned for El Salvador.

In Guatemala the Asociación de Gerentes de Guatemala has expressed a strong desire to sponsor more export management seminars. A very favorable climate for seminars seems to exist in that country.

El Salvador is another case. Given the aggressive nature of the Salvadorian businessman and entrepreneur, they feel that there have been too many seminars. This is the opinion expressed by FUSADES and COEXPORT, two key sponsors of seminars. While the INCAE seminars are excellent, they are seen as very expensive. COEXPORT is planning to sponsor one seminar per month. However, both institutions are reluctant to use INCAE because of the high cost. Good targeting and design of seminars on specific topics should get support from these institutions. The excellent reputation of INCAE and its seminars in El Salvador will facilitate getting the support of these institutions.

In Costa Rica there are many possible sponsoring institutions including CINDI that are interested in more seminars. There should not be much problem in finding sponsors for almost any type of good seminar.

Recommendations

1. The mix of participants should be more homogeneous ^{in terms of} en-

~~and~~ ~~an~~ academic capacity basis. This will facilitate presentation of information and allow professors to aim presentations at a higher level. Varied professional background is desirable.

2. Existing exporters should not be mixed with non-exporters in the same seminar. Exporters are looking for different and more specific type of information than the novice. There is a good potential for seminars oriented specifically to exporters.

3. INCAE has traditionally oriented its non-traditional export activities only to the United States market. There is strong interest to have INCAE do the same in-depth research and presentation of market potential, barriers, incentives, etc. for Canada,

Japan and Europe. ROCAP should consider funding this research. The ever expanding U.S. trade deficit with the world will most likely someday have a negative impact on Central American export efforts. Now is the time to begin to look to other markets and to develop export strategies for those markets.

4. INCAE is seen as a bit jealous in using only its faculty to staff its seminars. It is believed that it would be very profitable for everyone if INCAE would utilize outside consultants in its seminars. This would allow INCAE to conduct much more specific seminars where the outside consultant would bring in the specific "hands-on" type of information that potential exporters are seeking.
5. Many participants feel it would be a great benefit to be shown at the beginning of the seminar how to read and analyze a case study. Many students new to the case study method, find it very difficult and confusing.
6. In advertising and promoting seminars, there should be more in-depth information about seminar content so that potential participants will see clearly what they

will and will not be exposed to. Requirements for participating in the seminars should also be developed to narrow the mix of participants.

7. The single most mentioned theme for future seminars is marketing. Everyone needs help on how to do marketing and market research. INCAE could incorporate marketing in a number of ways. The MBA program could include courses in Business/International Marketing; a special PAG program could be established, ~~i.e.,~~ Programa de Alta Gerencia de Exportación, with emphasis on marketing; and certainly a seminar on international marketing and marketing research would have broad appeal. A wide range of subjects could be covered, a few of which are listed below:

- Role of modern marketing today;
- Strategic planning and the marketing management;
- Consumer buying behavior;
- Marketing information system and marketing research;
- Market measurement and forecasting;
- Market segmentation, targeting and positioning;
- Marketing strategies;
- Design and adaptation of product, brand and packaging;
- Pricing theory;
- Marketing channels: retail, wholesale and distribution;
- Export transportation, particularly in country of destination;
- Promotion and advertising;
- Sales management and personal selling techniques;
- Market organization and implementation.

Of these subjects, probably the one with the most interest for the exporter is marketing research: where to go for information and how do research. A list of sources of information is presented below as a guideline to what is available for use by exporters:

- U.S. Embassy libraries in each country - many reference books on importers, import statistics;
- Binational cultural centers in each country;
- Trade associations which are mostly headquartered in Washington, D.C.
- Trade association libraries
- Trade publications and magazines and special studies published for members;
- Trade fairs and specialty market fairs
- U.S. government publications;
- U.S. Department of Commerce;
- Industry publications;
- Market research companies.

Exporters need to be taught how to use these sources to secure the kind of market information that will help them establish their products in the export markets.

It is suspected that in such a market seminar, the case method of teaching may not be the most applicable or advisable. Outside consultants could be brought in for specific subjects and, for others where case studies are not relevant, alternative teaching methods would be developed.

8. INCAE needs to improve its relationship with the bilateral AID missions in each country to assure the continued support for its programs. This should be done in order to make AID personnel, who are constantly changing, aware of the resources available at INCAE and its vast experience in the development process in the region.

9. In Guatemala, INCAE graduates have formed an Asociación de Egresados de INCAE. This association and the INCAE National Committee are very interested in assisting and helping INCAE to identify and put on new programs of importance to the development of Guatemala. Now is an excellent moment to tap this resource.

10. During the evaluation of the Export Management Program, it was found that there is a serious lack publishing on what has gone on in this program and what is going on in export management in Central America. In general, there is a lack of publishing at INCAE. It is recommended that ROCAP look at the possibility of funding non-specific research which would lead to the establishment of a publishing program.

FINANCIAL ANALYSIS

The current evaluation of INCAE's financial operations has as its principal objectives to:

- (I) Examine current and projected cash flows;
- (II) Assist INCAE in the development of a strategy to assure the institution's long term financial security leading to INCAE's self-sufficiency within 5 years;
- (III) Assess INCAE's financial management system and recommend ways in which its accounting and financial practices can be made more efficient, including an AID-justifiable overhead rate for its services.

In each of the principal areas above, specific questions prepared by Alejandro Pontaza will also be addressed.

The following individuals were interviewed extensively during the preparation of this section:

- Marc Lindenberg, Rector of INCAR/
- Silvio de Franco, Academic Director of INCAE.
- Gerardo Peralta, Financial Director, INCAE.
- Antonio Colindres, Assistant Financial Director, INCAE.
- Carlos Schiebel, Financial Division, INCAE.
- Kenneth Hoadley, Agribusiness Program Director, INCAE.
- Angel Interiano, Director of Fund Raising, INCAE.
- Ilse Kriebei, Assistant Administrative Director, INCAE
- David Campos, Director of the Student Loan Fund and Legal Advisor, INCAE.
- David Hagen, USAID, Costa Rica, Charged with management of the INCAE-COFISA Trust Fund.
- Carlos Rodríguez, Assistant Director, Credit Department, the INTERFIN S.A. Bank of Costa Rica, charged with trusteeship of the COFISA-INCAE Trust.

Examination of INCAE's Current and Projected Cash Flows

Before analyzing INCAE's current cash flow problems, it should be noted that the School has done remarkably well to better its overall yearly cash flow and working capital situation. Prior to 1984/85, INCAE had difficulty meeting its monthly U.S. dollar obligations, particularly in Faculty payroll, a major monthly expense. In 1983, U.S. dollar monthly

salary averaged 2-3 months due. In 1984, faculty payroll averaged one month due and in 1985 (to July) monthly cash flow has improved to the point where faculty payroll was paid on time each month.

INCAE's trimonthly cash flow statements are divided into the following accounts: Income Generated, Accounts Receivable, Net Bank Cash Balances, Fixed Expenditures, Variable Income and a Consolidated Cash Flow Review for the period. (See Appendix F for current cash flow receipts). The statements are precise and descriptive. They are, however, based on fixed exchange rate figures tabulated for the beginning of each fiscal year. As the year progresses, with the current economic problems in Central America, cash flow figures suffer increasing distortion as free market exchange rates change. INCAE is quite aware of this problem and, with the installation of its new IBM computer system, it will be able to adjust its cash flow statements -beginning in September- to free market interest rates each month rather than every three months.

INCAE's 1985/1986 cash flow projections show (see following page) an August low of \$135,000 U.S. (consolidated Dollar figures). Cash flow figures for September, however, show a deficit of 3.969 million colones, or approximately \$78,000. In comparison, adjusted cash flow figures for the current fiscal

year, show a 3.060 million colones or \$60,000 deficit for the April, May and June period (after converting all uncommitted and liquid U.S. dollars available), rather than in September. (See page ___ Chart of INCAE Cash Flow Deficits: Fiscal Year 1984/1985). According to INCAE's financial officers, cash flow projections for fiscal year 1985/86 will be readjusted as the year proceeds to reflect a similar deficit period of April, May and June. This is due to the continued difficulty INCAE has in programming course and seminar work for this period and the collection of past due receipts. INCAE officials are aware of their programming problem and have reduced their cash flow deficit period from February to June in previous years to the current April through June period. They believe it will be very difficult to reduce the period further and will rely on short term loans of \$150,000 to \$200,000 dollars, borrowed in colones from Costa Rican banks to cover the shortfall.

Conclusions:

- (a) INCAE cash flow statement recording methods are good.
- (b) End trimonthly cash flow statements have been difficult to use for planning purposes due to exchange rate fluctuations. With monthly free market exchange rate adjustments and monthly cash flow figures available beginning in September, short term cash flow planning should measurably improve.

5

- (c) INCAE's seasonal cash flow deficit has been reduced from February/June to April/June by better program control. Reducing the seasonal deficit further, however, may be difficult.

CHART - INCAE - FLUJO DE CAJA POR MONEDA (EN MILES) - DESDI
SEP/85 HASTA AGO/86.

51

CHART - INCAE CASH FLOW DEFICITS: FISCAL YEAR 1984/1985

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Recommendation:

As an example of accounts payable to INCAE, one particular case involves the USAID mission to Guatemala owing a payment of \$38,000 U.S. to INCAE. This debt has been outstanding since April when, according to INCAE officials in Costa Rica, all required paper work was submitted. Given the myriad of data and lag time in receiving payment from most USAID missions, it is probable that not all the information required was submitted on time by INCAE's Guatemalan Representative. It is recommended that a AID liason person be named by INCAE to coordinate document presentation and payment by USAID Central American Missions among other duties to be outlined under "Recommendations to make INCAE's accounting and financial practices more efficient".

Assist in the Development of a Strategy to Assure the Institution's Long-term Financial Security Leading to INCAE's Self-sufficiency within Five Years

The discussion is divided into 7 parts:

- (1) Investment strategy projections.
- (2) Endowment Fund strategy and goals.
- (3) The Management and Solvency of the Student Loan Fund.

- (4) Current U.S. Dollar Long Term Debt Obligations.
- (5) Annual contributions by the Central American nations to cover a portion of INCAE's annual fixed costs.
- (6) The creation of new profit centers.
- (7) Faculty Salaries and Fringe Benefits.

Investment Strategy Projections

(Each have Pessimistic, Probable and Optimistic Versions)

- Scenario 1: Consolidated (Costa Rican & Nicaragua Centers) Non-Repayment of ROCAP Outstanding Loan.
- Scenario 2: Consolidated, Repayment of ROCAP Outstanding Loan.
- Scenario 3: Consolidated, Partial Repayment of Outstanding Loan Converting Student Loan Fund Into a Donation.
- Scenario 4: INCAE International, Closing INCAE Nicaragua, Non-Repayment of ROCAP Outstanding Loan.
- Scenario 5: INCAE International, Closing INCAE Nicaragua, Repayment of ROCAP Loan.
- Scenario 6: INCAE International, Closing INCAE Nicaragua, Partial Repayment of Outstanding Loan Converting Student Loan Fund Into a Donation.

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In each projection, exchange rates (Tasa), inflation rates (F2), and a combination of both (Tasa + F2) which can be transferred to seminar and course participants without a loss of the existing market (fi) have been calculated for each Central American country for the years 1985 through 1990. For simplicity, only the Probable versions of the above scenarios are compared in the table below. The details of each may be seen on the six projections included in the text. The Optimistic and Pessimistic versions of each are included as addendums.

TABLE OF COMPARISON Projections 1985-1990 Probable Versions	Net Income (In Thousands) U. S. Dollars			
	86/87	87/88	88/89	89/90
(A) Consolidated, Non-Repayment ROCAP Loan	- 92.11	- 77.66	- 57.57	- 26.53
(B) Consolidated, Repayment ROCAP Loan	-297.91	-283.46	-263.37	-251.22
(C) Consolidated, Partial Repay- ment of Outstanding Loan Converting Student Loan Fund Into a Donation	-249.10	-230.96	-210.37	-198.72
(D) INCAE International, Closing INCAE Nicaragua, Non-Repay- ment of ROCAP Loan	-283.09	- 31.49	- 14.18	- 1.53
(E) INCAE International, Closing INCAE Nicaragua, Repayment of ROCAP Loan	-488.78	-237.29	-219.98	-207.99
(F) INCAE International, Closing INCAE Nicaragua, Partial Re- payment of Outstanding Loan Converting Student Loan Fund Into a Donation	-436.28	-184.79	-167.48	-155.

In drawing conclusions from the "Table of Comparisons: Projections 1985-1990", the following conditions apply to all cases cited:

- (1) The proposed five year ROCAP grant is included.
- (2) All projections include an annual \$330,000 contribution included as an operational cost by INCAE to the Endowment Fund (The funds are transferred from donors through INCAE to the Fund). Some of these funds could be used to cover Operationsl Deficits if necessary.
- (3) All projections include a \$300,000 Contingency Fund included as an operational cost.

Tentative Conclusions:

- I. From a purely financial point of view for INCAE, the best scenarios are projections A (total accumulated debt by 1990 is \$253.87 thousand) and projection ¹D (accumulated debt: \$330.29 thousand). Closing the Nicaragua campus is actually more expensive (closing costs transfer of INCAE/Nicaragua personnel to Costa Rica) then keeping it open. What is important is not having to repay the ROCAP outstanding loan.

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II. If INCAE repays the full ROCAP loan, Projection B gives an accumulated debt of \$1095.96 (thousand). If all Contingency Funds were used, then the accumulated debt could be covered ($\$1200. \text{ minus } \$1095.96 = \$104.04$ thousand). But this is terribly precarious with only \$104,000 dollars as Contingency Funds for a four year period. Contributions to the Endowment Fund could, of course, be used (and as will be seen under a discussion of the Fund, after 1987, portions of new contributions could be channeled to Operational Costs), but this would defeat the purpose of maximizing the Fund's ability to cover future deficits and unexpected crises. Closing the Nicaragua campus would leave no contingency funds whatsoever. (Projection E).

III. If the one million dollar student loan component of the ROCAP Loan were converted into a grant, Projection C would give an accumulated deficit of \$888.69 (thousand), leaving \$311,000 in Contingency Funds for the four year period. Projection F, closing the Nicaraguan campus would leave \$225,000 in Contingency Funds.

If the entire ROCAP loan could be converted into a grant, then projections C and F, at least offer the best possibility for INCAE to achieve self-sufficiency by 1990 or 1991, when

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interest from the Endowment Fund will probably be sufficient to cover operational deficits. Projections C and F are the second best options.

The above projections, all presuppose, of course, that no new outside sources of income are available to cover operational deficits. If existing or new profit centers (programs) become profitable or increase their profitability, or outside private/public donors are found, the projections and alternatives will change. Economic conditions in Central America will also affect the projections and INCAE will adjust all the scenarios monthly, beginning in September, so that INCAE's options are kept current.

Additional scenarios which INCAE will program in the coming months will answer the questions noted below. Different mixes of the answers, as available, will change financial projections and alternative strategies. Perhaps what is most important from this analysis are not the numerical conclusions drawn at this time, but rather INCAE's increasing ability to project and constantly adjust input data^s to changing conditions -- a basic ingredient to successful financial planning. In other words, incae has begun the process of creating a management planning tool that will allow it to make strategic and operational decisions in an environment of change and

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uncertainty. With this type of contingency planning, INCAE can also act as consultants to other organizations that still believe that managerial planning is impossible in an environment of constant flux.

The following are a set of questions which reflect the project team's suggestions for improving this managerial planning tool:

1. What levels of interest income from the endowment fund are assumed in all of the scenarios in all years?
2. What is the limit in losses for devaluation and inflation before INCAE has to reduce contingencies below 200,000 dollars while maintain a balanced budget and or a rate of dollars to deficit currencies which are convertible at one to one?
3. What is the limit in losses for devaluation and inflation before INCAE has to reduce contingencies below 200,000 dollars and start cutting from 333,000 to 150,000 INCAE's transfer to the endowment fund? (from 150-0?) What strategies could we use in pricing, or change of mix of services, or countries to prevent this slippage?

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4. What circumstances in devaluation and inflation would force INCAE to drop its contingencies to \$200,000, use all 333,000 normally transferred to the endowment fund for operations, and use all interest from the endowment for operations? How likely is this scenario? What can be done to avoid it?

- (5) Which are the most likely scenarios in your (Department of Finance: INCAE) judgement and why? What kind of financial strategy for operations, endowment and the student loan fund are most advisable under these circumstances?

- (6) What scenarios show INCAE losing twice as much money in 1989-90 in the probable scenarios for closure with and without debt in continuing with both campuses? What kinds of programmatic adjustments would have to be made to overcome this?

- (7) How can balance sheets and cash flows be included in the projections?

Note: All financial projections after September, will be programmed to include line items and specific information according to profit and cost centers, seminars, etc.

SUPUESTOS

PAISES	85/86		86/87		87/88		88/89		89/90	
	TASA	TASA	F1	F2	TASA	F1	F2	TASA	F1	F2
PANAMA	1.00	1.00	1.00	1.05	1.00	1.00	1.05	1.00	1.00	1.05
NICARAGUA	1000.00	1000.00	1.15	1.30	1500.00	1.15	1.40	1800.00	1.15	1.40
GUATEMALA	3.30	3.30	1.10	1.20	4.00	1.08	1.20	5.20	1.08	1.20
SALVADOR	4.65	5.30	1.05	1.10	6.00	1.05	1.10	6.50	1.05	1.10
COSTA RICA	55.00	60.00	1.10	1.20	66.00	1.10	1.20	73.00	1.10	1.20
HONDURAS	3.00	3.50	1.08	1.10	3.50	1.08	1.10	4.00	1.15	1.20
ECUADOR	130.00	140.00	1.10	1.10	160.00	1.10	1.15	170.00	1.10	1.15

ESCENARIOS; COSTA RICA Y NICARAGUA VERSION P OBABLE SIN EUDA

	TOTAL US\$	US\$	C\$	Q	C.S	C.T.	L.PS	SUCRES
AND 86/87	INGRESOS 7810.97	4009.00	184230.00	668.80	1157.10	168056.90	708.48	27073.20
	EGRESOS 7903.08	4191.60	240380.40	256.80	1028.50	180018.00	333.30	14517.80
	CONTRIBUC -92.11	-182.60	-56150.40	412.00	128.60	-11961.10	375.18	12555.40
AND 87/88	INGRESOS 7439.78	4042.00	184230.00	656.64	1157.10	168056.90	708.48	27073.20
	EGRESOS 7517.43	4191.60	258871.20	256.80	1028.50	180018.00	333.30	15177.70
	CONTRIBUC -77.66	-149.60	-74641.20	399.84	128.60	-11961.10	375.18	11895.50
AND 88/89	INGRESOS 7131.65	4075.00	184230.00	656.64	1157.10	168056.90	754.40	27073.20
	EGRESOS 7189.21	4191.60	258871.20	256.80	1028.50	180018.00	363.60	15177.70
	CONTRIBUC -57.57	-116.60	-74641.20	399.84	128.60	-11961.10	390.80	11895.50
AND 89/90	INGRESOS 7150.74	4108.00	184230.00	656.64	1157.10	168056.90	754.40	27073.20
	EGRESOS 7177.28	4191.60	258871.20	256.80	1028.50	180018.00	363.60	15177.70
	CONTRIBUC -26.53	-83.60	-74641.20	399.84	128.60	-11961.10	390.80	11895.50

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SUPUESTOS

PAISES	85/86		86/87		87/88		88/89		89/90	
	TASA	TASA	F1	F2	TASA	F1	F2	TASA	F1	F2
PAKAMA	1.00	1.00	1.00	1.05	1.00	1.00	1.05	1.00	1.00	1.05
NICARAGUA	1000.00	1000.00	1.15	1.30	1500.00	1.15	1.40	1800.00	1.15	1.40
GUATEMALA	3.30	3.30	1.10	1.20	4.00	1.08	1.20	5.20	1.08	1.20
SALVADOR	4.65	5.30	1.05	1.10	6.00	1.05	1.10	6.50	1.05	1.10
COSTA RICA	55.00	60.00	1.10	1.20	66.00	1.10	1.20	73.00	1.10	1.20
HONDURAS	3.00	3.50	1.08	1.10	3.50	1.08	1.10	4.00	1.15	1.20
ECUADOR	130.00	140.00	1.10	1.10	160.00	1.10	1.15	170.00	1.10	1.15

ESCENARIO: COSTA RICA Y NICARAGUA.

VERSION PROBABLE CONSOLIDADO CON DEUDA

ANO	TOTAL US\$	US\$	C\$	Q	C.S	C.T.	L.PS	SUCRES
86/87	INGRESOS 7810.97	4009.00	184230.00	668.80	1157.10	168056.90	708.48	27073.20
	EGRESOS 8108.88	4397.40	240380.40	256.80	1028.50	180018.00	333.30	14517.80
	CONTRIBUC -297.91	-388.40	-56150.40	412.00	128.60	-11961.10	375.18	12555.40
87/88	INGRESOS 7439.78	4042.00	184230.00	656.64	1157.10	168056.90	708.48	27073.20
	EGRESOS 7723.23	4397.40	258871.20	256.80	1028.50	180018.00	333.30	15177.70
	CONTRIBUC -283.46	-355.40	-74641.20	399.84	128.60	-11961.10	375.18	11895.50
88/89	INGRESOS 7131.65	4075.00	184230.00	656.64	1157.10	168056.90	754.40	27073.20
	EGRESOS 7395.01	4397.40	258871.20	256.80	1028.50	180018.00	363.60	15177.70
	CONTRIBUC -263.37	-322.40	-74641.20	399.84	128.60	-11961.10	390.80	11895.50
89/90	INGRESOS 7107.77	4108.00	184230.00	656.64	1157.10	168056.90	754.40	27073.20
	EGRESOS 7358.99	4397.40	258871.20	256.80	1028.50	180018.00	363.60	15177.70
	CONTRIBUC -251.22	-289.40	-74641.20	399.84	128.60	-11961.10	390.80	11895.50

S U P U E S T O S

PAISES	85/86		86/87		87/88		88/89		89/90				
	TASA	TASA	F1	F2	TASA	F1	F2	TASA	F1	F2			
PANAMA	1.00	1.00	1.00	1.05	1.00	1.00	1.05	1.00	1.00	1.05	1.00	1.00	1.05
NICARAGUA	1000.00	1000.00	1.15	1.30	1500.00	1.15	1.40	1800.00	1.15	1.40	2000.00	1.15	1.40
GUATEMALA	3.30	3.30	1.08	1.20	4.00	1.08	1.20	5.20	1.08	1.20	6.00	1.08	1.20
SALVADOR	4.65	5.30	1.05	1.10	6.00	1.05	1.10	6.50	1.05	1.10	6.50	1.05	1.10
COSTA RICA	55.00	60.00	1.10	1.20	66.00	1.10	1.20	73.00	1.10	1.20	73.00	1.10	1.20
HONDURAS	3.00	3.50	1.08	1.10	3.50	1.08	1.10	4.00	1.15	1.20	4.50	1.15	1.20
ECUADOR	130.00	140.00	1.10	1.10	160.00	1.10	1.15	170.00	1.10	1.15	180.00	1.10	1.15

ESCENARIO: COSTA RICA Y NICARAGUA

VERSION PROBABLE CONSOLIDADO CON DEUDA MENOS DONACION

ANO	TOTAL US\$	US\$	C\$	Q	C.S	C.T.	L.PS	SUCRES
86/87	INGRESOS	7807.28	4009.00	184230.00	656.64	1157.10	168056.90	708.49 27073.20
	EGRESOS	8056.38	4344.90	240380.40	256.80	1028.50	180018.00	333.30 14517.80
	CONTRIBUC	-249.10	-335.90	-56150.40	399.84	128.60	-11961.10	375.18 12555.40
87/88	INGRESOS	7439.78	4042.00	184230.00	656.64	1157.10	168056.90	708.48 27073.20
	EGRESOS	7670.73	4344.90	258871.20	256.80	1028.50	180018.00	333.30 15177.70
	CONTRIBUC	-230.96	-302.90	-74641.20	399.84	128.60	-11961.10	375.18 11895.50
88/89	INGRESOS	7131.65	4075.00	184230.00	656.64	1157.10	168056.90	754.40 27073.20
	EGRESOS	7342.51	4344.90	258871.20	256.80	1028.50	180018.00	363.60 15177.70
	CONTRIBUC	-210.87	-269.90	-74641.20	399.84	128.60	-11961.10	390.80 11895.50
89/90	INGRESOS	7107.77	4108.00	184230.00	656.64	1157.10	168056.90	754.40 27073.20
	EGRESOS	7306.49	4344.90	258871.20	256.80	1028.50	180018.00	363.60 15177.70
	CONTRIBUC	-198.72	-236.90	-74641.20	399.84	128.60	-11961.10	390.80 11895.50

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SUPUESTOS

PAISES	85/86		86/87		87/88		88/89		89/90	
	TASA	TASA	F1	F2	TASA	F1	F2	TASA	F1	F2
PANAMA	1.00	1.00	1.00	1.05	1.00	1.00	1.05	1.00	1.00	1.05
NICARAGUA	1000.00	1000.00	1.15	1.30	1500.00	1.15	1.40	1800.00	1.15	1.40
GUATEMALA	3.30	3.30	1.10	1.20	4.00	1.08	1.20	5.20	1.08	1.20
SALVADOR	4.65	5.30	1.05	1.10	6.00	1.05	1.10	6.50	1.05	1.10
COSTA RICA	55.00	60.00	1.10	1.20	66.00	1.10	1.20	73.00	1.10	1.20
HONDURAS	3.00	3.50	1.08	1.10	3.50	1.08	1.10	4.00	1.15	1.20
ECUADOR	130.00	140.00	1.10	1.10	160.00	1.10	1.15	170.00	1.10	1.15

ESCENARIO: COSTA RICA Y NICARAGUA

VERSION PROBABLE CON CIERRE SIN DEUDA

	TOTAL US\$	US\$	C\$	Q	C.S	C.T.	L.PS	SUCRES
AND 86/87	INGRESOS	7126.71	3589.00	4639.10	625.45	1172.02	165836.73	708.74 21835.00
	EGRESOS	7409.80	3960.71	36236.46	233.92	1022.11	177086.69	328.93 14517.80
	CONTRIBUC	-283.09	-371.71	-31597.36	391.53	149.91	-11249.96	379.81 7317.20
AND 87/88	INGRESOS	6825.59	3622.00	4639.10	614.08	1172.02	165836.73	708.74 21835.00
	EGRESOS	6857.08	3730.26	39023.88	233.92	1022.11	177086.69	328.93 15177.70
	CONTRIBUC	-31.49	-108.26	-34384.78	380.16	149.91	-11249.96	379.81 6657.30
AND 88/89	INGRESOS	6544.83	3655.00	4639.10	614.08	1172.02	165836.73	754.68 21835.00
	EGRESOS	6559.01	3730.26	39023.88	233.92	1022.11	177086.69	358.84 15177.70
	CONTRIBUC	-14.18	-75.26	-34384.78	380.16	149.91	-11249.96	395.84 6657.30
AND 89/90	INGRESOS	6533.72	3688.00	4639.10	614.08	1172.02	165836.73	754.68 21835.00
	EGRESOS	6535.25	3729.60	39023.88	233.92	1022.11	177086.69	358.84 15177.70
	CONTRIBUC	-1.53	-41.60	-34384.78	380.16	149.91	-11249.96	395.84 6657.30

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S U P U E S T O S

PAISES	85/86		86/87		87/88		88/89		89/90				
	TASA	TASA	F1	F2	TASA	F1	F2	TASA	F1	F2			
PARAMA	1.00	1.00	1.00	1.05	1.00	1.00	1.05	1.00	1.00	1.05	1.00	1.00	1.05
NICARAGUA	1000.00	1000.00	1.15	1.30	1500.00	1.15	1.40	1800.00	1.15	1.40	2000.00	1.15	1.40
GUATEMALA	3.30	3.30	1.10	1.20	4.00	1.08	1.20	5.20	1.08	1.20	5.00	1.08	1.20
SALVADOR	4.65	5.30	1.05	1.10	6.00	1.05	1.10	6.50	1.05	1.10	6.50	1.05	1.10
COSTA RICA	55.00	60.00	1.10	1.20	66.00	1.10	1.20	73.00	1.10	1.20	73.00	1.10	1.20
HONDURAS	3.00	3.50	1.08	1.10	3.50	1.08	1.10	4.00	1.15	1.20	4.50	1.15	1.20
ECUADOR	130.00	140.00	1.10	1.10	160.00	1.10	1.15	170.00	1.10	1.15	180.00	1.10	1.15

ESCENARIO: COSTA RICA Y NICARAGUA

VERSION PROBABLE CON CIERRE CON DEUDA

	TOTAL US\$	US\$	C\$	Q	C.S	C.T.	L.PS	SUCRES	
AND 86/87	INGRESOS	7126.71	3589.00	4639.10	625.45	1172.02	165836.73	708.74	21835.00
	EGRESOS	7615.50	4166.40	36236.46	233.92	1022.11	177086.69	328.93	14517.80
	CONTRIBUC	-488.78	-577.40	-31597.36	391.53	149.91	-11249.96	379.81	7317.20
AND 87/88	INGRESOS	6825.59	3622.00	4639.10	614.08	1172.02	165836.73	708.74	21835.00
	EGRESOS	7052.88	3936.06	39023.88	233.92	1022.11	177086.69	328.93	15177.70
	CONTRIBUC	-237.29	-314.06	-34384.78	380.16	149.91	-11249.96	379.81	6657.30
AND 88/89	INGRESOS	6544.83	3655.00	4639.10	614.08	1172.02	165836.73	754.68	21835.00
	EGRESOS	6764.81	3936.06	39023.88	233.92	1022.11	177086.69	358.84	15177.70
	CONTRIBUC	-219.98	-281.06	-34384.78	380.16	149.91	-11249.96	395.84	6657.30
AND 89/90	INGRESOS	6533.72	3688.00	4639.10	614.08	1172.02	165836.73	754.68	21835.00
	EGRESOS	6741.71	3936.06	39023.88	233.92	1022.11	177086.69	358.84	15177.70
	CONTRIBUC	-207.99	-248.06	-34384.78	380.16	149.91	-11249.96	395.84	6657.30

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S U P U E S T O S

PAISES	85/86		86/87		87/88		88/89		89/90				
	TASA	TASA	F1	F2	TASA	F1	F2	TASA	F1	F2			
PANAMA	1.00	1.00	1.00	1.05	1.00	1.00	1.05	1.00	1.00	1.05	1.00	1.00	1.05
NICARAGUA	1000.00	1000.00	1.15	1.30	1500.00	1.15	1.40	1800.00	1.15	1.40	2000.00	1.15	1.40
GUATEMALA	3.30	3.30	1.10	1.20	4.00	1.08	1.20	5.20	1.08	1.20	6.00	1.08	1.20
SALVADOR	4.65	5.30	1.05	1.10	6.00	1.05	1.10	6.50	1.05	1.10	6.50	1.05	1.10
COSTA RICA	55.00	60.00	1.10	1.20	66.00	1.10	1.20	73.00	1.10	1.20	73.00	1.10	1.20
HONDURAS	3.00	3.50	1.08	1.10	3.50	1.08	1.10	4.00	1.15	1.20	4.50	1.15	1.20
ECUADOR	130.00	140.00	1.10	1.10	160.00	1.10	1.15	170.00	1.10	1.15	180.00	1.10	1.15

ESCENARIO: COSTA RICA Y NICARAGUA

VERSION PROBABLE CON CIERRE CON DEUDA MAS DONACION

ANO	TOTAL US\$	US\$	C\$	Q	C.S	C.T.	L.PS	SUCRES	
86/87	INGRESOS	7126.71	3589.00	4639.10	625.45	1172.02	165836.73	708.74	21835.00
	EGRESOS	7563.00	4113.90	36236.46	233.92	1022.11	177086.69	328.93	14517.80
	CONTRIBUC	-436.28	-524.90	-31597.36	391.53	149.91	-11249.96	379.81	7317.20
87/88	INGRESOS	6825.59	3622.00	4639.10	614.08	1172.02	165836.73	708.74	21835.00
	EGRESOS	7010.38	3883.56	39023.88	233.92	1022.11	177086.69	328.93	15177.70
	CONTRIBUC	-184.79	-261.56	-34384.78	380.16	149.91	-11249.96	379.81	6657.30
88/89	INGRESOS	6544.83	3655.00	4639.10	614.08	1172.02	165836.73	754.68	21835.00
	EGRESOS	6712.31	3883.56	39023.88	233.92	1022.11	177086.69	358.84	15177.70
	CONTRIBUC	-167.48	-228.56	-34384.78	380.16	149.91	-11249.96	395.84	6657.30
89/90	INGRESOS	6533.72	3688.00	4639.10	614.08	1172.02	165836.73	754.68	21835.00
	EGRESOS	6689.21	3883.56	39023.88	233.92	1022.11	177086.69	358.84	15177.70
	CONTRIBUC	-155.49	-195.56	-34384.78	380.16	149.91	-11249.96	395.84	6657.30

Another tool which could be used for investment strategy projections and continually updated through computer programming is the table and listing of ACADEMIC AND NON-ACADEMIC PROFIT CENTERS (PROGRAMS) FOR THE 1985/86 BUDGET (Attached as Appendix G) The table gives a breakdown of each center's subsidized and non-subsidized sources of income and net profits or loss. A second listing gives percentage differences between budgeted vs real profits and income for fiscal years 1982/83 and 1983/84 for the same profit centers.

In analyzing the list mentioned above, it must be borne in mind that the profit centers are not equal in weight or importance. Therefore, each profit center must be analyzed separately, based on the information available. However, from a general overview of the total 19 academic profit centers or programs, six are totally self-sufficient, four are classified as new programs and are an attempt to open new markets (Policy Dialogue Center, MBA Program in Economics, Latin American Teachers Program, Functional Workshop Seminars). These are 90 to 100% financed by ROCAP grants. The remaining nine programs with varying track records and available data must be analyzed individually.

APPENDIX E

COUNTRY EVALUATIONS

EVALUATION EXPORT MANAGEMENT SEMINAR-GUATEMALA

Under the Export Management Program, one seminar was held in Guatemala City, Guatemala, in July/August 1984. The seminar was sponsored by the Gremial de Exportadores de Productos No Tradicionales and had no other outside financial support. The seminar consisted of four modules of three days each conducted over an 8-week period. There were a total of 80 participants in the seminar. The four module seminar approach for three days appears to be the most appropriate formate. This allows the participants to attend to their urgent business matters the other two days of the week. Seminars of one and two weeks straight were criticized by participants as requiring too much time away from the job. Under all formats, there were a certain limited number of participants who were not in full attendance due to pressing business problems. However, this will probably always be unavoidable unless seminars are held far from the participants plaoe of work.

The content of each module was as follows:

Module I: Models of economic development and business policy. Specific country case studies such as Singapore were used to resolve their development problems. Other case studies showed how companies had altered their operational strategy under drastic economic and political changes.

Module II: Industry analysis and generic competitive strategies. This discussed the need to have in-depth industry knowledge and perception of changes taking place within the industry. Participants were shown how to define strategies which would allow a company to produce a product that will have competitive advantages in the market place.

Module III: Implementation of export strategy. Case studies which show how to implement export strategies and what went wrong.

Module IV: Promotion of export industries. A macro look at promotion of export industries and an analysis of various countries' specific efforts and failures. Includes country analysis of present conditions affecting exports.

A second export management seminar was held in July 1985 in Miami, Florida for 30 participants from Guatemala. The seminar was a three-week event sponsored by the Central American Peace Scholarships Program. Material presented there was the same general export management subjects used in other seminars.

Evaluation

Interviews with participants showed that the seminar was very well received and that the quality of the material was excellent. All comments reinforced the perception that INCAE was a Central American institution that produces high quality work. Presentations were well done and the enthusiasm shown by professors was a strong motivating force for the participants.

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Subjects dealt with were done so in sufficient depth to give participants a solid basis with which to apply them to their own present businesses or future export attempts. Participants who had no prior exporting experience appear to

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gain the most from the seminar. The vast amount of new material being presented was perceived by the participants as a solid basis on which they can eventually build export businesses. This type of participant was able to focus on what is needed to export.

Existing exporters who attended the seminar did not find much new material which would help them directly in their export businesses. However, they reported that quality of the seminar was excellent and that the seminars were a positive experience for them. Although no participants indicated that their exports had increased since the seminar, statements were made that the seminar had helped to reorient export efforts, alter the mix of export products and improve product quality and packaging. Other exporters who attended the seminar indicated that they had improved relationships with their clients and had improved their own management as a result of attending the seminar.

Many participants commented on their increased capability to analyze business conditions and situations, define strategies, and improve their decision making. Besides learning about exporting, participants had a positive feeling that they had gained personally on an academic and professional level. Self improvement as well as learning about exports was

an important motivation for participants to attend the seminar. Almost all participants interviewed indicated they would like to take another INCAE seminar, provided, of course, that the content of the seminar was important to them.

Motivation for attending the seminars was varied. For some, it was an opportunity to learn about what is involved in exporting, export strategy and export marketing. They were given the tools to decide whether or not exporting makes sense for them and how to go about getting into exports. Others attended just for the opportunity for self improvement. Exporters who attended were looking for ways to improve their businesses.

Financial Subsidies

Almost all participants interviewed indicated that they would not go to an INCAE seminar if they had to pay full price. Given the present economic situation in Guatemala, they don't feel they could justify paying the full price even though they know the quality of seminar content. They feel that their fellow seminar colleagues would be in the same position. At this point in time, participants need the subsidy in order to be able to take advantage of the seminar.

Mix of Participants

In general, participants thought that the mix of participants was too wide. While a diverse group of participants provides diverse perspectives and points of view, too wide of a mix slows down work, particularly in group sessions. A wide representation of participants from very diverse industries is not as critical as wide level of academic or professional competence. When the participant's backgrounds are too diverse, the orientation of the seminar presentations must be brought down to an average level of participants in order to not completely lose those at the bottom end of the scale. Thus, those participants at the top end of the scale risk being frustrated with the seminar. INCAE needs to continue to refine its sensitivity on whom to include in a seminar. This can be partially achieved through more detailed advertising which addresses directly the requirements to be eligible to attend seminars. Much of this problem will be eliminated as seminars become more specific in their orientation; i.e., to specific industries or business sectors. Examples would be seminars only for existing exporters, or general managers of businesses above a certain size or specific industries such as fresh produce exporters or maquila industries.

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Future for Seminars and Themes

Most participants interviewed would like to see INCAE conduct more seminars which they could attend. There is belief that the same seminar could be held again for people who were not in attendance at the first one. In addition, there would probably be a few people from the first seminar who might like to repeat the whole seminar or a specific module that they liked or missed because of pressing business problems.

The general impression is that in Guatemala there is still interest in learning about the concepts of how to go about exporting and how exports are accomplished. The big interest and market for seminars is for specifically oriented seminars. Further seminars on marketing are of the most interest, especially marketing of non-traditional products. The last seminar given in Costa Rica on Administration and Exports for Agricultural Companies would most likely have great acceptance in Guatemala. With so much of the population involved in the agriculture sector, there is a big need to upgrade farm management.

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In conversations with the manager of the Asociación de Gerentes de Guatemala, he expressed their interest in sponsoring more seminars on export management. This interest on their part should facilitate the organization and execution of a number of export management seminars in the coming years.

Use of Outside Consultants and Experts

There seems to be the perception that INCAE does not like to use outside consultants or experts in its seminars. Since the big future for seminars is on more specific topics, it will be important to tap outside consultants and experts to bring to the seminars particular hands-on experience within a certain industry or subject. INCAE could fill the role of seminar organizer and use its faculty for imparting specific parts of the seminar, but the balance of presentations would be from outside experts with the special expertise desired.

Guatemalan National Committee/Association of INCAE Graduates

The Guatemalan graduates of INCAE have formed a very active association of graduates which would like to become more involved in assisting INCAE to identify and carry out new programs in Guatemala. Several members of the Association are members of the National Committee. There was some comment that

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the local INCAE secretariat does not have the time or manpower to develop all of the programs or fully identify and follow up on new directions where INCAE could have a good impact. It would appear that this is an ideal moment to tap this resource by designing and developing future INCAE programs particularly relevant to export management. The Association is even interested in carrying out programs on its own with the sponsoring or backing of INCAE. Financial backing is not as important as the use of the name of INCAE. Another comment made was that since the future of Guatemala is so tied to agribusiness and agricultural exports, the National Committee should have a Director from the agricultural sector. At this time, all members are reported to be industrialists.

EVALUATION EXPORT MANAGEMENT SEMINARS - EL SALVADOR

Two seminars were conducted in El Salvador under the Export Management Program. The first was held in February/March, 1984, in San Salvador, El Salvador. The sponsor of the seminar was FUSADES which also provided financial support. There were 51 participants and the seminar content was identical to that of the Guatemala Export Management seminar and it was conducted in four modules of 3 days each.

The second seminar was held in San Salvador in June 1985. The seminar content was Export Marketing to Third Markets. This seminar was held in response to a request for a more specific seminar on export marketing. The sponsor was the Comité de Exportadores de El Salvador with financial support from FUSADES. Emphasis was on marketing, how to identify markets and serve them; export strategy development; and production and cost control. The seminar was conducted during a single six consecutive day session.

Evaluation

Interviews with participants from both seminars found that seminars were well received. INCAE has very good credibility in El Salvador and their seminars are known for their excellent quality. Participants remarked how their eyes had been opened

to the complexities of exporting. The content was well organized and presented and the sequence of the presentation of material was also excellent. A significant number of participants interviewed indicated that they have applied many of the concepts learned in the seminars to their businesses. This included examples of both existing export businesses and strictly local industries. Although no one interviewed indicated that his exports had increased since the seminar, several remarked that they have been able to improve their relationships with clients as a result of having attended the seminar. In El Salvador it was thought that the seminar was applicable to both existing exporters and people interested in learning about how to become involved in exporting.

INCAE faculty used in seminars were highly praised. Presentations were well done and the professors motivated the participants. One benefit of the INCAE seminar over the locally managed type seminar, is that the INCAE professors are thought to bring a much wider, more worldly background of experience to the seminar. Because of the wide mix of academic backgrounds of participants, it was generally felt that those on the lower end didn't really understand well many of the case studies presented. Presentations of macro economic theory left a number of participants confused. This type of information was not felt to be relevant. The belief is that a professional

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person can be brought in to take over these responsibilities in a company. The live case studies presented were universally thought to be excellent.

There were some comments that the seminar should have been more oriented to the situation of El Salvador. It was also noted that participants should be those people who have the power to make or have influence on decisions in their companies. Otherwise, what is learned will have little impact on changing a company's course of action.

Motivations to attend the export seminars in El Salvador were varied. There were those who want to gain an export awareness and mentality who don't have specific export opportunities or plans in mind. Others want to learn specifically how to export, set up an export company, identify markets, set product quality considerations and define a strategy of development. These are the people who want to get into exports immediately or in the short term. Some exporters attended to see what they could learn which would allow them to improve their present businesses. The last type is the person who went for self improvement not specifically to learn about exports. The effect of the seminar for these participants will be for the longer term since they did not attend the seminar looking urgently for some means to get into exports, but rather used the seminar to assist them in analyzing future export opportunities.

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Mix of Participants

Most participants felt that there was too wide a mix of participants. Academic backgrounds and capacities should be closer matched. The aggressiveness of the Salvadorian entrepreneur and manager makes them impatient to spend the time necessary to allow others with less experience to understand fully what is being presented. The varied capacities of participants made it more difficult to work in group sessions. However, a wide variety of professional backgrounds in a seminar is felt to be desirable. The participants from the government did not demonstrate much interest in the seminar and did not contribute much.

Financial Subsidies

A few individual businessmen and participants from large companies indicated that they would attend INCAE seminars whether or not there was a subsidy for participants. Content of the seminar is more of a concern to them than the cost of participating. They believe that seminars put on by INCAE warrant the high cost. However, participants other than those from the largest of companies, all indicated that, given the present economic situation, they would need the subsidy to attend.

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Future seminar Demand and Themes

The general consensus in El Salvador among the participants interviewed is that there is broad interest in more seminars. These should be focused more narrowly at a specific markets, i.e., an industry or a subject such as CBI, marketing, maquila, etc. However, the main potential sponsors of seminars in El Salvador -- FUSADES and the Comité de Exportaciones (COEXPORT) -- both believe that there have been too many general seminars. COEXPORT will be sponsoring about one seminar per month during the coming months. However, the high cost of an INCAE seminar will make it difficult to gain COEXPORT interest and support unless the seminar topic promoted is of great interest and literally teaches potential exporters how to get into the export business. FUSADES is questioning whether it will give financial support to high cost seminars in the future. Topics which will teach specifically how to get exports started will be of high priority to them both. INCAE will have to create the demand for their seminars in El Salvador if its Export Management Program is to continue.



EVALUATION EXPORT MANAGEMENT SEMINARS - COSTA RICA

A total of five different export management oriented seminars have been held in Costa Rica. The first was a one-day seminar held in February 1983. The theme was "Problemática de las Exportaciones en Costa Rica". Some 70 people participated in the seminar.

The second seminar was held in San José in November/December 1983. This was the first of the specific export management seminars. It was sponsored by the Cámara de Industrias and partially funded by CINDI. Sixty three people attended the seminar. The seminar consisted of seven one-day sessions over a seven-week period. Each day was a separate module. The content of each module was as follows:

- Module I: Underlying focus on international trade.
- Module II: Structural analysis of industrial sectors.
- Module III: Generic export strategies.
- Module IV: Competitive export strategies.
- Module V: Development models - macro economics.
- Module VI: Development model - government export policy.
- Module VII: Strategy of export promotion.

It was after this seminar that the export management seminar format was changed to 4 modules of 3 days each.

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The third seminar held under this program was conducted in October/November 1984. Content and format -- 4 modules of 3 days each -- were the same as the Guatemala seminar. Fifty people from Costa Rica attended this seminar. The seminar was sponsored by the Unión de Cámaras and partially funded by CINDI.

The fourth seminar was a follow-up seminar held in February 1985. The participants were the same as those who attended the first export management seminar held in November/December 1983. Twenty six of the participants from the first seminar attended this seminar for two days. The purpose of the seminar was to provide an update on changes of export policy in Costa Rica and to reinforce certain financial concepts related to exports.

The fifth seminar was held in May/June in San José with 43 people in attendance. The seminar theme was Administration and Exporting for Agricultural Companies. The seminar content was oriented towards farmer/producers who wanted to upgrade their management and administration skills. The sponsor for this seminar was the Cámara Nacional de Agricultores with funding from CINDI. The seminar consisted of two one-week sessions three weeks apart. Three different basic units were taught:

- Unit I: Decision theory, basic tools to make business decisions;
- Unit II: Management subjects - finance, production management, operations management. Events occurring in Costa Rican economy as related to participants and affect on them, such as devaluation and inflation, were discussed;
- Unit III: Marketing and business policy. Export strategy development and implementation.

Evaluation

Comments on the seminars again were very positive. INCAE has a reputation in Costa Rica for putting on very high quality pertinent seminars. The presentation of material was excellent and the professors motivated the participants. Existing exporters did not learn much from these seminars about exporting but they did gain useful business knowledge which they could apply to their organizations. A number of participants indicated that they have been able to apply seminar subjects to improve their business operations. There was some comment that too many participants restricts the direct contact with professors that is vital in these seminars.

The fifth seminar for farm managers was especially pertinent. The group was more homogeneous --all participants were from farming companies-- and the seminar theme was targeted specifically for them and it had a very positive impact on the participants.

The principal motivation for attending the export management seminars was to learn about exports and how one goes about starting an export business. There were only limited numbers of existing exporters who attended to see how they could improve their export operations. For some participants it was like a refresher course. For others it was an ideal way for self improvement. This type of short, concentrated, high quality seminar provides exposure to new subjects for the person who can't get away from job for extended periods. In the case of the fifth seminar, participants attended because the seminar theme was designed especially for their group.

Mix of Participants

In general, participants felt that the group of participants should be more homogeneous. A variety of business backgrounds is desirable but academic capacity should be narrower. The wide academic capacity made work in the seminar harder. Since seminars are very concentrated and move very

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fast, people who can't keep up with the group either get lost or slow the group down. Other comments heard were that those who knew the least about subjects, were the ones who learned the most. Teaching was brought down to an average level of participants to the detriment of the more advanced. Better selection of participants and targeting of seminars themes would make seminars even more profitable for those in attendance. The narrower mix of participant backgrounds in the fifth seminar facilitated the understanding of the subject matter presented. With a more homogeneous group of participants, academic teaching can be oriented to the whole group.

Financial Subsidy

It would appear that since Costa Rica is well over the initial shock of devaluation, there are more people who feel they would be willing to pay full cost for an INCAE seminar specifically oriented to their needs. This could be up to 25% of the participants. The rest definitely would need to have their participation subsidized. The division here seems to be one of old established companies vs. new ones and large vs. small firms.

Future for Seminars and Themes

The consensus was that more seminars are need. There still seems to be a need for high quality general export management types of seminars as well as seminars targeted for specific industries or groups. The fifth seminar was very successful and could probably be held several more times with good interest and attendance. This demonstrates that people are eager to learn more about exports and how their business can develop an export strategy. The fact that 70% of Costa Rica's foreign exchange earnings come from agriculture, indicates that there is a lot of room for management improvement and seminars on this theme. Some participants commented that they would like to look closer at barriers to developing exports.

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INSTITUTIONAL ANALYSIS

In this section, the institutional characteristics of INCAE are reviewed in so far as they relate to the purposes of the proposed project with ROCAP. In particular, the project team addresses the ability of INCAE to link its teaching, training and research activities to the goals of strengthening the export capacity of the private sector. In addition, INCAE's capability of working with other key sectors in the economy to refine the model of development extant in the region will be examined in the analysis which follows.

Background and Strategy

INCAE --the Central American Institute of Management-- is a private non-profit, multinational institution of higher education, dedicated to the study of management and development in Central America and Latin America. It was established in 1964 through the initiative of the Central American business community with the support of the U.S. Agency for International Development and the assistance of the Harvard University Graduate School of Business Administration.

During the first decade of its existence, INCAE focused its attention almost exclusively on training private sector managers. It rapidly became obvious, however, that the private-public sector interface in Central America was such, that as a development institution, INCAE would have to be involved in the training of public sector managers. Furthermore, as the decade of the 1970's came to an end, the faculty of INCAE recognized that the basic assumptions of the model of development being pursued by the Central American economies was moribund and held out little hope for the future. As is mentioned in the section "A Response to the Colman Report", INCAE began the process of modifying its strategies and activities in order to more firmly define its role of leadership around development problems in the area. As such, the strategy of INCAE can now be stated as follows:

The global aim of INCAE's new strategy is one of geographic expansion and program diversification. The expansion was completed with the inauguration of the new campus in Costa Rica in 1984³. This allowed INCAE to more evenly distribute its program activities throughout the region. The new programs initiated by INCAE have allowed it to diversify its activities, thus recognizing that the region's problems

require more focused solutions than was the case in the past. In this regard, in addition to the traditional programs of the two year MBA, the Advanced Management Program and the executive seminars, INCAE has developed the following new sources of funding:

<u>Program</u>	<u>Funding</u>
Export Policy	IDB
Export management	AID
Small Business Management	IDB
Energy Management	IDB
Cooperative management	Self-financed
Assistance to Private Sector	AID
Inter-Sectoral Policy Dialogue Seminars	Self-financed
Management in Crisis	Self-financed
Applied Economics and Policy Studies	Proposed AID
Public Enterprise Program	Self-financed
Agribusiness	Self-financed
Development Banking	Self-financed

In order to implement this new strategy and its corresponding program activities, INCAE established the following set of objectives and operating principles:

Objectives

- * The education of professional managers with a social conscience who are capable of serving as a catalyst in the economic development process.

- * The generation of a sense of common purpose between the public and private sectors.
- * The provisions of management education of high quality.

Operating Principles

- * Multinational faculty, students, directors and didactic materials.
- * A participative philosophy and Socratic teaching techniques.
- * Academic excellence.
- * Academic freedom, pluralism and cooperation with all countries in the region.
- * Research and teaching materials adapted to the region.
- * Service to both the public and private sectors.

Organization and Management

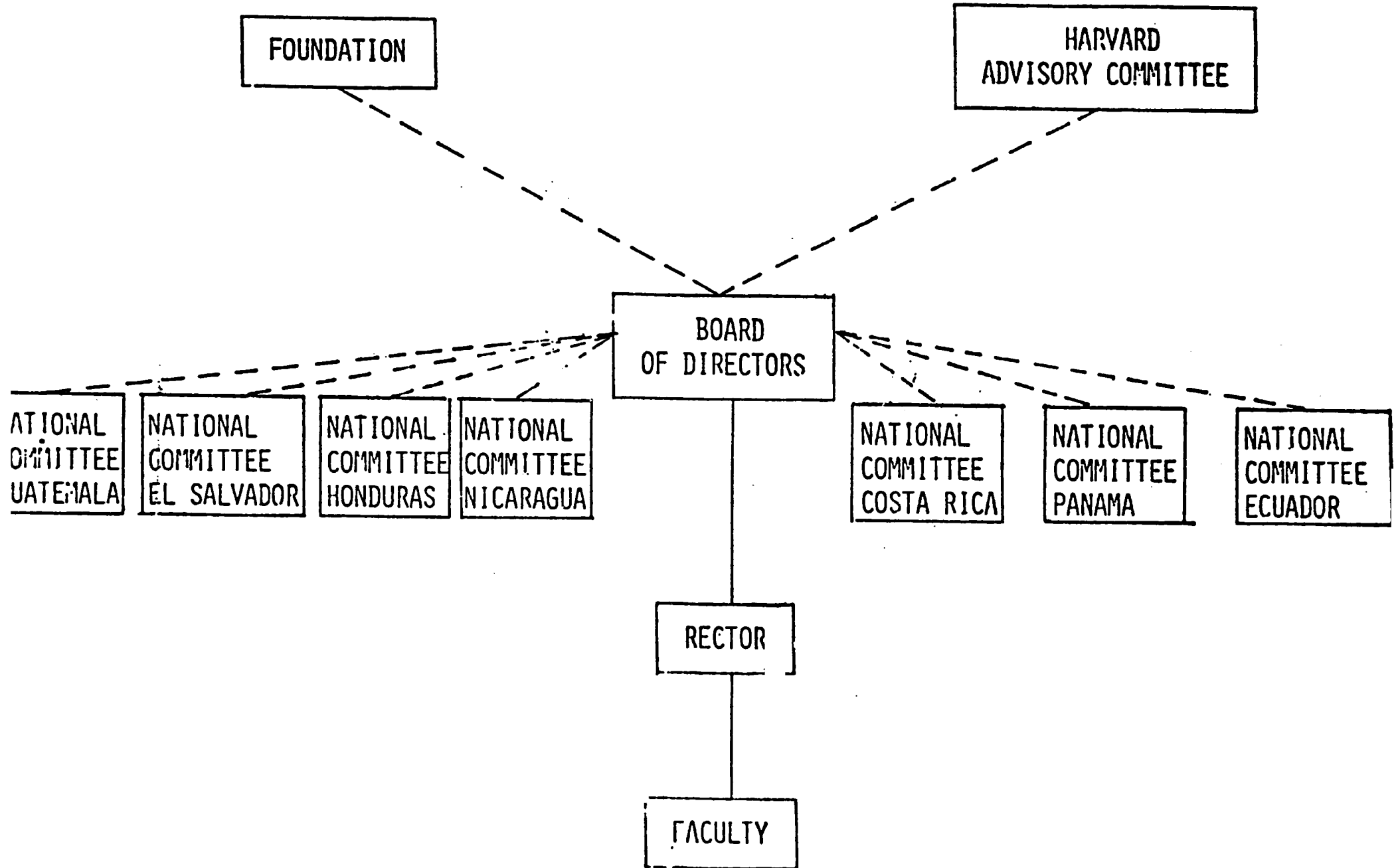
INCAE enjoys the luxury of being independent of any state academic bureaucracy, yet it is still highly respected as a center of higher education among all governments in the region. In Table I one finds a sketch of the organizational structure of INCAE and below this structure is analyzed.

In its structure, INCAE has tried to create high levels of participation among key sectors of society and among the

professors and staff. The Foundation is INCAE's link to multinationality since it is composed of distinguished educators, executive, graduates of INCAE, etc., most of whom are located in the United States. Its function is to broaden the base of awareness of INCAE activities, provide expert advice on the strategy of the School and act as a fund raising group in order to increase the long-term endowment.

The Harvard Advisory Committee is the linking mechanism which keeps alive the traditional relationship between the two academic institutions. Composed mainly of Harvard professors, this committee annually sends interested faculty to INCAE in order to provide academic consulting to the School. No other academic institution in Latin America enjoys this type of high caliber intellectual interaction and its is certainly one of the keys to INCAE's continuing success.

TABLE I
ORGANIZATIONAL STRUCTURE OF INCAE



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The Board of Directors consists of the representatives of each of the Member Country National Committees as well as the Rector of INCAE. As such, it maintains the multinational character of INCAE and it is charged with the responsibility of shaping the strategic direction of the School and monitoring its operations, especially its financial operations.

The internal organization of INCAE is a very typical quasi-matrix academic structure of participative/functional administration. Informality and openness define the managerial style of the organization and, since the School is small, interaction across functional lines tends to occur with ease and relatively little conflict. The collegial decision making process, combined with functional decentralization, gives INCAE a very clear, simple and effective way to manage its operations. One could conclude that, on the whole, the School has an effective team of managers and a simple structure which allows its managers to carry out their obligations.

Faculty Quality

A portrait of INCAE faculty shows that there are 52 faculty members, 33 of whom work at the Costa Rica campus, and 19 of whom work in Nicaragua. Eighty two percent of the professors have Ph.D.s., and the rest, primarily researchers, have a

masters degree or its equivalent. Twenty three percent have degrees from Harvard University, 28% from other U.S. institutions, and 44% from Latin American institutions. Finally, 72% of the faculty are Latin Americans. Recently there have been between 5 and 9 visiting faculty, all researchers. The pay scale for INCAE faculty ranges from \$18,000 to \$48,000, with an average of about \$30,000. INCAE salaries include no benefits or retirement arrangements. Tables II and III capture these data.

TABLE II

ACADEMIC BACKGROUND OF INCAE
FACULTY, COSTA RICA AND NICARAGUA COMBINED

	<u>TEACHERS</u>		<u>RESEARCHERS</u>	
	NO.	% OF TOTAL	NO.	% OF TOTAL
Ph.D.	23	82	-	-
Masters	4	14	20	100
Other	1	4	-	-
Total	28	100	20	100

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TABLE III

RANK AND PAY FOR INCAE TEACHING
FACULTY: COSTA RICA AND NICARAGUA COMBINED

RANK	<u>COMBINED NUMBER</u>	<u>%</u>	<u>PAY RANGE</u>
Full Professor	9	32	\$40 - \$ 48 K
Associate Professor	5	18	\$33 - \$ 40 K
Adjunct and Assistant Professors	10	36	\$25 - \$ 30 K
Instructor	4	14	\$18 K
TOTAL	28	100	

- Salaries are pegged to other international organizations working in Central America.

Distribution of Faculty Resources Between
MBA and Non-MBA Programs

Two work scope issues related to INCAE faculty work load, and how the work is distributed are stated as follows:

1. To what extent are INCAE faculty resources diverted from educational goals by the interests of funding sources?
2. Does INCAE have the capability for sponsoring increased non-academic, non-MBA activities at present?

The two questions should be answered together because the interests of funding sources mentioned in the second question are precisely the non-academic, non-MBA activities mentioned in the first question. In particular, the activities in which funding sources are interested are seminars for businessmen and economic policy makers.

Table IV presents total work units, and the percent of work units and faculty years as they are distributed across residential MBA programs, special seminar programs and administration. A full work load equals six work units, or one faculty year.

TABLE IV

DISTRIBUTION OF INCAE FACULTY WORK

<u>Summary of Data Supplied by INCAE</u>	<u>Residential MBA</u>	<u>Special Programs</u>	<u>Admin.</u>	<u>TOTAL</u>
Work Units	90	60	31	181
½ Work Units	49	33	17	100
Faculty Years	16	11	6	33

A full faculty year =

6 units

A work units =

1 MBA course

There are approximately 170 MBA students at INCAE, San José

The above table summarizes statistics presented in "INCAE Cifras", September, 1984.

If faculty resources are excessively diverted from the MBA program, then MBA student/teacher ratios will be high. To calculate student/teacher ratios on the basis of Table IV, divide the number of students by the number of faculty years. There are three ways to look at the student/teacher ratio for the MBA program at INCAE. Since there are approximately 170 MBA students, the following calculations can be made:

1. 170 students/33 total faculty years = 5/1. This means that without the non-academic special programs, and without administration, the student/teacher ratio would be 5/1.
2. 170 students/16 faculty years spent on the MBA programs = 11/1. A simplistic interpretation would be that the special programs have diluted MBA student/teacher ratios from 5/1 to 11/1.
3. Administration is part of the indirect cost for running an MBA program. Therefore, one might calculate the student/teacher ratio by dividing 170 students by 22 faculty years, which is the total for both the MBA program and administration. $170/22 = 8/1$.

In any event, a fair estimation of the real MBA student/teacher ratio, as diluted by the seminars and other special programs, would seem to be in the neighborhood of 10/1. It is the judgement of the project team that a 5/1 ratio would be luxurious and excessive, and that a 10/1 ratio is in keeping with academic excellence. In other words, the non-MBA activity has profitably used what otherwise would be idle capacity.

2. Does INCAE have the capability for sponsoring increased non-academic, non-MBA activities at present?

Conducting seminars is intense, exhausting work.

Therefore, the preceding analysis of non-MBA activity on student/teacher ratios under-estimates the non-MBA activity's true cost. INCAE's faculty seems unanimous in believing that non-MBA activity has reached a limit, such that more of these activities would weaken ^{academic} ~~academic~~ standards. Therefore, every new non-MBA activity must be matched by an equal reduction of some other activity in this area or the hiring of more faculty resources.

Students at INCAE

Excellent students are the raw material which determine the quality of any academic institutions. Evidence that INCAE has succeeded in maintaining a high quality student body are:

1. Enrollment at the Nicaragua campus eroded drastically during the Nicaraguan revolution in 1979. However, enrollment recovered immediately to previous levels with the transfer of the campus to Costa Rica. The events in Nicaragua, and the move to Costa Rica, have done no damage, and may have even enhanced INCAE's desirability as an educational institution.

2. The process of being accepted at INCAE is long and arduous, and includes submission of university grades, an aptitude test, three written recommendations, and interviews by faculty. All entrants must be university graduates, and only one in three is accepted. Even with high standards ^{and} ~~as~~ rigorous admission procedures, INCAE has maintained its desired level of MBA students.

3. Attendance at INCAE is very expensive by Latin American standards. The vast majority of students receive scholarships from their governments or some other institution which considers them worthy of support. Thus, only the best students receive this

4. INCAE students come from a variety of backgrounds, thus maintaining the diversity which is necessary for academic excellence. Table V shows a summary of their backgrounds.

TABLE V

ACADEMIC BACKGROUND OF CURRENT MBA STUDENTS

<u>RANK</u>	<u>FIELD</u>	<u>‡ CURRENT ENROLLMENT</u>
1st	Engineering	36
2nd	Administration	24
3rd	Agriculture	14
4th	Economics	10
5th	Law	3
	Other	13

Over the long term, INCAE's success at influencing Central American economic policy and stability depends largely on the quality of its graduates, and the responsibility they carry out during their professional careers. Data on graduates collected by INCAE shows the following:

1. Eighty percent of INCAE graduates have stayed in Central and Latin America, which suggests that the phenomenon of the "brain drain" endemic to the developing world, and exacerbated in Central America due to economic problems, has not been great.
2. INCAE graduates play important leadership roles in management, and, at any given time, there are graduates in government ministerial positions, graduates who are presidents of National Chambers of Commerce, corporations, etc. Table VI is a list of some prominent INCAE graduates.
3. In a survey conducted in 1982, approximately 68% of INCAE graduates said they worked in the private sector, 17% said they were working in the public sector, and 16% did not answer the question. It is possible that those who did not answer the query, work in a "mixed" public-private situation (see Table VII). In any case, INCAE graduates work in diverse sectors of the Central American economies.

4. The average yearly salary of INCAE graduates in 1982 was US\$ 26,160. Recent Central and Latin American economic conditions have probably driven that down in intervening years. However, the figure is still high when compared to people with similar training from other institutions.

TABLE VI

INCAE GRADUATES IN PUBLIC AND PRIVATE SECTOR

	<u>Public Sector</u>	<u>Private Sector</u>
Guatemala	Juan Manuel Vega (MAE XII) Advisor to the President of the Instituto de Trans- formación Agraria (INTA)	Jorge Luis Arzú (MAE V) General Manager of Byron Zadik Director of the Chamber of Commerce
El Salvador	Carlos Mejía (MAE VI) President Instituto Nacional del Azúcar	Luis Mora (MAE IV) President Productos Agroindustriales S.A. Director Banco Nacional de Fomento
Honduras	Oswaldo D'Acosta (MAE II) Advisor to the President of Hondutel	Alberto Galeano (MAE X) General Manager Cred-O-Matic President of the Chamber of Commerce
Nicaragua	Dionisio Marengo (MAE II) Minister of Interior Commerce	Pedro Joaquín Chamorro Barrios (MAE VIII) Co-Director of Newspaper La Prensa
Costa Rica	Rodrigo Zapata (MAE V) Director Banco Nacional de Costa Rica	Carlos Araya (MAE IV) General Manager INCESA President of the Chamber of Industry
Panama	Nestor Berrocal (MAE VI) Director Civil Aeronautics	Simpon Vega (MAE I) Manager Banco Fiduciario

TABLE VII

OCCUPATIONS OF INCAE GRADUATES

	<u>Public Sector</u>	<u>Private Sector</u>
General Manager	4.0%	34.0%
President	--	8.5
Administrative Manager	1.0	7.0
Marketing Manager	--	5.5
Financial Manager	3.0	4.0
Heads of Departments	2.5	3.0
Assistants to the General Manager	2.0	3.0
Production Managers	--	2.5
Consultant	0.7	2.5
Project Managers	4.0	0.7

The Soundness of a Combined Business/Economic Specialization at
INCAE

A key part of INCAE's revamping of its curriculum to respond to current economic realities in central and Latin America will be the creation of a new specialty which combines training in business and economics. Many reasons account for the interest in this new program.

1. The IPDS program showed that communications and understanding between the public and private sector were poor;
2. There are at INCAE many professors with public-private sector "mixed" careers who are capable of developing the "mixed" curriculum and are interested in doing so;
3. The IPDS program has shown that the development of cases and tools for analyzing small, "open" economies is exciting and feasible;
4. A "mixed", business-economics curriculum has been developed in other developing regions and is being taught with great success --in Malasya, for example;

5. **Businessmen in Central America must be more knowledgeable and sensitive to macro-economics than their counterparts in other countries. Central American economies depend on imports and exports and, therefore, world economic developments have a more immediate and severe impact on Central American businesses than they do in other countries;**

6. **In small economies, the effect of government policy on business is very direct and immediate. Therefore, Central American businessmen need to understand economic policy, its implications for firms, and how to adapt to changing policy conditions. Also, Central American businessmen must understand the language and concepts of policy in order to influence it when necessary;**

7. **Many INCAE graduates end up working in the public sector, or for government corporations with "mixed" business and economic development objectives. These graduates who work in the public sector must understand the relationships between economic policy and its effect on management. Government decisions often make sense at the macro-economic level, but are disastrous for firms;**

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For all of these reasons, the project team recommends that INCAE establish a Center for Applied Economics and Policy Studies. The Center would become the umbrella organization which directs all the efforts in the area of policy studies, intersectoral dialogue and applied economics for decision makers. It would also become the center of INCAE's new strategic thrusts since it embodies the goals of expansion and diversification. Indeed, the project team believes that this new center is absolutely essential for carrying out the goals of INCAE. In this regard, the team believes that INCAE has the institutional capacity to create this new entity for a very simple reason -- namely the School has already developed a track record in this area. What is lacking, is the organization of these efforts in order that they will make an even more significant impact on the School. With these thoughts in mind, the project team would like to make the following observations and recommendations:

1. New professors must be hired and trained at the Ph.D. level as soon as possible. The Center will become a focal point for the long-term development of INCAE and the region and nothing short of highly qualified personnel can assure its success. Furthermore, the Center will create the foundation for improving research at INCAE and this cannot be accomplished

without Ph.D.-trained personnel. It will become one of the key comparative advantages of the School and must, therefore, be staffed with people of unquestionably high standards of performance.

2. The Center, therefore, will be the vehicle for improving perhaps the key weakness of INCAE at this juncture in its development, namely, the paucity of research. INCAE professors create much information (i.e. cases) that strengthen the intellectual foundations of its teaching efforts. However, production of management-oriented information in the realm of business and economics cannot be done by the mere writing of cases. One of the critical weaknesses in the development process in all of Latin America is the lack of information created about the context of development in which managers operate. This void cannot be filled by the transfer of technology and the writing of cases --it must be filled by the creative process of research which constantly supplies decision makers with the information they need.
3. As the Center takes on its new role of strengthening research at INCAE, it will force an issue which is, at this writing, ill-defined at best at INCAE -- that is,

the virtual absence of research in the development of faculty. At present, faculty members can fulfill their research obligations by writing cases and, indeed, the case output of INCAE is impressive (about 250 per year). The project team recommends, however, that the School begin to shift its priorities and resources and require that certain faculty members be held responsible for writing journal articles, conference papers, monographs, books, technical reports, etc. In short, it is time for INCAE to define a research policy which has the following characteristics:

- a. A definition of exactly what type of research is appropriate for INCAE. For the most part, this will emphasize applied, empirical managerial research, but some of the economists may wish to develop econometric models which tend to be more theoretical in nature.
- b. A review process for determining the quality of the research output. This should also include cases since now there is virtually no quality control process around case writing at INCAE. As a minimum, the School must include some sort of refereed procedure for analyzing the quality of research.

- o. Performance incentives must be initiated in order to develop this new capacity at INCAE. This is particularly important for young professors since they are the ones who will have had the most current exposure to research methodology. The present personnel policy of INCAE does not take advantage of the research capability of this group of faculty and the School has suffered as a result of this weaknesses. Most young faculty members want to engage in research activities and thus it should be relatively easy to structure an incentive/performance plan for research productivity.

4. Finally, the Center should publish two forms of output which highlight its work. One would be a newsletter (monthly or bimonthly) which includes excerpts of all the activities of the Center as well as notes about the research and its relevance to practitioners. The second publication should be a professional journal aimed at the readers who will be interested in the work of the Center. For the most part, these will be decision makers in key sectors of the economy as well as other researchers and academics. The Harvard Business Review is a good model since it is based on

highly-relevant and pragmatic research for decision makers. The journal is also important for the internal development of INCAE since it cannot be published unless INCAE confronts the need to increase research outputs as an issue of institutional development. As such, the project team really sees this new Center as a microcosm of the strengths and weaknesses of INCAE. In the area of teaching and pedagogical research, the School is first rate. In the corollary area of research, INCAE must accept the challenge of any mature academic institution which seeks to solidify its position among its peers. It must become an information center which creates managerial technologies appropriate to the needs of Central America.

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