FROM: ROCAP/Guatemala

SUBJECT: KONCAPITAL PROJECT PAPER (PROP)

REFERENCE:

Country: ROCAP
Project No.: 596-13-77-024
Submission Date: 8-29-67
Original: Revision No.
Project Title: Business Administration
U.S. Obligation Span: FY 63 through FY 72
Implementation Span: FY 63 through FY 73
Gross life-of-project financial requirements:

U.S. dollars: $2,221,213
Cooperating country cash contribution
Operating Expenses and Endowment: $2,621,870
CABEI Building Loan*: $645,000
Donated Land: $250,000
Other Donor: $1,000,000

Totals: $6,738,091

*From funds provided to CABEI by U.S.G.
A. Summary Description

The Central American Common Market demands dynamic, skilled, informed business management, but qualified human resources in this sector as in others are woefully inadequate. [There are no institutions in the region at present offering business administration training at the graduate level, and undergraduate business instruction in the universities lacks both quality and vigor.] [This project aims to develop a permanent graduate-level Central American institution] to raise the quantity and quality of education in this field, improve managerial competence, promote the growth of regional institutions, cultivate private sector support for the integration movement, and sponsor research needed to sustain the growth of the Common Market on a solid base of free, private enterprise.

To this end, ROCAP is providing financial support directly to the "Instituto Centroamericano de Administración de Empresas" (INCAE), a non-profit, private educational corporation chartered in Nicaragua for regional purposes, and is also contracting with the Harvard Business School (HBS) to furnish technical assistance and faculty backstopping to INCAE. Meanwhile, the latter has organized chapters composed of leading businessmen in each country to promote the INCAE school, recruit students, and launch an ambitious fund-raising drive aimed at raising a $2 million endowment fund to make INCAE self-supporting by 1970. INCAE has also secured a $645,000 loan from the Central American Bank for Economic Integration (CABEI) to build its permanent campus near Managua.

ROCAP has assisted INCAE since 1963, primarily to offer a series of seminars and short courses to up-grade senior Central American business managers. Preliminary planning was also undertaken during the early years for the permanent Institute. Our present assistance is directed almost exclusively to the latter and the successful launching of its graduate-level program. Future support will be continued for this purpose at a high level through FY 1969, and at a greatly reduced level thereafter through FY 1972, primarily to assure some continuing technical assistance from HBS.

Should the Central American private sector fail to demonstrate its commitment and support to INCAE within the next year by (1) providing the students and the facilities to get the first graduate course
under way, and (2) raising the first $1,000,000 of the needed endowment as scheduled, the U.S. should seriously reconsider the utility of proceeding with this project.
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<td>Total Life</td>
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\(a/\) Includes first $250,000 contribution to endowment funds, which are specifically available also for operating requirements.

\(b/\) Estimated endowment funds to be raised from companies and foundations abroad, primarily in U.S.
B. Setting or Environment

The inadequacy of trained human resources is increasingly recognized as one of the principal obstacles to economic and social progress in Central America and the success of the integration movement. A number of studies have dramatized the obvious fact that Central America does not have the skilled personnel, either in quantity or quality, needed to meet its requirements and its opportunities in the coming years. ROCAP is working to help meet this situation in a number of related projects: in elementary education, which is at the base of the problem, through the Regional Textbook Program with ODECA; in higher education, through the General Studies and regional professional schools programs with CSUCA; in the manpower field, through ODECA's Office of Labor and Social Security and through an educational program with AIFLD for organized labor.

In the specific field of business management, the 1966 CSUCA "Study of Human Resources in Central America" warned that "the changes which are assumed in the national and regional models of productivity require an intense development of managerial capacity through the formation of a managerial group able to make the changes needed to meet the proposed targets of economic development." [The CSUCA Study estimated that approximately 5,700 new "managers" trained at the university level would be needed between 1963-1974, but that existing Central American universities at their present pace will be able to supply on the average only 40% of these and other requirements for graduates at the first-degree level. No specific estimate of the need for post-graduate business training was indicated, but it seems evident that the 300-400 graduates which INCAE might be able to produce over the rest of that period could not surpass the pressing needs.] Other measures of demand reported in a recent study of INCAE* suggest a need for training 100-150 managers per year at the INCAE-level until 1970 and over 200 per year after that date depending on the speed of growth of the economy. In fact, of course, many of these graduates will continue to come from schools in the U.S. and elsewhere, but the need and potential contribution of an indigenous institution, close at home, geared to local conditions, without language and other cultural barriers, seems evident.

At present, INCAE has the nucleus of a strong and effective organization. At its headquarters in Managua, it has a small but reasonably efficient administrative staff, a Dean (U.S. citizen), two Central American faculty members and several research assistants to form the nucleus of the projected graduate school, and assured academic advice and teaching support from HBS. A network of INCAE chapters in each country has been organized by local business leaders, to help publicize the school, raise funds, and recruit students. INCAE has already obtained legal recognition by the Nicaraguan Government as a non-profit institution for regional educational purposes, successfully offered for five years an Advanced Management Program of short-courses and seminars taught by HBS professors to over 600 senior Central American business leaders (many of whom are now active in the national INCAE chapters), developed over 80 indigenous case studies and adapted 250 others for instructional purposes, obtained title to a 170 acre up-land site outside Managua where the new campus will be built, obtained a $645,000 loan for buildings and furnishings from the Central American Bank for Economic Integration (CADEI), and kicked off a drive in every Central American country and Panama to help raise at least one million dollars from local sources for an endowment fund to support the future operations of the Institute. Approximately $250,000 has already been raised. (A total endowment of $2 million is needed and has been projected, the balance hopefully to be raised from private donors and foundations abroad).

There is good reason to believe, therefore, that INCAE has the internal resources to start its graduate program. Its most significant immediate problems are (1) to find enough students with both the motivation and the money (i.e., "effective" demand) to fill its classrooms, and (2) to get those classrooms ready with the help of the CADEI building loan, or to make alternate temporary arrangements in time for the first class. In the longer run, its challenges will be to (1) prove the value of its courses and its graduates, thus enhancing its reputation, offsetting the lure of foreign schools, justifying its relatively high tuition (by local standards), and attracting the sustained patronage of both students and donors; (2) completely Central-Americanize its operations while maintaining the high standards now associated with HBS; (3) overcome legal obstacles in some Central American countries to tax-exempt donations to its endowment fund; (4) help the universities to raise the standards of undergraduate instruction in business administration, not only as a public
service but also to remove a potentially serious bottleneck in the supply of qualified INCAE students; and (5) achieve success in its ambitious endowment drive—a unique and pioneering effort in Central America—in order to become a fully self-supporting institution able to meet the needs outlined above. The last may well prove to be the most difficult challenge in an area with little tradition of money-raising or giving; for that reason INCAE's success could establish an invaluable precedent for other educational institutions.

C. *Strategy*

A dynamic approach is needed to help close the gap in trained business management personnel available in Central America and Panama. This gap is expected to widen and become increasingly serious as the demands and opportunities presented by the burgeoning Central American Common Market grow, and as even greater opportunities for participation in a broader Latin American integration movement materialize. It is stated U.S. policy to encourage and support integration at both the regional and hemispheric levels.

There are no other institutions in the region offering business administration training at the graduate level and employing the modern case method of instruction. In addition, undergraduate level instruction in business administration at Central American universities is woefully inadequate to meet the need, and several of these universities have in fact expressed interest in observing and profiting from the modern methods which INCAE is introducing. Furthermore, there is virtually no research in business administration going on in the region, except that which INCAE has already inspired and which will be encouraged by the new INCAE Graduate School.

Given the present weakness of the established universities in this field, and their traditional proclivity for more prestigious studies, no feasible alternative to the INCAE approach which offers such attractive possibilities of increasing both the number and the standards of trained business leaders is presently available. Considerable numbers of privileged Central Americans will doubtless continue to avail themselves of opportunities to study abroad, but it is doubted that this avenue will afford either the numbers of trained personnel that are needed, or that these students will come to realize in a local setting which are requisite. In the longer run, INCAE could have a
highly beneficial "multiplier" effect on the quality of business management in the region through the strengthening of undergraduate instruction in the universities —by example, advice, research and training of future teachers. To this end, we will insist that INCAE maintain the closest liaison with CSUCA and the member universities, providing assistance to them as opportunities and resources permit. Since we are providing no direct assistance to CSUCA in this important sphere, our program with INCAE will not overlap and in fact will complement our other regional efforts in the field of higher education.

Moreover, INCAE has already shown some promise of awakening the interest and challenging the spirit of the Central American private sector to support this, its own initiative, and, thereby, to involve itself meaningfully in another facet of the movement toward regional integration. Since such involvement by the private sector is a requisite of the success in the overall integration effort, it becomes a two-fold objective —both a means and an end— of our strategy for INCAE. On the one hand, the private sector must contribute the resources to make INCAE strong and self-supporting, and INCAE can in turn help to develop better understanding and support among businessmen for integration in this region and beyond.

The prospects for success for the INCAE program are greatly enhanced by the support and leadership of prestigious and influential executives throughout the region. As has been mentioned, INCAE chapters or associations have been organized in each country to promote interest and raise funds; they are headed largely by former participants in INCAE's Advance Management Program and short courses. Key personnel in INCAE include its President, Sr. Francisco de Sola, a prominent, wealthy and civic-minded Salvadoran business leader who is noted for his support of Central American regional integration; Mr. Enrique DeBayle, long the Executive Director of INCAE, well-known throughout the region, and a member of an influential Nicaraguan family; Professor Clark Wilson, a U.S. citizen formerly with CBS and now INCAE's Rector of the Graduate School; and Lic. Ernesto Cruz, a well-regarded Nicaraguan attorney now completing his doctorate in economics at Harvard and scheduled to become INCAE's Rector in July, 1968. Lic. Cruz not only will dramatize the assumption of academic leadership at INCAE by Central Americans, but also should be able as a lawyer to help resolve any remaining legal problems impeding the endowment fund drive in some countries. Lic. Cruz, incidentally, has
recently completed a study for ODECA on the status of the legal profession in Central America which marks him as a sensitive and sympathetic advocate for regional integration. This role at INCAE should assist the school to advance that objective.

Our strategy calls for continued strong financial and technical assistance to INCAE during these coming formative years, including the continued underwriting of Harvard Business School participation, which brings with it the skills, prestige and standards of excellence that should command both respect and material support from the public. There is no conflict with other programs of the country USAID or other assistance agencies, none of whose resources are known to be available for this purpose. Their supplementary support of INCAE in the form of student scholarships may, however, be essential during this period. In the longer time-span of 5 years, however, it is our hope that INCAE will stand entirely on its own feet as a Central American institution which merits and receives the whole-hearted and sufficient support of the private sector and contributes significantly to regional economic development.

The key to our strategy is, therefore, the willingness and ability of the Central American private sector to support INCAE, both with students and contributions to the endowment fund. ROCAP considers that substantial progress toward the goals of INCAE's endowment drive, and a demonstrated ability to attract a sufficient number of qualified graduate-level students for efficient and effective operation should be conditions precedent to our assistance beyond FY 1968. Tentatively, these interim objectives have been set at a total of $1,700,000 in cash or firm pledges for the endowment fund (from all sources) by June, 1968; and the successful mounting of the first graduate level course with no fewer than 35 students by January, 1968. Failure to achieve either or both of these objectives should entail a careful reappraisal of the viability of INCAE and the value of further U.S. support, although the evident need for greatly increased numbers of trained business managers in Central America should dispose us toward a sympathetic consideration of any special obstacles or factors delaying but not fundamentally undermining the prospects for later success. Of fundamental importance is that Central Americans demonstrate that they recognize the need for INCAE and will progressively assume responsibility for its full support.
Other actions by INCAE which are considered important to its continuing ability to attract students and otherwise contribute to the development of competent managers in Central America are discussed in detail under Courses of Action below.

D. Planned Targets, Results and Outputs

Successful completion of this activity will be measured primarily by the assured operation of the INCAE Graduate School of Business Administration on a viable and completely self-sustaining basis (i.e., no additional U.S. support required). This will represent the successful creation of a new C.A. educational facility in a field of prime importance for the developing Common Market, where no such facility existed before.

Quantitatively, by the end of this plan period INCAE will be providing some 50 graduates a year trained in the most modern techniques of business management to help meet the growing demands of private enterprise in the Central American Common Market. In keeping with usual professional practice in this region moreover, many of these young leaders may be expected to offer their talents to strengthen the undergraduate business administration departments of the national and private universities, on either a part or full-time basis. Qualitatively, INCAE should bring a marked improvement in the standards and methods of business management, generate a demand for more and better undergraduate training in the universities while offering the latter some practical assistance in this regard, awaken greater interest and support in the private sector for regional integration, and provide an impetus toward more constructive research on business problems both in the schools and in private enterprise.

Not unreasonably, INCAE visualizes itself within a few years as a recognized center in Central America not only for instruction, but also for consultation, research and publication on problems of business administration. It plans to expand its teaching and research into such vital related areas as management-labor relations, agro-business, and business-government relations.

The new skills, knowledge, attitudes and information envisioned above are not readily quantifiable, but can be of the greatest importance not only in immediate terms of better Central American trade, vis-a-
markets, and a more efficient national allocation of resources, but also in laying the groundwork in the private sector for wider Latin American economic integration in the years to come. It is not unlikely, and in fact a goal of INCAE, that it will in future attract businessmen and students from all of the Western Hemisphere.

If INCAE achieves these objectives, its qualitative gains will far surpass any concrete cost-benefit analysis. In sheer objective terms of cost per graduate, however, present plans would entail a USD input of approximately $3,900 per graduate from FY 1967 through FY 1972.*

If all inputs since the beginning of AID support to INCAE in FY 1965 were "charged" to these same students, the per capita cost would double but the arithmetic would be misleading since the main thrust of the early contracts was support of the AMF Program rather than direct support of the new graduate school.

V. Course of Action

General

Progress to date in the program with INCAE, which primarily has involved support of the Advanced Management Program (five 3½-week seminars through CY 1967 involving approximately 225 senior business executives and government officials plus numerous shorter courses which reached another 400), preparation of numerous indigenous and other applicable case materials, teacher training at USB and early planning for the permanent graduate institute, has been detailed in previous CAPS and USB contract reports on file in AID/W and ROCAP.

Continuation of the INCAE/AMF program of short courses and seminars for senior businessmen is considered important by both those institutions, not only to further the overall objective of improving management skills in the region, but also to cultivate public support for the graduate-level program. ROCAP agrees, but after five years and approximately $1,000,000 already spent in support of this "AMF" program, we believe that it should now become self-supporting. 28 contract funds already committed will be available for this purpose through Calendar Year 1968.

* This describes present plans for a 2-year graduate program with 40 students in each of five graduating classes. Costs for projected second-year (in 1968 and 1969) over the same period would be approximately $1,997.
Beginning with our FY 1967 program, ROCAP's support of INCAE will be almost exclusively devoted to establishment of the permanent institute and implementation of the graduate-level program. The Central American private sector is scheduled to provide an increasingly large share of operating expenses through the period of the basic plan (ending June 30, 1969). Thereafter, INCAE is expected to be self-sustaining, and HBS has recommended the continuation of limited U.S. academic assistance on a diminishing basis at least through FY 1972. To accomplish these objectives, it is estimated that the Central American private sector must contribute approximately $160,000 to INCAE operating expenses in FY 1969, and substantially meet total annual operating expenses plus service and repayment of the building loan requiring a total of $400,000 beginning in FY 1970 (to be realized from contributions, earnings from the endowment funds, tuition, and miscellaneous income of INCAE).

Detailed Courses of Action

a. FY 1967

(1) Project Agreement with INCAE covering certain operating expenses for the period Jan. 1 - June 30, 1967, plus a full 18-months funding for the INCAE Rector: 262,000

(2) Contract AID/la-472 (ROCAP) with HBS covering the services of an Academic Advisor to INCAE and two other HBS professors for an 18-month period, plus assistance in developing an INCAE library, preparing additional case studies, perfecting its graduate-level curriculum, training its faculty, etc. 262,000

(3) The Central American private sector contribution to INCAE's operating expenses during the period of the first Project Agreement was estimated at $51,128, including all costs of internal administration except faculty salaries and related expenses as specified in the Pro-Ag. In addition, INCAE secured a loan of $645,000 from CABEI (drawing on U.S.G. funds) for engineering, construction and furnishing, at the permanent campus in new facilities - $446,000 for salaries and related expenses, and $199,000 for engineering, construction and furnishing.
with capacity of 50 single rooms, and one main building for classrooms, library, administrative offices and dining room. Moreover, transfer of title to INCAE was effected on the 170-acre site donated by the Nicaraguan business community for the permanent campus. Its acquisition value was estimated at $250,000.

b. FY 1968

(1) It is anticipated that a follow-on Project Agreement will be negotiated with INCAE early in FY 1968 to continue support of Central American teaching salaries and related expenses for a 12-month period:

\[ \text{est.} 89,500 \]

(2) It is anticipated that Contract AID/la-472 (ROCAP) with HES will be extended for the same purposes for an additional 12 months beginning July 1, 1968:

\[ \text{est.} 135,000 \]

(3) One short-term scholarship will be provided for advanced training of future INCAE faculty member at an established business school in the U.S. or another country during FY 1968:

\[ \text{est.} 2,500 \]

(4) During this period, INCAE will be expected to mount its first graduate-level course with approximately 35-50 students; prosecute its endowment drive with vigor through national campaigns already planned by the INCAE chapters in each country and with the assistance of a professional fund raiser to be provided by HDS, thus making substantial progress toward its partial goal of $1,000,000 by June 1968 with the major portion coming from Central American sources; complete construction on the main administration-classroom building and enough of the dormitories to house the first graduate class, or make alternate temporary (i.e., rental) arrangements for space under conditions which do not draw down the endowment fund to the extent that INCAE's ability to become self-supporting by 1970 is undermined; establish effective working relations with the

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"Consejo Superior Universitarío Centroamericano" (CSUCA) and the national universities, both to recruit MBA students and to pave the way for later technical assistance in upgrading undergraduate curriculum and instruction in the region; seek academic recognition in Central America to assure the effectiveness and success of the Graduate School; organize a Placement Office with close ties to local industry and governments throughout Central America; and continue the preparation of business case studies which will serve both as instructional material for the school and as a basis for original research on problems facing Central American economic development and integration. During this period also a final decision will be reached as to whether INCAE's graduate program will cover one or two academic years. Satisfactory progress toward all these goals, particularly the initiation of graduate instruction and success in fund-raising, as well as the demonstrated willingness of the Central American private sector to meet the operating expenses of INCAE not presently supported by the U.S.G. (estimated at approximately $100,000) will be considered a condition precedent to any further assistance unless in the judgement of ROCAP, special mitigating circumstances warrant an exception.

C. FY 1969

(1) It is anticipated that a follow-on Pro-Aj will be negotiated with INCAE early in FY 1969 to continue support of Central American teaching salaries and related expenses for an additional 12 months: 117,000(est.)

(2) ROCAP will consider extending Contract AID/la-472 (ROCAP) with HBS to provide only the services of two U.S. professors at INCAE including the Academic Advisor for an additional 12 months beginning July 1, 1969 as recommended by the HBS/INCAE Development Plan. 70,000(est.)
(3) It is anticipated that two scholarships for advanced training of future INCAE faculty members abroad will be provided.

(4) During this period, INCAE will be expected to mount successfully its second graduate-level course with approximately 30 entering students and 35-40 second-year students (if the two-year program proves feasible); substantially complete its endowment fund at the projected level of $2,000,000, with approximately half coming from Central American sources; and complete action on the other steps outlined under b (c) above, including all the buildings provided for in the CADEI loan. In addition, INCAE will be expected to develop its relations with CSUCA and the national universities sufficiently to begin rendering advice and assistance in the improvement of undergraduate level instruction in business administration, both through curriculum revision and through the upgrading of faculty by participation in the INCAE graduate program. INCAE will also place increased emphasis on the recruitment and training (see c (3) above) of qualified permanent faculty who can in the future retain the standards of INCAE while gradually replacing the US$ personnel, thus enhancing the "Central American" character of the school. These goals, plus demonstrated willingness of the Central American private sector to assume responsibility for all operating expenses of INCAE not supported by the U.S.G. (estimated at $100,000 in FY 1969 and $400,000 beginning with FY 1970), will be considered a condition precedent to any further assistance unless in the judgment of ROCAP special mitigating circumstances warrant an exception.

FY 1970

(1) No further direct financial support to INCAE is contemplated.

(2) ROCAP will consider extending the US$ contract for an additional 18 months beginning July 1, 1970.
to provide only the services of two U.S. professors at INCAE including the Academic Advisor, as recommended by the HBS/INCAE Development Plan.

(3) INCAE should be firmly established as a successful educational institution, its financial stability and academic standing assured, and its student body stabilized at 50-100 students in either a one-year or two-year academic program.

e. FY 1971 and FY 1972

(1) If the need is demonstrated, ROCAP will consider extending the HBS contract during these years to provide only the services of a U.S. Academic Advisor at INCAE, as recommended by the HBS/INCAE Development Plan.

Research Component

Research in business administration methods and problems in the Central American context, including the preparation of case studies, will be a normal part of the activity of professors and students at the INCAE Graduate School, without additional cost to the US unless the latter chooses separately to finance particular studies of interest to it. In general, the development of a recognized research capability at INCAE is viewed as a necessary adjunct to the instructional program. Such a research center holds great promise for enhancing Central American insights into numerous business problems, related aspects of regional development, and the opportunities for Central American participation and leadership in the evolving Latin American Common Market.

Summary of U.S. Contributions

Obligations under Contract through FY 1966 $1,080,463

Plus grants to INCAE and related feasibility studies through FY 1966 167,236

Total obligations through FY 1966 1,235,263
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*Estimated