5180102 (B)

[illegible]
[illegible]
[illegible]

5180102

ECUADOR: La Ecuatoriana de Desarrollo (Compania [illegible])

[illegible]

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

UNCLASSIFIED

AID-DLC/P-343
June 17, 1965

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Ecuador: La Ecuatoriana de Desarollo (Compania Financiera)

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed $3,000,000 to La Ecuatoriana de Desarollo (Compania Financiera) to assist in financing a private development bank to make loans and limited equity investments in sub-projects promoting the creation, expansion and more effective operation of private industrial enterprise in Ecuador.

This loan proposal is scheduled for consideration by the Development Loan Staff Committee at its meeting on June 23, 1965.

Helen E. Nelson
Secretary
Development Loan Committee

Attachments:
Summary and Recommendations
Project Analysis
Annexes I-X

UNCLASSIFIED
AID-DLC/P-343

June 17, 1965

ECUADOR: La Ecuatoriana de Desarrolla (Compania Financiera)

Table of Contents

ECUADOR: La Ecuatoriana de Desarrolla (Compania Financiera)

Summary and Recommendations

1. BORROWER: La Ecuatoriana de Desarrollo (hereinafter referred to as the Financiera)is a private industrial Development Bank to be organized by a group of prominent Ecuadorians, banks, and business entities along with the IFC and probably ADELA and one or more U.S. "Edge Act" Companies.

2. AMOUNT: Not to exceed $3,000,000.

3. PURPOSE OF LOAN:

   (a) To help finance a private development bank to make loans and limited equity investments in sub-projects promoting the creation, expansion, and more effective operation of private industrial enterprise in Ecuador.

   (b) To help finance the costs of technical assistance and studies for sub-borrowers and with prior USAID approval the costs of technical assistance and training for the Financiera itself.

4. BACKGROUND: A committee was created to organize the Financiera in 1963. The Financiera is supported by the Government of Ecuador as well as existing public and private financial institutions because they feel it is necessary in the implementation of the industrial investment program required by the general development plan.

5. PROJECT DESCRIPTION: The Financiera will normally make medium and long term sub-loans at an interest rate of 8% per annum on the disbursed balance. Equity investments will have to be approved by AID before they are made. Loans would be for terms of 2 to 15 years, depending upon the projected cash generation of the project. All financing provided by the Financiera would be on the basis of appraisals designed to determine technical and

commercial feasibility and whether the project will increase productivity or otherwise contribute to the economic development of Ecuador. ADELA, with offices in Lima, has agreed to help with these appraisals if they decide to invest in the Financiera. CENDES, an Ecuadorian government agency with a staff of economists and engineers, has also agreed to help.

All sub-loans of AID funds will be repayable in dollars regardless of whether it is sucres or dollars that are loaned. 25% of the loan will be available for sucre financing of local costs and the balance must be used for U.S. procurement.

6. EXIMBANK AND OTHER CLEARANCE: On May 11, 1965, the Eximbank informed AID that "the Bank was not prepared to consider this application in view of the extended terms requested". The IDB has shown an interest in the project and may make a complementary loan in 1966, but it has indicated that it is not interested in making a loan to the Financiera at this time. It expects to concentrate its efforts on the investment fund managed by the public financiera, which would be available to this Financiera. The IBRD is considering a complementary loan of $3.0 million to the Financiera.

7. VIEWS OF THE COUNTRY TEAM: The Country Team Capital Assistance Executive Committee reviewed this project on May 3, 1965, and Country Team approval was given on May 4. At the Consultative Group on External Financing's meeting on Ecuador AID stated it was willing to actively consider this loan.

8. STATUTORY CRITERIA: All statutory criteria have been met or will be met (See Annex I for details.)

9. ISSUES:

   1. Local Currency Financing - It is recommended that 25% of the AID loan be made available for local currency financing under the special letter of credit procedure.

   2. Management - Location of a good manager is the most important problem facing the Financiera. He will almost certainly have to be a foreigner and ADELA and/or the IFC will recruit him.

   3. AID Review - Reasonably prompt service will be essential to the successful operation of the Financiera and it is consequently recommended that AID review of sub-loans be kept to a minimum.

4. Soft Loan Terms - A low interest rate 20 year loan is required to get the Financiera off the ground. Several prospective stockholders including IFC and ADELA have indicated that terms such as these are necessary in order to make the Financiera a possible investment for them.

5. Possible Competition with the Public Financiera - The Project Committee feels that some competition is a healthy thing and that the market should not be divided between the two financieras although each will probably develop specialities. All projections indicate sufficient demand for the AID funds in the two financieras.

10. RECOMMENDATIONS: Authorization of a loan to the Financiera for an amount not to exceed three million dollars ($3,000,000). The loan would be subject to the following terms and conditions:

(A) Terms to the Borrower - The two step will be offered to the Government of Ecuador.

Amortization	- 20 years from date of first disbursement
Grace Period	- 5 years (on principal payments)
Interest Rate	- 2½% per annum on the disbursed balance
Currency of Repayment	- U.S. Dollars

(B) The Major Conditions would be:

1) Conditions precedent to disbursement:

a) The presentation of satisfactory evidence of the Financiera's incorporation and the completion of all other corporate and legal actions.

b) The presentation of satisfactory by-laws and other corporate documents as well as other information as required by AID concerning the Financiera's operations and policies.

c) Presentation of satisfactory evidence that the Financiera has sufficient subscribed and paid in capital.

d) Evidence that the Financiera has elected a Board of Directors and hired management, both satisfactory to AID.

e) Stock ownership of at least the equivalent of $ US 250,000 by the IFC and/or ADELA and Guayaquil stock ownership satisfactory to USAID.

2) Other Conditions of the Loan:

a) Unless AID shall otherwise agree in writing prior to such action, the Financiera shall not:

i) make subloans with AID funds of less than 2 or more than 15 year maturities;

ii) make equity investments;

iii) make investments in or sub-loans to projects in which the members of the Board of Directors or their families have any financial interest;

iv) incur indebtedness which would cause the total indebtedness of the Financiera to exceed the equivalent of US $ 10.0 million;

v) declare or pay any cash dividends, or make any distribution on account of, any shares of stock of the Financiera exceeding twelve percent (12%) annually of paid in capital during the life of the loan unless any distribution in excess of 12% is matched by an equal prepayment of this loan in inverse order of maturity of principal payments;

vi) use AID funds to finance projects which result in the increased production for export of food or feeds which are in U.S. or world surplus, nor shall AID funds be used in projects resulting in the increased production of non-food or feed agricultural products which are in world or U.S. surplus. All textile loans over $150.000 will be referred to AID for approval or disapproval before they are made.

b) Disbursements under the AID loan for project goods and services may be for procurement in an amount up to US $750,000 equivalent in Ecuador. The balance of disbursements under the loan shall be for procurement from the United States. United States dollars utilized to finance local costs shall be made available through appropriate procedures and shall be used only for procurement in the United States.

c) AID will reserve the right to see and approve or disapprove all working capital sub-loans before they are made.

d) The loan shall be subject to such other terms and conditions as AID may deem advisable.

PROJECT COMMITTEE:

Chairman	- W. F. Ludwig, AID/W
Counsel	- David Falk
Engineer	- Edward Morris, USAID
Program Officer	- Alfred Bigelow, USAID
USAID Cap. Dev. Off.	- Ralph Apton

Drafting Officer: WFLudwig/lrh

I. The Borrower - Ecuatoriana de Desarrollo (Compania Financiera)

The Borrower is a corporation to be formed by an organizational committee of Ecuadorian businessmen and financiers headed by Dr. Jose Antonio Correa, a lawyer, who was formerly Ecuadorian Ambassador to the United States and to the United Nations. This Committee has been assisted by the IFC in drafting its by-laws, and, also with assistance from that institution, the law governing financieras was amended in March of this year. No legal steps remain to be taken except the act of formal incorporation which is awaiting the decision of ADELA and certain other prospective shareholders.

ADELA is a private investment company with its principal offices in Luxembourg, but with its operating office in Lima. It was organized in 1964 by a group of United States and free world financial and industrial enterprises to make investments in Latin America. It numbers among its directors senior officers from such companies as Standard Oil of New Jersey, Ford Motor Company, First National City Bank, the Bank of Tokyo, and Swiss Bank Corporation. It has paid in capital of US $ 40 million and is prepared to make equity investments in as well as loans to private enterprise in Latin America. While it expects its projects to show a profit as a measure of their efficiency, high yields are not its chief concern. It is really seeking to serve its stockholders through the economic development of the private sector in Latin America thus creating markets and possible partners for joint ventures. It would not be wholly inaccurate to describe ADELA as a private IFC.

It is anticipated that ADELA, the IFC, and at least one U.S. "Edge Act" company will purchase shares in the financiera. The Project Committee was informed by a representative of ADELA that his organization was considering an investment of 5,000,000 sucres (approximately US $275 thousand) in the shares of this Financiera if AID makes this loan. Discussions with the IFC revealed that a study of the prospects of the Financiera has been made and the staff has recommended an investment of about US$ 325 thousand in its shares. IFC has expressed a willingness to invest more if ADELA does not come in. IFC's Board has not yet approved the IFC investment but two staff trips to Ecuador have been made and IFC staff members estimated that the investment is 95% certain. Dr. Correa says that several U.S. bank "Edge Act" companies have expressed interest, but the organization committee is awaiting the advice of the IFC and of ADELA before offering shares to any of them. It is currently anticipated that about US $2 million of stock will be issued of which at least half will be locally subscribed and the balance divided between ADELA, the IFC, the "Edge Act" Companies, and possibly a European bank (Dutch or German), and a Mexican and a Venezuelan Financiera. As appears in Annex II 10,250,000 sucres (about US$ 554 thousand) have already been locally subscribed. A number of the other prospective local shareholders on the list are simply awaiting the decision of ADELA or the IFC. The IBRD indicated at the Consultative Group meeting on Ecuador that they were prepared to make a loan to the Financiera if the IFC invested in it.

II. Background of the Project

This project has been promoted by its sponsors as a partial implementation of Ecuador's General Development Plan which calls for total gross investment of about US$ 430 million in the private industrial sector over the 1964 - 1973 period. An Industrial Investment Fund is being established to channel national and international resources into industrial credit. This Fund is to be administered by the National Finance Corporation and will be available as a source of funds for this Financiera. However the Fund cannot handle all of the industrial credit requirements nor is it desirable that there be such a monopoly. Perhaps most importantly the National Finance Corporation has not undertaken the active promotional campaign that will be required to stimulate the industrial investment necessary for the development of the country. For these reasons the Organization Committee with the support of the Government, the National Finance Corporation, and the country's bankers and businessmen set about to organize this Financiera.

III. The Project

The proposed $ [illegible] million loan will help finance the establishment of the Borrower as a private development corporation in Ecuador which would help service the medium and long term credit needs of the nations private industry and industry related private enterprise. The Borrower's draft by-laws provide considerable flexibility with respect to the types of demand for credit it might service; see Annex III, but AID's loan would be directed towards certain defined purposes, including the financing, through medium and long term sub-loans or equity investment, of (1) the procurement of machinery, equipment, materials and services which would be directly utilized by existing or newly created industrial enterprise; (2) the procurement of these items by service industries or other types of enterprises which would utilize this procurement in a manner which would contribute directly or indirectly to the industrial growth of Ecuador (the financing of the importation of machinery and equipment by the construction industry would qualify under this category); (3) refinancing of Ecuadorian industries which are presently financed in a manner inhibiting their proper operation, preventing them from making their full potential contribution to the nations economy; (4) possible technical assistance to the Corporacion itself; (5) studies to be carried out by consultants for the account of sub-borrowers; (6) working capital for industrial enterprises, and (7) such other credit demand as AID and the Financiera might agree from time to time to be an appropriate recipient of AID financing.

This project was recently assessed by Mr. Kurt Steffans, the General Manager of the Peru Investment Corporation, acting on behalf of ADELA. The results of this study justify this project and confirm the need and demand for this type of financing. Mr. Steffans felt the Financiera should embrace the broadest possible range of activities permitted by law and that, although the market had to be cultivated, this should present no major problems to a company with flexible operating policies and an able management team.

It is planned that 25% of this loan will be available for local costs financing and the balance for US procurement. Initially funds for the balance of local costs financing and for free world procurement will have to come from the financiera's equity contribution; however, a loan from the World Bank is anticipated in 1966.

ADELA and the IFC have already supplied the financiera with technical assistance and have indicated a willingness to continue to do so. The same may be expected from the "Edge Act" bank or banks who subscribe to the financiera's stock. ADELA with offices in nearby Lima has offered the use of its personnel including an industrial engineer and financial analyst. For this reason the Project Committee recommends that no portion of the loan be earmarked for technical assistance to the financiera at this time, but that USAID be authorized to permit the use of up to $100,000 for training or technical assistance should this be deemed desirable or necessary in the future.

CENDES has offered to assist the Financiera with the necessary technical services for the preparation of feasibility studies and with engineering evaluations in the appraisal of credit applications. CENDES expects to be paid for the services it performs.

IV. The Economy of Ecuador

Ecuador which is among the smaller and less developed countries of South America is divided roughly into three regions. The fertile and tropical lowlands of the Pacific coastal region, which is the principal source of Ecuador's foreign exchange income and the location of the largest and most commercially active city in the country, Guayaquil. Ecuador's three most important export commodities, bananas, coffee, and cacao are grown almost exclusively in the coastal region.

The major portion of Ecuador's 4.8 million population is located in the central region referred to as the Sierra. This is a high mountaineous area extending generally north to south from the Colombian border to Peru. The land in the Sierra is relatively unproductive and considerable poverty is found among the indians who reside in its mountains; however, the Sierra has a great dairy production potential; Quito, the capital of Ecuador, is the largest and most important city in the Sierra.

Ecuador's third principal region is a broad expanse of jungle and forest lying to the east of the mountains, known as the Oriente. This hot humid region is sparsely populated and largely unexplored.

Both the pacific coast and oriente regions offer ample opportunities for agricultural expansion, though the latter is almost totally lacking in the infrastructure necessary to facilitate a meaningful development.

There is in fact, a general lack of infrastructure in the country, principally in the area of transportation. There are less than 10,000 miles of roads and tracks in Ecuador (a country of around 107,000 square miles) only about half of which are serviceable throughout the year. The country's weak railroad system can be discounted as a factor in the economy. A recent $39 million loan made by a consortium composed of AID, IDB, IBRD, and IDA, to finance the construction and improvement of an additional 314 miles of roads should contribute in a major way to the country's development.

The impending improvement in transportation facilities should not only provide for a more productive economy but a better integrated one as well. A marked tendency towards separation is displayed by the Guayaquil oriented community on the coast from the poorer and less commercially vital Sierra. While this phenomenon cannot by any means be attributed to lack of transportation alone, a well developed road system might be expected to stem this tendency.

The Financiera with its [illegible] will contribute in no small way to the [illegible] of the country.

Ecuador has [illegible] stability under [illegible] military junta for the past two years and the economy [illegible] forward, steadily if not rapidly. Foreign [illegible] at approximately [illegible] at the end of [illegible] level, after a year during which [illegible] but by February of [illegible] million and the [illegible] petition from [illegible] markets.

Ecuador remains a poor country. [illegible] somewhat less than $[illegible] per annum and it is [illegible] upon three highly volatile agricultural [illegible] foreign exchange income. It is [illegible] will have been derived as follows:

Bananas	US$ 84.7 million
Coffee	US$ 21.1 million
Cacao	US$ 18.1 million
Others	US$ 25.1 million

The prospects for additional bananas, coffee, and cacao income appear dim and, while there is ample arable land to support the development of new agricultural export commodities, this objective will not be realized rapidly.

In the meantime the country imports most of its capital and consumer goods and in the area of a modest import substitution Ecuador can take immediate and direct steps towards developing its economy, and improving its balance of payments desiquilibrium (see Annex IV).

Ecuador's ten year development plan, covering the period 1964 through 1973, calls for the implementation of a quite ambitious program that would provide for a rate of growth of 6% per year. During the 1964-1968 period the plan contemplates heaviest public investment in roads and significant investment in water and sewage, electric power and agriculture. Financing for the major portion of the immediate public sector program has been obtained or is in an advanced stage of discussion.

The Plan also estimates a considerable private sector expansion, in the fields of agriculture, housing and industry.

The industrial development proposed in the Plan seems to be somewhat ambitious but might be feasible and is certainly needed. The effective market in Ecuador is much less than its 4.8 million population, however, and the prospects of LAFTA bringing about an effective common market which could purchase a high level of Ecuadorean exports in the foreseeable future are not good.

On the other hand, the state of Ecuadorean industry is presently so underdeveloped, that a significant increase in the level of industrial production could be supported by the limited market which alreay exists. Annex V contains information on Ecuador's imports. Manufacturing supplies only about 15% of the country's gross domestic product. The near absence of industry in Ecuador may be attributed mainly to the predisposition of the country's capital and entrepreneurial ability to flow towards the principal agricultural export commodities and, in Guayaquil, towards commerce. Those few Ecuadorean who have invested in industry lack the knowledge and entrepreneurial spirit necessary for a substantial industrial expansion program. They are especially unskilled in the effective use of bank credit, market analysis, and marketing of products and will not acquire these skills and expand their operations in the absence of promotional work on the part of a flexible technically competent lending institution.

V. Justification for the Project

The proposed loan would help finance the creation of an entirely private institution which would promote industrial projects, assist entrepreneurs in their presentation and implementation and provide financing to these projects at reasonable terms and conditions. The loan would ease the Ecuadorian balance of payments problem by avoiding further short term supplier's credits.

Initially one of the most important contributions of the institution would be the provision of working capital financing at adequate terms, thus permitting existing industry to operate more effectively within the cofines of its present capacity. The project committee discussed the possibility of the Financiera's making working capital loans with more than two year maturities with 7 local commercial banks. None felt that the financiera would be a competitor. Their reasons were as follows: commercial banks cannot meet existing loan demand, the government is requiring them to lend 25% of their deposits in the agricultural sector, they have few, if any, industrial clients who borrow for working capital presently, and they do not lend for more than six months except in their mortgage operations. The Project Committee also discussed the problem of possible competition with the commercial banking system with two visiting bankers from Chase Manhattan Bank. They felt that the possibility was remote because in their opinion Ecuador has the most conservative banking system in South America and they added that it might be a very good thing if the banks did lose a client or two to the Financiera. The Project Committee's observations confirmed this opinion. Only the First National City Bank branches appear to be lending against the prospects of the borrower rather than the value of the collateral and this bank's operations are quite small because they have only been in Ecuador a short time.

The commercial banks can but do not make secured term loans of up to five years. They can and do make longer term mortgage loans (10 years and up). Against most of these mortgage loans they issue and place in the market bonds equal to 100% of the loan. This is an important way of mobilizing private savings.

A Symposium on Industrial Development very recently published a series of recommendations to the Government of Ecuador (booklet dated April 25, 1965). Two of these recommendations stress the urgent need for working capital and recommend that the Government take steps to insure that working capital loans will be made by the existing public financiera and the proposed private financiera.

Interest rates charged by the commercial banks are set by the Junta Monetaria and now stand at 10%. A commission of 1% annually may be charged to borrowers in addition to interest and taxes of about 1.35% (½% beneficiencia and 1.35% stamp tax). Therefore a six month secured loan would cost the borrower an effective 12.85%. This cost for money is not excessively high when compared to the potential rate of return on industrial investment but the short periods for which it is available to meet working capital needs represents a real obstacle to the development of new enterprise and the expansion or effective operation of existing industrial plant.

An AID loan of $5.0 million was made in 1962 to the National Finance Corporation, a public financiera. The proceeds of AID's loan can be used for the financing of fixed assets and, recently AID has agreed that loan funds may be used to finance inventory items, as approved by AID on a case by case basis. This institution is the result of the reorganization of an agency which previously dealt in Government bonds and because of lack of experience and skilled personnel operated rather slowly. It does not promote investments and in general displays the same inability to meet time schedules that is an endemic feature of most public lending institutions.

While the public institution, as it gains experience and confidence, will be a valuable mechanism at the Government's disposal in the implementation of the Development Plan, its public nature will prevent it from having the flexibility or the proximity to the business community which are essential to the ultimate success of an industrial development bank as a promotional institution. Furthermore, the regionalism in Ecuador inhibits the effective operation of the Quito situated public bank in the coastal area, where the Financiera would be most active. Quito and government are considered almost synonimous terms in Guayaquil. The private Financiera will have an office in Guayaquil headed by a Guayaquilyan and most importantly will have enough executive committee members from that city to enable it to approve loans without requiring the applicant to come to Quito.

A private development bank type project can normally be justified in several ways and the proposed project follows the usual pattern. There is in Ecuador a lack of financing for certain types of demand, mainly medium term working capital, an absence of loan funds in sufficient volume to support a significant industrial expansion and a pronounced absence of the promitional activity and the practical project oriented technical assistance required to initiate and support an industrial expansion.

Special emphasis in the appraisal of this project has been placed on proving the feasibility on the theory that if it is feasible it is also probably justified. Whether the project actually would prove to be a success is dependent upon many factors, the most important of which is the location of good management.

The technical justification referred to above is,however, by no means the only one for a project of this type. Another more obscure but perhaps even more important justification lies in the ultimate effect a successful development corporation could have on the policies of the nations financial community and the alignments within this community.

Financial policies in most Latin American countries are set by the Governments, Central Banks, and the Commercial Banks. Sometimes large land holders are able to exercise great influence over financial policies. The small, new and inexperienced industrial communities are normally not able to exert influence, yet, until they do, a very serious obstacle to development will continue to exist.

The Central Banks and commercial banking systems are by their very nature conservative and are more concerned with maintaining than creating. Governments may recognize the need to create an industrial sector which will lead their countries away from dependence on a few agricultural export crops and import trade as the principal elements of their economies, but it is for these two purposes that the Commercial banks exist and it is what exists that the Central Banks normally must preserve.

A well managed private industrial development bank supported by the financial and entrepreneurial resources of the industrial community adds another element to the financial spectrum, an element which can be expected to be more adventurous and certainly less traditional than the agricultural and commercial sectors.

A Government development bank, with whatever virtues it might have, cannot become the focal point for a new influence on the financial development of a country or participate directly in the resultant realignment within a nations private sector. Government support is essential but Government support, after all, only becomes significant when there is something to support and when a developing private industrial community creates and supports its own promotional lending institution it can command the support of Government and even of the commercial banking system itself. The latter will be quick to respond to the needs of a sector in the economy which can exert influence - and, more important, become a good customer to the commercial banking system. For this latter reason a development corporation should not meet many of the types of credit demand. which commercial banks can effectively handle.

The development institution should begin where the commercial bank stops. If the latter is able and willing to supply the 2 year working capital loans required by industry, the development institution should meet needs for terms of longer than two years. It has generally been the case that once a well run development corporation has been established, which can respond quickly and with flexibility to the needs of industry, the commercial banks soon offer credit to industrialists at terms and conditions previously unavailable.

In the final analysis, the development corporation should lead the financial community into new and more liberal practices. It takes up where the other leave off.

VI. Financial Analysis

> AID's loan would be $3.0 million at terms of 20 years with a five year grace period on principal payments and with interest of 2½ per annum. Twenty-five percent of the loan would be available for procurement from Ecuador and 75% for US procurement. The two-step arrangement would be offered to the Government of Ecuador. While these terms are quite liberal an analysis of the earnings projections, which are presented as annex VI hereto, will indicate that Borrower must receive very low interest/high leverage financing at the outset from AID to balance out expenses and the higher cost financing it is hoped IDB or the World Bank will make available. The capacity to repay is discussed later in this paper in Section IX.

The source and application of funds contemplated by the Financiera organizers are as follows:

	AID Loan	World Bank or IDB Loan	Equity Capital*	Short term foreign commercial bank credit (less than one year)
Terms	20 years (5 year grace) $2\frac{1}{2}$%	5 3/4% - 15 years	10% dividends (though higher rates or dividends would be permissable under AID's Loan)	$6\frac{1}{2}$% U.S. Banks
Application	Fixed assets, inventory items, and services for procurement in U.S. (75%) and Ecuador (25%)	Fixed assets, inventory and services procured in free world	Fixed assets, inventory and services from free world, accounts receivable and other short term operations not conflicting with commercial banks and provided for under Ecuadorean laws.	Accounts receivable and other short term operations not conflicting with commercial banks and consistent with Ecuadorean law.
Amount	$3,000,000	$3,000,000	$2,000,000 (equivalent)	$500,000 each year
Terms to Ultimate user	U.S. procurement 8%, 2 to 15 years Ecuadorean procurement 8%, 2 to 15 years	8% to 9%	11%	11%

* 50% local; 50% ADELA, IFC and U.S. Edge Act Companies.

The promoters of the project have spoken with the IDB and the World Bank who have expressed interest, in principle, in lending to the Financiera. The terms and amount of the proposed IDB or World Bank loan expressed in the foregoing table are only estimates, however. The volume and interest rates expressed for short term commercial bank credits are also estimates, based on the experience of other private development banks in Latin America.

Subloans made with AID funds for US or local procurement would be denominated in dollars unless the government can be persuaded to maintain value. The Ministry of Finance has indicated there is no possibility of this. At the present time the Government of Ecuador maintains value on the loans of the National Finance Corporation for a fee of 5%. The Planning Board has indicated that it plans to discontinue this and have the National Finance Corporation pass along this risk to the sub-borrower so that the two financieras will deal with this problem in the same manner. If, however, the Government continues to assume this risk for the public financiera, the private financiera would consider lending at a lower interest rate, to equalize the attractiveness of the two funds to the prospective borrower.

The Project Committee has been assured by Ecuadorian Counsel that promissory notes signed in Ecuador, payable in US dollars are legal and enforceable.

Annex VI contains a summary of operating costs for the first five years of operation. The staffing pattern provides for the minimum requirements of a development bank; see Annex VII. ADELA and the IFC can be expected to provide technical assistance. ADELA has already offered the services of its Lima based engineers.

The financial projections presented as Annex VI provide for 2% bad debt reserve for the Financiera's portfolio. Reserves would, of course, not be liquid. They would be utilized for relending and equity financing. The Financiera would need to maintain a reasonable degree of liquidity, however, in order to meet debt service payments. Its short term portfolio would not only provide it the desired liquidity but would generate much needed income at the same time.

While the Financiera would not accumulate an equity portfolio rapidly, it would eventually enter into investments of this type. It would not amass equity in an aggregate amount greater than the volume of the Financiera's own equity, free reserves and surpluses.

Normally all sub-loans would be secured and at debt/equity ratios no greater than 70/30. AID will reserve the right to see all sub-loans exceeding US $150,000 and all sub-loans to textile enterprises. The Financiera will make no equity investments, do any refinancing, or make loans to any projects in which the staff, directors, or management of the Financiera or members of their respective families have an interest <u>unless</u> AID has first approved in writing.

The Financiera will make no sub-loans of less than US $25,000 equivalent, and it will invest no more than 20% of its capital, surplus, and reserves in one enterprise. It cannot invest more than 10% of its capital, surplus, and reserves in the equity of any one company and its total equity investments will not exceed its capital, surplus, and reserves.

AID funds will be loaned at the same interest rate employed by the National Finance Corporation for its AID funds, currently 8%.

The Financiera proposes to provide as many financial services as permitted by law, but AID funds will be used chiefly in medium and long term financing of capital equipment and to a lesser extent for medium term working capital financing. Because borrowers require local currency for working capital the 75% U.S. procurement requirement effectively limits the use of AID funds for this purpose.

The earning prospects for a new development bank are seldom good. This one hopefully will be able to pay its shareholders a 10% dividend after 3 years. It is by no means, however, an attractive investment. An investor may earn 8% tax free on Ecuadorian Government securities which are redeemable at par on demand. The Financiera's dividends would of course be subject to tax and its sharescould not be easily marketed at least in the near future. Consequently, it is recommended that dividends of 12% be permitted, not because they are likely, but because purchasers of the stock should be able to feel it is possible if not probable to get an adequate return on their investment.

VII. Implementation Plan

The proposed project is presently the subject of consideration by potential Ecuadorian investors, ADELA, and the IFC, and will soon be by the IBRD and Edge Act banks. The viability of this small development corporation depends upon the presence of low interest, high leverage quasi equity which AID can provide. Therefore, the prospective participants will delay their final decision with respect to the project until they know that AID is making a loan at terms and conditions which would provide for a successful project.

While the IBRD or IDB portion of the project is fundamental, there could be a considerable lapse of time before either of these institutions is able to announce the approval of a loan. In the meantime, discussion of the project in Ecuador has reached the point where further delays would result in diminishing interest in it.

The situation is aggravated by the initial lack of interest in the project evidenced by the Guayaquil business and financial community. The project has been largely the result of the efforts of Quito businessmen, principally Doctor Correa, and only recently has Guayaquil evidenced support. Nomination of a man from Guayaquil as Chairman of the Board has helped. It was only with great effort that the private sector of this city was convinced that the project merited their consideration - and might become a reality. A long delay in implementing the project would be likely to cause this support to be lost.

Without the support of Guayaquil the project would have no justification, for if the business and banking community in that city were opposed to the Financiera, it would not be able to operate effectively in the coastal area, in which most of the business activity of the nation takes place.

It would be advisable, therefore, to proceed with the authorization of a 3.0 million AID loan immediately, requiring the Financiera to subscribe $1,000,000 (equivalent) in initial capital, prior to initial AID disbursement, thus providing for a 3 to 1 AID loan to equity ratio from the outset. The Financiera should have no difficulty with this requirement.

The Financiera would undertake to increase its capital by another US $1,000,000 when the IDB or IBRD loan is authorized.

The Financiera, which is not yet a legal entity; would incorporate under the laws of Ecuador prior to signing the AID loan.

Conditions of initial disbursement include approval by AID of the composition of the Board of Directors, the Management and initial staff.

Since the Board of Directors must be composed of representatives from several regions of the country an executive committee of no more than five members, subject to AID approval, would therefore conduct most of the Board's business.

VIII. Effect on U.S. Economy

The proposed loan should cause, through the promotional activities of the borrower, an increased level of procurement of capital goods from the United States. This would, in turn, lead to the procurement of spare parts and replacements from the U.S. as well as additional capital goods, for reasons of compatibility of equipment. At least 75% of this loan will be tied to U.S. procurement and up to 25% will be made available through the special letter of credit procedure.

While in the long run projects of this type raise the level of the host country's economy permitting it to be a better customer of the United States, there might be a short run loss of markets to the U.S. as a result of the project. The Financiera is almost certain to finance the production of certain consumer goods that are now being imported from the United States. It is unlikely, however, that Ecuador can be expected to enjoy significant economic development while importing almost all of its consumer and capital goods from abroad.

Since no AID funds will be available for agricultural lending under this loan, AID's policies concerning surplus commodities do not appear to present any problems.

IX. Capacity to Repay

The Financiera would make well appraised and adequately secured loans to borrowers who are established good credit risks. It will be much more adventurous than the commercial banking system, but the conservatism of the latter provides for a broad range within which the Financiera could operate with financial security, beyond the demand met by the commercial banks without having to meet excessively high risk credit demand.

The Financiera would maintain adequate reserves and could, in case of emergency, discount most of all of its portfolio with the existing banking system or obtain loans from the central bank under the Financiera law.

The maintenance of value risk will be passed along and the loan will be two stepped. Annex VIII contains Ecuador's present and projected debt service requirements.

X. Issues

There are several issues which deserve special attention in the consideration of an AID loan for this project.

1. Local Currency Costs Financing - It is requested that 25% of the proceeds of this loan be made available for local currency financing. These funds would be disbursed under the special letter of credit procedure.

While the financiera has equity capital which would be available for local currency financing, the project committee and the sponsors feel that equity cannot meet all the demand for sucre financing. The need for medium term working capital loans has been discussed elsewhere in this paper. Borrowers need sucres not dollars for the large bulk of their working capital.

Another important reason for making a portion of this loan available in sucres will be its effect on reducing procurement in Europe. An official of CENDES estimated that the cost of American equipment in Ecuador was about 15% higher than the cost of similar European equipment. If the borrowers are not offered financial assistance in their construction, labor, and other local costs, they are likely to purchase their equipment in the cheapest market. However, the availability of a loan from the financiera on reasonable terms and for at least two years to assist the borrower in meeting these local costs, when coupled with the restriction that A.I.D. funds may not be used on any project involving substantial third country procurement, will make the American equipment appear more attractive.

Other factors which argue for a portion of this loan being made available in sucres are the fact that it is well known in Ecuador that AID has made local currencies available to the other Latin American development banks, and the affect on the U.S. balance of payments (US $750,000 maximum) seems quite small. In addition, the Financiera's equity capital cannot be expected to meet all the demand for third country procurement, local currency, and equity financing. The loan agreement will provide that AID funds will not be loaned to finance the local costs of projects which involve substantial third country procurement.

2. Management - The prospects for the success of the Borrower are largely dependent upon the location of a good Manager. The preparation of financial projections and an attempt to identify possible projects is largely an academic exercise. If the Manager is experienced and skilled, the Financiera would locate projects and earn a profit. With a poor Manager it will not. ADELA and the IFC are jointly searching for a manager and ADELA has already found several candidates. It is generally agreed that a foreigner who knows Spanish well must be brought to Ecuador for up to two years, while an Ecuadorean counterpart is being trained. The manager will probably be Swiss, Mexican, or Colombian.

The Financiera must service the entire country and maintain offices in both Quito and Guayaquil with assistant [illegible] both cities who would act as office managers. [illegible] and technical staff would commute between the two cities, which are forty-five minutes apart by air and well serviced by [illegible] flights daily. The [illegible] the Assistant Manager [illegible] acceptance. Because of the commercial and industrial [illegible] of Guayaquil and its location with respect to other [illegible] industrial centers, the committee feels that the [illegible] should be based in Guayaquil rather than Quito.

3. AID Review - Second in importance to the [illegible] of a competent Manager would be AID's ability to conduct its review of sub-projects and provide disbursements quite rapidly and to generally provide flexibility to the project.

The Management and staff of the [illegible] should be better equipped to make financial judgements than are AID personnel. The USAID's review should be limited to a determination as to whether the proposed activity is [illegible] with the requirements imposed by the loan agreement and implementation letter. This review should normally not take longer than one week.

4. Soft Loan Terms - [illegible] interest rate [illegible] loan is proposed because the costs of operating [illegible] development corporation is quite high [illegible] costs for an operation twice the size of [illegible] would be only slightly higher [illegible] of course, double, [illegible] on soft financing would [illegible] financing its future needs [illegible] must receive the [illegible] started. It is [illegible] loans at a [illegible] leverage to make [illegible] but the Project Committee recommends that [illegible] not be made a condition of the loan.

5. Possible Competition with the Public Financiera - The problem of possible competition between this private Financiera and the public financiera has appeared several times in this paper. It is closely related to the problem of whether the demand is sufficient to justify two AID loans. The project committee discussed this problem candidly with representatives of both financieras and is of the opinion that the demand is adequate and that both loans will move.

The public financiera has had a legion of difficulties since the $5 million A.I.D. loan was made. First its own limitations impeded it. It was not allowed to lend direct and had to make funds available through other institutions by means of an awkward bond purchase system. This was changed in 1964 to permit direct lending. It was also originally not organized as a financiera and in December of 1964 the present National Finance Corporation was incorporated. In addition the public financiera has had staffing problems. Trained accountants and analysts were just not available in Ecuador. This made it necessary for the public financiera to use CENDES personnel until it engaged its own staff, which took more than 2 years. This job has only recently been completed and it is beginning to bear fruit. The Project Committee was shown a work schedule by the A.I.D. advisor to the public financiera which provided for staff review of applications totaling about US $10 million. Review and reporting responsibility was delegated to three man teams composed of an engineer, a market analyst, and a financial analyst. The time deadlines appeared reasonable and the last review was scheduled for mid-August, 1965. Experience indicates that about 60 percent of applications at this stage are approved. Of course, not all of these applicants require A.I.D. funds, but the prospects of the public financiera committing the full A.I.D. $5 million by about March 1966 seem excellent.

The IFC has projected a demand for private industrial investment of U.S. $10 million per annum, based upon actual 1964 investment of $ 11 million. Of this $10 million, the IFC expects the public financiera to provide $ 3.5 million, $3 million to be self-financed, and $1.5 million to be furnished by commercial banks and suppliers. This would leave a gap of $2 million per year for the private Financiera.

ADELA estimated a demand of about U.S. $3 million per annum for the Financiera after its breaking in period, although Mr. Steffens' study deals with a somewhat smaller financiera in the first years of operations.

The National Planning Board has projected the need for industrial credit for the next three years and allocated it among the financing institutions. The following chart shows the results of that projection.

ALLOCATION OF INDUSTRIAL CREDIT AMONG FINANCIAL INSTITUTIONS

(in Millions of U.S. Dollars)

Year	Credit Required	Private Financing			Nat. Fin. Corp.	Devl Bank	Credit Extended by
		Private Financiers	Bond Sales	Foreign Credit	(A.I.D. LOAN)	(IDB LOAN)	INVESTMENT FUND
1965	11.4	0.9	0.4	0.5	3.7	1.2	4.7
1966	15.2	3.9	0.3	1.3	1.0	-	8.7
1967	15.6	3.7	0.3	1.8	-	-	9.8
TOTAL	42.2	8.5	1.0	3.6	4.7	1.2	23.2

UNCLASSIFIED

The National Finance Corporation will be a stockholder in the private financiera and also provide a director so that the operations of the two financieras will be closely coordinated. The National Finance Corporation supports the new organization and feels the absorptive capacity of the country is adequate to utilize the resources of both institutions. The National Finance Corporation will invest at least 3 million sucres (about U.S. $162,000) in the Financiera's stock. It expects to spin off its holdings to private Ecuadorians after the Financiera begins operating.

It is expected that a general area of specialization will develop in each financiera but no division of the market is planned or called for because some competition is a positive advantage in that it will aid borrowers in getting prompt and efficient service. The public financiera is more able to take the risks inherent in long term, slow pay out projects, and it is possible that the two financieras may make some consortium loans and investments. On very large projects, such as a pulp and paper mill, EXIM bank and other external participants may be sought. At this point the management of the public financiera look upon the private financiera more as an infant child than as a competitor. They have indicated a willingness to share their experience and assist in solving some of the organizational problems.

CHECK LIST OF STATUTORY CRITERIA (ALLIANCE FOR PROGRESS)

1. Foreign Assistance Act of 1961, as amended (hereinafter FAA), Section 102. The loan will further the policy of the Act, as stated in this Section. Every possible precaution will be taken to assure that loan proceeds are not diverted to short-term emergency purposes (such as budgetary purposes, balance of payments purposes, or military purposes) or any other purpose not essential to the long-range economic development of Ecuador.

2. FAA Section 201(d). Loan funds are not to be loaned or reloaned at rates of interest which are excessive or unreasonable for the Borrower, or higher than the rate set for the Borrower by the Government of Ecuador.

3. FAA Section 202(c), Foreign Aid and Related Agencies Appropriation Act of 1964 (hereinafter "App."), Section 117. Funds have been appropriated by Congress for this loan.

4. FAA Section 204. The terms and conditions of the loan are in accordance with standards and criteria established by the Development Loan Committee.

5. FAA Section 251(a). The loan will promote economic development in Ecuador and will contribute to the welfare of its people.

6. FAA Section 251(b)(1). Account has been taken of the extent to which Ecuador is adhering to the principles of the Act of Bogota and Charter of Punta del Este and is showing a responsiveness to the vital economic, political, and social concerns of its people, and of the extent to which Ecuador has demonstrated a clear determination to take effective self-help measures.

7. FAA Section 251(b)(2). The activity to be financed is economically and technically sound.

8. FAA Section 251(b)(3). The activity is consistent with and is related to other development activities being undertaken or planned and will contribute to realizable long-range objectives.

9. FAA Section 251(b)(4). The loan will have no foreseeable adverse affect on the U.S. economy.

10. FAA Section 251(b). The loan complements financing from other free world sources.

11. FAA Section 251(b). The terms of the loan (interest, year amortization) are reasonable under circumstances affecting the loan and the capacity of Borrower to repay.

12. FAA Section 251(b). Account has been taken of the extent to which Ecuador is making reasonable efforts to encourage repetriation of capital invested in other countries by its own citizens.

13. FAA Section 251(b). There are reasonable prospects that the loan will be repaid.

14. FAA Section 251(e). An application has been received for this loan which gives sufficient information and assurances to indicate reasonably that the funds will be used in an economically and technically sound manner.

15. FAA Section 251(g). In view of the nature of the project, it is not appropriate to utilize the loan to assist in promoting the cooperative movement in Latin America.

16. FAA Section 252(a). The entire proceeds of this loan are going to a private intermediate credit institution.

17. FAA Section 601(a). The loan will increase the flow of international trade, foster private initiative and competition, discourage monopolistic practices, and improve the technical efficiency of trade and commerce. The nature of the loan is such that it will have little direct effect on cooperatives, credit unions, savings and loan associations, and labor unions.

18. FAA Sections 601(b); 621. The loan will be administered in such a manner as to encourage and facilitate participation by private enterprise to the maximum extent practicable. In providing technical assistance, goods and professional and other services, private firms on a contract basis shall be used to the fullest extent practicable.

19. FAA Section 601(d). United States firms shall be used to the maximum extent practicable to provide services financed by the loan for the project.

20. FAA Section 601, 602. The loan will encourage U.S. private trade and investment abroad, will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise), and will permit American small business to participate equitably in the furnishing of goods and services financed by it.

21. FAA Section 604(a). Equipment, materials, and services (except shipping, and marine insurance which shall be procured from the U.S.), financed for the project under the loan shall be procured from the United States or Ecuador. Dollars utilized under the loan to finance procurement in Ecuador shall be made available through appropriate procedures and, shall be used only for procurement in the United States.

22. FAA Section 604(b). Any commodities financed by the loan and purchased in bulk will be purchased at prices no higher than prevailing U.S. market prices.

23. FAA Section 604(d). In the event that Ecuador discriminates against any U.S. marine insurance company, commodities purchased with loan funds shall be insured against marine risk with a U.S. company, as required by this Section.

24. FAA Section 611(a)(1). Necessary Substantive Technical and financial planning for the project has been completed, and a reasonably firm estimate of cost of the project to the United States has been obtained.

25. FAA Section 611(a)(2). No further legislation in Ecuador is required for the implementation of this project.

26. FAA Section 611(b), App. Section 101. The project does not involve water or related land resources construction.

27. FAA Section 611(c). Construction contracts to be financed by the loan shall to the maximum extent practicable be let on a competitive basis.

28. FAA Section 619. Not applicable. Ecuador is not a newly independent country.

29. FAA Section 620(a), App. Sections 109(a), 109(b). No assistance will be furnished under this loan to the present government of Cuba, nor does Ecuador furnish assistance to the present government of Cuba. Ecuador has taken appropriate steps to prevent ships or aircraft under its registry from engaging in any Cuba trade.

30. FAA Section 620(b). The Secretary of State has determined that Ecuador is not controlled by the International Communist Movement.

31. FAA Section 620(c). Ecuador is not known to be indebted to any U.S. citizen for goods or services furnished or ordered, where such a citizen has exhausted available legal remedies or where the debt is not denied or contested by or the indebtedness arises under an unconditional guaranty of payment by Ecuador.

32. FAA Section 620(d). Loan funds will not finance construction or operation of any productive enterprise which will compete with United States enterprise.

33. FAA Section 620(e). Neither the Government of Ecuador nor any governmental agency or subdivision thereof has, on or after January 1, 1962, nationalized, expropriated, or seized ownership or control of property of any U.S. citizen or firm, taken steps to repudiate or nullify existing contracts with such citizens or firms, or imposed or enforced discriminatory taxation or other exactions or restrictive conditions, or taken other actions having the effect of nationalizing, expropriating or otherwise seizing ownership or control of property owned by U.S. citizens or firms, as specified in this Section of the Act, without taking appropriate steps to discharge its obligations, as specified in this Section of the Act.

34. FAA Section 620(f), App. Section 109(a), 109(b). Assistance provided by this loan will not be furnished to any Communist country.

35. FAA Section 620(g). Assistance provided by this loan will not be used to compensate for expropriated or nationalized property.

36. FAA Section 620(h). Assistance provided by this loan will not be used in a manner which promotes or assists foreign aid projects or activities of the Communist bloc countries.

37. FAA Section 620(i). The President has not determined that Ecuador is engaging in or preparing for aggressive military efforts directed against the United States or any country receiving assistance from the United States, or against any country to which sales are made under PL 480, nor is any basis for such determination known to A.I.D.

38. FAA Section 620(k). Aggregate value of assistance to be furnished by the U.S. for this project will not exceed $100 million.

39. FAA Section 620(l). Ecuador has instituted the investment guaranty program.

40. FAA Section 636(h); 612(c). Private investors will contribute local currency in the amount of $1,000,000 to help finance the Borrower. The Borrower's sub-borrowers would make contributions to their sub-projects. The U.S. has no Ecuadorian currencies to contribute to this project.

41. App. Section 102. Obligations of funds in excess of $25,000 for engineering fees to any firms or group of firms financed under the loan will be reported to the committees on appropriations of the Senate and House.

42. App. Section 104. Funds obligated by the loan, and local currency generated thereby, will not be used to pay pensions, annuities, etc., as prohibited in this Section.

43. App. Section 111. U.S. personnel to serve under contracts for services financed by the loan shall have security clearance.

44. App. Section 112. Firms which provide engineering, procurement, and construction services financed by the loan for the project, and the terms of their contracts, shall be approved by A.I.D.

45. App. Section 114. Loan funds will not be used to make any payment to the U.N.

46. App. Section 117. Construction work financed by the loan for projects shall be performed by qualified persons, in accordance with A.I.D. regulations promulgated pursuant to this Section.

47. App. Section 401. Loan funds will not be used for publicity or propaganda purposes within the United States.

June 17, 1965

UNCLASSIFIED
ANNEX II
AID-DLC/P-343
Page 1 of 4

LIST OF PROPOSED STOCKHOLDERS IN ECUADOR AS OF MAY 3, 1965

NAME	AMOUNT	STATUS
QUITO		
CAMARA DE INDUSTRIALES DE PICHINCHA	S/. 500,000.00	subscribed
LA INTERNACIONAL	3,000,000.00	subscribed
BANCO DEL PICHINCHA	2,000,000.00	subscribed
BANCO DE PRESTAMOS	200,000.00	subscribed
BANCO POPULAR DEL ECUADOR	200,000.00	subscribed
FIRST NATIONAL CITY BANK		accepted in principal
BANCO DE LONDRES Y MONTREAL		accepted in principal
LABORATORIOS LIFE	500,000.00	subscribed
CERVECERIA Y MALTERIA LA VICTORIA S.A.	300,000.00	subscribed
PEDRO PINTO GUZMAN	300,000.00	subscribed
ANTONIO GRANDA CENTENO	200,000.00	subscribed
GONZALO CORREA ESCOBAR	100,000.00	subscribed
GERMANICO PINTO DAVILA	300,000.00	subscribed
JAIME PINTO DAVILA	300,000.00	subscribed
RODRIGO PINTO DAVILA		accepted in principal
FRANCISCO PINTO DAVILA	200,000.00	subscribed
GUSTAVO PINTO DAVILA	100,000.00	subscribed
FOSFORERA ECUATORIANA S.A.	200,000.00	subscribed

NAME	AMOUNT	STATUS
DOMOGAS C.A.	200,000.00	subscribed
CHARLES CONROY	200,000.00	subscribed
PASTEURIZADORA QUITO S.A.		in negotiation
LEOPOLDO ARTETA	200,000.00	subscribed
FARMACIAS QUITO	100,000.00	subscribed
Cia. ECUATORIANA DE AVIACION S.A.	100,000.00	subscribed
INDUSTRIA MADERERA ROBALINO	200,000.00	subscribed
ANGLO ECUADORIAN OIL FIELDS		in negotiation
GONZALO PEREZ BUSTAMANTE		in negotiation
HAROLD S. SMITH		in negotiation
MORISAENZ		accepted in principal
CESAR ALVAREZ BARBA		accepted in principal
FEDERICO ARTETA		in negotiation
GUAYAQUIL		
CLEMENTE YEROVI INDABURU	200,000.00	subscribed
NEGOCIOS UNIDOS C.A.	200,000.00	accepted in principal
HARINAS DEL ECUADOR		accepted in principal
BANCO DE GUAYAQUIL		accepted in principal
SERGIO PEREZ		accepted in principal
COMPANIA DE SEGUROS SUD-AMERICA		in negotiation

NAME	AMOUNT	STATUS
COMPANIA ECUATORIANA-SUIZA DE SEGUROS	500,000.00	announced
ERNESTO JOUVIN CISNEROS		accepted in principal
COMPANIA COMERCIAL ANGLO-ECUATORIANA, GUAYAQUIL		accepted in principal
JOSE SALAZAR BARRAGAN		accepted in principal
CUENCA		
ENRIQUE ARIZAGA TORAL	to be determined	
BANCO DEL AZUAY	200,000.00	subscribed
LLANTERA ECUATORIANA	to be determined	
CORNELIO VINTIMILLA	250,000.00	subscribed
LOJA		
IGNACIO BURNEO ARIAS Y UN GRUPO DE EMPRESARIOS DE JOJA		in negotiation
MACHALA		
BANCO DE MACHALA		accepted in principal
ESMERALDAS		
FOLK ANDERSON		to be contacted
LATACUNGA		
MALTERIA NACIONAL C.A.	200,000.00	subscribed

NAME	AMOUNT	STATUS
FUERA DEL ECUADOR		
INTERNATIONAL FINANCE CORPORATION WASHINGTON, D.C.		in negotiation
ADELA INVESTMENT COMPANY LUXEMBOURG, LIMA		in negotiation
OTRAS EN NEGOGIACION		
CORPORACION FINANCIERA NACIONAL QUITO, ECUADOR		accepted in principal

June 17, 1965

EXTRACT FROM THE BY-LAWS OF THE FINANCIERA

Article 4 - Purposes. In order to contribute financially and technically to the economic development of Ecuador especially in industry, the Financiera will engage in those activities authorized by law, namely:

a) To support and encourage the establishment of new private and mixed enterprises, and the modernization and expansion of existing installations.

b) To stimulate the investment of domestic and foreign and private capital in established and new industries.

c) To promote and expand the purchase of industrial [illegible] and to cooperate in the development of a national [illegible] market.

d) To help finance activities related to industry.

e) To carry on any other activities pertinent to the Company's purposes.

In order that the Company may fulfill its objectives, [illegible] authorized to perform the following transactions:

1) To extend credit, and grant medium and long-term loans.

2) To finance imports and [illegible] domestic [illegible] objectives.

3) To finance local sale on credit of [illegible] products.

4) To finance construction for/or connected to [illegible]

5) To provide industries with circulating (working) [illegible]

6) To issue bonds as allowed by law.

7) To join in the formation of new industrial enterprises and to sell its partial or total ownership of them.

8) To mediate in the sale of shares of stock from national enterprises, locally or abroad.

9) To give technical and administrative aid.

10) To borrow money, both in national and foreign currency.

11) To extend its own guaranty.

12) To carry on all transactions pertinent to its purposes.

ECUADOR'S BALANCE OF PAYMENTS
(Millions of Dollars)

	1960	1961	1962	1963
Trade balance	38.5	27.7	37.0	42.3
Net Services	- 56.7	- 54.6	- 47.5	- 43.6
Investment Income	- 22.8	- 23.9	- 19.9	- 17.9
Other	- 33.9	- 30.7	- 27.6	- 25.7
Net goods and services	- 13.2	- 26.9	- 10.5	- 0.8
Transfer Payment Net	7.2	9.1	9.3	8.5
Private	1.4	2.5	2.3	1.6
Public	5.8	6.6	7.0	6.9
Capital movements net*	13.8	4.8	14.8	9.6
Direct Investment	8.0	7.0	3.4	7.0
Other private long term	3.5	3.5	3.6	1.3
Private short term	- 7.7	- 12.0	2.6	2.0
Government	10.0	6.3	5.2	1.1
Errors and omissions net	- 4.5	- 2.3	- 2.0	- 5.4
Surplus ( ) or Deficit (-)	1.7	15.3	- 11.6	- 11.9

* Non-monetary

Source: IMF

VALUE OF IMPORTS BY PRINCIPAL CATEGORIES, ECUADOR
(In thousands of Dollars FOB)

	1957	1958	1959	1960	1961	1962	1963
Food stuffs	9,788	8,631	11,152	9,484	9,283	9,616	10,858
Fuels & Lubricants	6,377	5,260	4,727	2,798	4,188	7,370	5,269
Other Raw Materials	1,939	1,631	1,521	2,433	2,711	1,988	2,706
Fats and Oils	2,925	2,576	3,879	3,529	3,467	4,685	3,905
Chemical Products	11,177	10,870	11,664	13,094	12,208	13,208	13,875
Transportation Machinery Equipment	27,670	29,803	31,760	34,537	35,983	29,686	34,379
Other Manufactured Articles	31,883	28,230	28,960	35,265	31,659	28,693	39,212
All others	125	243	808	1,062	1,137	933	309
TOTAL	91,881	87,244	94,471	102,202	100,784	96,179	110,531

Categories are according to the CUCI classification scheme.
"Foodstuffs" includes beverages and tobacco. "Fuels & Lubricants" includes mineral lubricants only.
"Fats & Oil" includes only those of animal and vegetable origin.
SOURCE: Boletin of the Banco Central del Ecuador, Publicaciones Comerciales.
Figures are official trade statistics and may differ from the adjusted figures used for balance of payments purposes, which include estimates of contraband, etc.

June 17, 1965

FINANCIAL PROJECTIONS
in U.S. Dollars

Income From:	1st Year	2nd Year	3rd Year	4th Year	5th Year	6th Year
Own Capital	120,000	168,000	176,000	177,000	178,000	178,000
A.I.D. Sub-loans	60,000	120,000	200,000	216,000	216,000	201,000
IDB or IBRD Sub-loans	40,000	80,000	160,000	216,000	216,000	194,000
N.Y. Bank loans	55,000	55,000	55,000	55,000	55,000	110,000
Fees	--	--	--	--	2,000	5,000
Total Income	275,000	423,000	591,000	664,000	667,000	688,000
EXPENSES						
Expenses of Operations	150,000	150,000	160,000	160,000	160,000	170,000
A.I.D. Interest	18,750	37,500	62,500	75,000	75,000	70,000
IBRD or IDB Interest	28,750	57,500	115,000	172,500	172,500	155,250
Bank Interest	32,500	32,500	32,500	32,500	32,500	65,000
Total Interest	80,000	127,500	210,000	280,000	280,000	290,250
Organ. Expense	10,000	10,000	10,000	10,000	10,000	--
To Res. for Bad Debts	35,000	25,000	40,000	30,000	20,000	20,000
Corporate Income Taxes	--	33,150	--	--	--	3,000
Total Expenses	275,000	345,650	420,000	480,000	475,000	483,250
Profit	- -	77,350	171,000	184,000	197,000	204,750
Dividends	--	--	200,000	200,000	200,000	200,00
Total Retained Earnings	--	77,350	48,350	32,350	29,350	34,100

EXPENSE OF OPERATIONS

ESTIMATED ANNUAL EXPENSES (in U.S. Dollars)
First Two Years

Payroll Expenses:		
Salaries	$ 53,000	
Social Security	10,600	
Employer paid income tax	5,300	
Bonuses	4,000	
		72,900
Cost of consultant's services		16,670
Fees and other costs of directors and executive committee		10,000
General Expenses (Rent, publicity, etc.)		15,722
Travel and promotional expenses		20,000
Furniture and equipment		10,000
Contingencies		4,708
Total Expenses		$150,000

DISBURSEMENT ASSUMPTIONS OF FINANCIAL PROJECTIONS
(in Thousands of U.S. Dollars)

	AID Loan	IBRD Loan	N.Y. Bank Loans	Equity
First Year -				
Average Amount Rec'd	750	500	500	1,200
Average Amount Invested or Re-loaned	750	500	500	1,091
Second Year -				
Average Cumulative Amount Rec'd	1,500	1,000	500	2,000
Average Amount Invested or Re-loaned	1,500	1,000	500	1,500
Third Year -				
Average Cumulative Amount Received	2,500	2,000	500	2,112
Average Amount Invested or Re-loaned	2,500	2,000	500	1,600
Fourth Year -				
Total Amount Rec'd	3,000	3,000	500	2,148
Average Amount Invested or Re-loaned	2,400	2,400	500	1,609
Fifth Year -				
Total Amount Rec'd	3,000	3,000	500	2,160
Average Amount Invested or Re-loaned	2,400	2,400	500	1,610
Sixth Year -				
Amount Rec'd-Less Repayment of Principal	2,800	2,700	1,000	2,160
Average Amount Invested or Re-loaned	2,240	2,160	1,000	1,610

PROJECTED BALANCE SHEETS
(in thousands of dollars)

	1st Year	2nd Year	3rd Year	4th Year	5th Year	6th Year
Assets						
Liquid Assets	104	607	528	1,743	1,749	1,654
Sub-loans from own funds	1,591	2,000	2,100	2,109	2,110	2,610
Sub-loans from AID funds	750	1,500	3,000	2,400	2,400	2,240
Sub-loans of IBRD funds	500	1,000	2,500	2,400	2,400	2,160
Organization Expenses	40	30	20	10	0	0
Total Assets	2,985	5,137	8,148	8,662	8,659	8,664
Liabilities						
AID Loan	750	1,500	3,000	3,000	3,000	2,800
IBRD Loan	500	1,000	2,500	3,000	3,000	2,700
Bank Loan	500	500	500	500	500	1,000
Reserve for bad debts	35	60	100	130	130	130
Share Capital	1,200	2,000	2,000	2,000	2,000	2,000
Surplus (Deficit)	-	77	48	32	29	34
Total Liabilities	2,985	5,137	8,148	8,662	8,659	8,664

CASH FLOW

	1st Year	2nd Year	3rd Year	4th Year	5th Year	6th Year
Liquid Assets at beginning	0	104	607	528	1,743	1,749
New borrowings	1,750	1,250	3,000	1,500	0	500
Earnings	0	77	171	184	197	205
Reserve for bad debts	35	25	40	30	0	0
Write down of org. exp.	10	10	10	10	10	0
New equity	1,200	800	0	0	0	0
Less:						
New sub-loans (net)	1,841	1,659	3,100	309	1	100
Loan Repayment	0	0	0	0	0	500
Dividends	0	0	200	200	200	200
Organization Expense	50	0	0	0	0	0
Liquid Assets at close	104	607	528	1,743	1,749	1,654

June 17, 1965

PROPOSED STAFF OF THE FINANCIERA WITH THEIR ANNUAL SALARIES (In U.S. Dollars after Income Tax)

Position	Number	Annual Salary
Manager	1	$ 18,000
Sub-Manager	2	$ 10,000 @
Industrial Engineer	1	$ 5,000
Accountant	1	$ 5,000
Bi-lingual Secretary	1	$ 2,000
Secretaries	2	$ 1,000 @
Porters	2	$ 500 @
	10	$ 53,000

June 17, 1965

CONTRACTUAL SERVICE PAYMENTS [a]
(Millions of Dollars)

	1964	1965	1966	1967	1968	1969	1970
Debt Service as of 6/30/64	12.3	9.3	10.1	9.5	9.3	9.7	9.5
New Loans to 12/31/64	-	0.2	0.4	0.7	1.1	1.1	1.1
Total	12.3	9.5	10.5	10.2	10.4	10.8	10.6
Service as percentage of 1963 Goods and services exports (U.S.$ 174.7 million)	7%	5%	6%	6%	6%	6%	6%

a/ External public debt repayable in foreign currencies.

Source: IDB Document No. 2G/65/AF Dated 3/15/65

FOREIGN DEBT SERVICE
(In millions of U.S. Dollars)

DEBT SERVICE

Period	PUBLIC SECTOR Central Govern.	Autonomous Inst.	Total	Private Sector	Grand Total	Exports (2)	%
1950-59 Average			5.4	n/a	5.4	112.3	4.8
1960	4.1	7.2	11.3	0.2	11.5	148.7	7.7
1961	5.7	6.9	12.6	0.4	13.0	132.6	9.9
1962	8.4	6.4	14.8	0.3	15.1	143,6	10.5
1963	7.9	7.9	15.8	0.3	16.1	161.3	10.0
1964 First six months	-	-	7.6	n/a	-	(x)	-

Note: As of June 30/64, Foreign Debt of the Public Sector amounted to US$106,379,782 and interests payable to US$ 117,632

(x) Final figures not available yet (2) Adjusted figures for Balance of Payments

Source: Memoria del Banco Central del Ecuador - 1963, and
Dpto. de Investigaciones Economicas del Banco Central del Ecuador.

June 17, 1965

LIST OF PROSPECTIVE INDUSTRIAL INVESTMENTS IN ECUADOR
(In Sucres)

PROJECT	LOCATION	FIXED ASSET INVESTMENT	WORKING CAPITAL	TOTAL INVESTMENT
Electric piles	Guayaquil	2'304.00	1'946.00	4'250.000
Glass containers	Guayaquil	25'462.629	3'354.237	28'816.866
Tiles of vinilo-asbesto	Quito	4'200.000	650.000	4'850.000
Insecticides	Guayaquil	1'781.540	6'293.900	8'075.440
Sugar mill	Guayas	200'000.000	100'000.000	300'000.000
Pineapple and other fruit preserves	Milagro	12'520.000	16'920.000	29'440.000
Banana preserves	El Oro	6'900.900	13'699.100	20'600.000
Dehydrated garlic and onions	Chimborazo	9'140.000	14'160.000	23'300.000
Rice oil	Guayas	5'700.000	1'485.000	7'185.000
Dehydrated molasses	Imbabura	3'613.000	910.000	4'523.000
Green banana flour	Esmeraldas	146.000	107.000	253.000
Fruit and marmalade cannery	Tungurahua	75.000	310.000	385.000
Balanced food	Carchi	271.000	716.000	987.000

PROJECT	LOCATION	FIXED ASSET INVESTMENT	WORKING CAPITAL	TOTAL INVESTMENT
Dehydrated banana	Pichincha	750.600	242.500	993.100
Banana chips	Guayas	842.500	190.960	1'033.460
Peanut butter	Loja	500.000	780.000	1'280.000
Stuffed meats	Azuay	1'092.200	312.400	1'404.600
Slaughterhouse	Napo	2'067.000	537.000	2'604.000
Tomato sauce and batter	Imbabura	1'955.000	2'000.000	3'955.000
Yuca starch	Pichincha	2'907.000	1'139.900	4'046.900
Baking powder	Guayas	11'783.000	2'052.000	13'835.000

Quito, February 1965

$ US 1.00 = 18.5 Sucres

Source:CENDES

INDUSTRIAL PROJECTS IN WHICH THE PRIVATE FINANCE CORPORATION MAY PARTICIPATE 1/

Short Term

1. - Glass containers
2. - Slaughterhouse
3. - Rice oil
4. - Pineapple and tomato preserves
5. - Dehydrated garlic and onions

Medium Term

1. - Maternized milk
2. - Orange juice (natural and concentrated)
3. - Cigarettes
4. - Bricks for construction
5. - Textiles plants
6. - Ceramic kitchen-ware and tiles
7. - Milk regenerators (Guayaquil and Manabí)
8. - Electrical equipment for construction

1/ Projects with comprehensive feasibility studies

Source: National Planning Board

<u>Long Term</u>

1. - Kraft paper
2. - Cement-asbesto pipelines
3. - Simple industrial and agricultural machinery
4. - Ship building and reparation
5. - Antibiotics
6. - Molasses industrialization
7. - Quito industrial park
8. - Guayaquil industrial park

CAPITAL ASSISTANCE LOAN AUTHORIZATION
Provided from: Alliance for Progress Funds
ECUADOR - LA ECUATORIANA DE DESAROLLO (COMPANIA FINANCIERA)

Pursuant to the authority vested in the Deputy U.S. Coordinator, Alliance for Progress by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan pursuant to Part I, Chapter 2, Title VI, Alliance for Progress, to La Ecuatoriana de Desarollo (Compania Financiera) (Borrower) of not to exceed three million United States dollars ($3,000,000) to assist in financing a private development bank to make loans and limited equity investments in sub-projects promoting the creation, expansion and more effective operation of private industrial enterprise in Ecuador. With the prior written approval of USAID Mission in/Ecuador up to one hundred thousand dollars ($100,000) of the proceeds of the A.I.D. loan may be made available to finance technical assistance and/or participant training to the Borrower. This loan will be subject to the following terms and conditions:

1. Interest and Terms of Repayment:

(a) The interest on this loan shall be two and one-half percent ($2\frac{1}{2}$%) per annum on the disbursed balance of the loan. The loan shall be repaid in United States dollars within twenty (20) years from the date of the first disbursement under the loan, including a grace period of not to exceed five (5) years.

(b) If prior to the date when the first interest payment is due under the loan the Government of Ecuador (Government) so elects, the Borrower shall fulfill its United States dollar obligations under the loan by paying to the Government the equivalent, determined as of the dates of payment to the Government, of the United States dollar amounts payable to A.I.D. under (a) above, and, in such event, the Government shall pay to A.I.D.:

(i) Immediately upon receipt all interest paid by the Borrower to the Government, except that the Government shall pay no more than two-fifths (2/5) of interest accrued during the Government grace period provided for below.

(ii) The equivalent in United States dollars of all amounts, except interest, paid to the Government as follows:

(a) Interest in U.S. dollars of two and one-half percent (2½%) per annum on all amounts of outstanding principal paid by Borrower to Government from the respective dates of such payments of principal, except with respect to any payments of principal received by Government during the grace period, interest shall be paid in United States dollars at the rate of one percent (1%) per annum during said grace period.

(b) Principal within forty (40) years including a grace period of not to exceed ten (10) years from the date of the first disbursement under the loan.

2. Other Terms and Conditions:

(a) Unless A.I.D. shall otherwise agree in writing prior to such action, Borrower shall not (i) finance sub-projects in whole or in part from disbursements hereunder if such financing would cause its total assistance to any single enterprise to exceed one hundred fifty thousand dollars ($150,000) equivalent; (ii) make subloans with A.I.D. funds of less than two (2) years or more than fifteen (15) years maturity; (iii) make any equity investments or subloans to sub-projects in which members of Borrower's staff, management, or a Board of Directors or members of their families have any financial interest; (iv) incur indebtedness which would cause the total indebtedness of the Borrower to exceed ten million dollars ($10,000,000) equivalent; (v) declare or pay any cash dividends on, or make any distribution on account of, any shares of stock of Borrower whether now or hereafter outstanding exceeding twelve percent (12%) annually of paid in capital during the life of the loan unless any distribution in excess of twelve percent is matched by an equal prepayment of this loan in inverse order of maturity of principal payments.

(b) Disbursements under the A.I.D. loan for project goods and services may be for procurement in an amount up to seven hundred fifty thousand dollars ($750,000) equivalent in Ecuador. The balance of disbursements under the loan shall be for procurement from the United States. United States dollars utilized to finance local costs shall be made available through appropriate procedures and shall be used only for procurement in the United States.

(c) Unless A.I.D. shall otherwise agree in writing, A.I.D. funds will not be used to finance projects which result in the increased production for export of food or feeds which are in U.S. or world surplus, nor will these funds be used in projects resulting in increased production of nonfood or feed agricultural products which are in world or U.S. surplus. A.I.D. funds shall not be used to make textile loans of more than US $150,000 unless A.I.D. shall otherwise agree in writing.

(d) ADELA and/or the IFC or other institutional investors satisfactory to A.I.D. shall have invested at least the sucre equivalent of U.S. $250,000 in the securities of the Financiera.

The loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

Deputy U.S. Coordinator

Date