INVESTMENT OPPORTUNITY PROPOSAL

FINANCIERA IBERO-AMERICANA S.A. - FINIBER

AND

FINANCIERA DE GUAYAQUIL S.A. - FINGUASA

ECUADOR

US$ 2,800,000 Loan/Guarantee Facility

Office of Investment
Bureau for Private Enterprise
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CHAPTER I

PROJECT DESCRIPTION

A. Summary

The PRE intervention proposed below has significant ongoing policy dialogue implications. Its design is predicated on two fundamental assumptions which will be more fully explored in the Investment Proposal (IP): that small agro-industrial businesses located in rural areas of Ecuador, with less than $300,000 equivalent in fixed assets, excluding land and buildings, neither (1) have access presently to foreign exchange with which to finance needed production inputs on a short term basis; nor (2) will they have access over the foreseeable future to long-term credit denominated in local currency to finance startup or expansion activities.

The assumptions above are based on two macroeconomic realities which characterize Ecuador today. First, Ecuador is not perceived by the international banking community to be creditworthy. Thus, its access to hard currency credit has been cut off. What scarce foreign exchange is available will continue to be rationed through (a) the official markets to meet mostly public sector priorities, including the servicing by that sector of its external debt; and/or (b) through the parallel market to service the priorities of the larger, more creditworthy private sector firms. Second, the maintenance of unrealistic domestic interest rates--both for savers and borrowers--has continued negative implications for domestic capital formation. What domestic credit is available will be rationed to the most creditworthy residents of the country to the virtual exclusion of small businesses.

The unfortunate aspect to the above assessment is that small business frequently are more efficient employers per unit of capitalization than larger firms; and when located in rural areas, provide virtually the only check to the unfortunate pattern, evident in Ecuador and elsewhere in the developing world, of migration from rural to commercial centers by people in search of jobs.

With mission participation, PRE has been in touch with members of a technical commission which is advising the newly elected President and his appointed transition team on changes in public sector policy needed to enhance private sector development over the near term future. A unique window exists for PRE and USAID Ecuador to conduct a policy dialogue which ultimately may lead to a liberalization of interest rates.

The basic elements of the PRE proposed project are that a $2MM facility be established offshore which will be suballocated to two Ecuadorian financial institutions (the "Participating Financial Institutions") -- $1MM to each -- to enable them to open letters of credit in favor of suppliers of production inputs that are being imported by small businesses. The $2MM in offshore funds would be held in a custodian account ("Escrow Account") managed by a U.S. Bank (the "Bank") which in turn would collateralize payment confirmations issued by the Bank to the suppliers of inputs. As a practical matter, only Citibank and Bank of America would provide the project with necessary (1) custodian account management services; (2) physical presence in Ecuador and other countries to make this element of the scheme workable. The Escrow Account would collateralize one-half or 50% of the risk associated with the payment confirmation. We anticipate that the U.S. Bank may not approve the risk of either one of the two participating financial institutions for half (50%) of the credit extension. If this proves true, PRE will negotiate on the basis of the Escrow Account assuming a 50% first loss position. Note that in such case the risks to the U.S. Bank are mitigated somewhat

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given the existence of a parallel market that insures dollars will be available to liquidate the letter of credit at maturity. The main problem would appear to be the exchange rate and the ability of the small business to deliver the sucre equivalent when called upon to do so. In any case, this aspect needs to be fleshed out more fully at the time of the IP.

The inability of either of the two participating financial instituiton to deliver foreign exchange would trigger an event of default; PRE would have to disburse dollars to the U.S. Bank; and such disbursement would be regarded by PRE as a loan payable in dollars by the financial institution on terms and conditions yet to be determined.

The proposed PRE facility would operate in the above fashion for a period not to exceed 2 years.

As a condition precedent, the new Administration would pledge to prepare a bill for consideration within 2 years by the oppositon controlled Ecuadorian Congress to approve (1) the ability of the two (and other such) financial institutions to issue tax exempt bonds, an activity reserved presently for the public sector which gathers sucre resources for up to 5-year maturities at current rates of around 16% p.a.; and (2) a pilot program enabling the two (and other such) financial institutions to lend money to small businesses, as defined previously, at rates which are at least 500 basis points in excess of interest rate ceilings in effect throughout the life of the program.

If Ecuador's Congress approves such a Bill, PRE will convert its Escrow Account into a capital market support facility by providing bond holders with a 50% guarantee on all paper outstanding during the life of the program. Terms and conditions have yet to be negotiated.

If the Bill is not submitted or disapproved, PRE's facility will be returned to the Revolving Fund 2 years from disbursement date.

The two financial institutions are Financiera Ibero-Americana S.A. and Financiera de Guayaquil. They (the "Borrowers") will match with their own funds the financing provided under the guarantee of the Escrow Account. In the case of payment confirmation operations, (which will not exceed 180 days on average so as to assure at least a double annual turn-over of the facility), the Borrowers may comply with the matching requirement by using the Escrow Account guarantee only to the extent of 50% of the total value of each underlying transaction. Once the new legislation is in place, it is expected that the Borrowers will use the Escrow Account exclusively to back local currency Development Bonds, along side which they will issue Development Bonds, in compliance with their matching requirement, without the backing of the Escrow Account.

The Escrow Account's capital, i.e. $2MM, will be reduced annually, in equal amounts, between the end of the third and the end of the seventh year from closing. Income from the securities in the Escrow Account will likewise revert to the PRE Revolving Fund as earned.

Aside from the income on the Escrow Account securities, PRE will receive a one-time facility fee on one-half of 1% (1/2%), or $10,000, at closing, and an utilization fee of one and one-quarter percent per annum (1-1/4%) payable quarterly in arrears, both fees due in dollars.

CHAPTER II

RELATIONSHIP ~~AS~~ of THE PROPOSED PRE FACILITY TO DEVELOPMENT NEEDS, USAID STRATEGY, AND PROGRAMMING EMPHASIS

A. Development Needs

1. The major development needs of Ecuador over the CDSS (1984-86) period will be output increases in agriculture (food, exports, raw materials) and industry (at all scale levels), increased exports in all major categories (petroleum, agricultural commodities, and manufactures), and a more equitable distribution of development benefits. Meeting these needs will require structural adjustments and presupposes the success of the GOE stabilization program initiated in 1983.

The import substitution strategy combined with the short-lived oil boom of the mid-1970s left Ecuador with an economy in which public sector interventions in private markets ~~ae~~ are many, and where competitiveness and productivity are low. Structural adjustment to enable improved distribution will require a reduction in factor market interventions which create a capital bias (thus reducing employment) and institutional improvements to increase the efficiency and effectiveness of the GOE's revenue and basic service capacities. The major constraints to meeting these development needs (output, exports, distribution) over the CDSS period are:

-- Policy. The principal policy constraints are those related to exchange rates and prices; trade (quantitative restrictions, tariffs and foreign exchange allocations); subsidies (e.g., fuel prices are now at less than 50% of international prices); negative real interest rates; and legal and administrative requirements for productive, particularly export oriented, firms.

-- Institutional. Ecuadorean organization - both public and private - lack the capacity to conceive and implement the policies and programs which support socioeconomic development goals; to coordinate development activities; and to mobilize effectively domestic resources. Human resource deficiencies at management and technical levels are a principal cause of weak organizations. Finally, deeply rooted socioeconomic structures and attitudes limit the opportunities for women and minorities to participate in and share the benefits of development.

-- Technology. In manufacturing, undervalued capital and import replacement marketing strategies have led to excessive capital utilization and high import intensities in production units not in line with relative factor proportions. Conversely, in agriculture and related fields technology levels are generally very low. The technology within the most dynamic private sector area (shrimp) has been based on extending production over wide areas and is incompatible in the long run with public and private sectors to access and develop technology, including technologies related to improved management.

Many of the major policy constraints are the subject of discussion betwwen the GOE and the major donors, and during 1983 many key policies began to be addressed, for instance under the IMF Agreement. However, the medium-term expectation is that the economy will continue to operate with markets restricted by significant public policy interventions. Sectoral level constraints - policy, institutional, and technology - as yet largely unaddressed, appear to present the major obstacles and the major opportunities for USAID efforts for achieving structural adjustment over the CDSS period.

B. USAID Strategy

Overall Objectives. USAID's program stategy in Ecuador over the CDSS period will support the process of structural adjustment. While stressing production and productivity gains through increased and better focused private sector activities, USAID's strategy will include efforts to improve the distribution of opportunities and social sector activities to maximize the development impact of economic growth. Given the relative size of the Mission's program, compared to other donors and as compared to the scope of Ecuador's development constraints, USAID's efforts will be targeted on key sectors in which the Mission has a clear comparative advantage. Within these sectors, activities will be focused on resolving selected policy, institutional, and technological constraints and promoting private sector participation.

The basic development goals of A.I.D. in the LAC region are to achieve per capita growth rates of 2.5%, to increase employment and productivity, and to raise the levels of basic social indicators for men and women. USAID's program emphasis on increasing the output and competitiveness of the economy's productive sectors while simultaneously increasing the efficiency and effectiveness of the basic social services will contribute directly to meeting the LAC regional goals. Key indicators of satisfactory progress in Ecuador (and the comparative LAC regional goals) would be: (1) productivity increases of at least 2.5% per year (identical); (2) an annual increase in agricultural sector output of 5% (regional target is 3.3%); (3) a growth of urban employment of 3.5% per year (identical); (4) a reduction in population growth to 2.4% (regional target is 1.9%, Ecuador's current rate is 2.9%); and (5) a reduction in mortality for infants and children by 15% (identical).

USAID's strategy will:

-- Stimulate the private productive sector and assist it to expand and diversify into more competitive activities, thereby strengthening Ecuador's base for long-term growth.

-- Improve the efficiency and cost effectiveness of development programs directed at the poor, and simultaneously increase the mobilization of domestic resources.

-- Help mitigate the damage to the productive base and to social infrastructure caused by the 1983 flooding.

C. Program Composition and Emphasis

To best address the continuing needs for structural adjustment during the CDSS period, USAID's program will emphasize programs in the productive sectors. Major attention will be directed at agriculture, including natural resource utilization, and selected private sector initiatives. Energy will also be included because of its underlying importance to the required structural adjustments; but only a small portion of USAID program resources will be allocated to energy.

Agriculture is of primordial importance because of its large employment function and the potential for growth in production of food, agroindustry inputs, and export commodities. Activities are planned early in the CDSS period to address the GOE's and the private sector's policy analysis and formulation constraints. Activities to stimulate private sector investment in agro-industries are also planned for implementation during the first half of the CDSS period. At the same time, USAID will improve and strengthen private sector agricultural service delivery structures, initially through pilot efforts. These activities are expected to help generate follow-on efforts of larger scale impact during the second half of the CDSS period. Also during the last half of the CDSS time frame, USAID expects to be involved in strengthening the agricultural education system in order to address underlying human resource constraints.

Utilization of Ecuador's productive natural resources, e.g., forestry and shrimp, represents important potential for employment and foreign exchange. Without improved management capability, Ecuador risks losing the full advantage of these resources. USAID's existing Forestry Sector Development project will help address some of these issues; successful project implementation during the first half of the CDSS period will likely lead to a major follow-on effort to promote private sector forestation and wood products manufacture in the last part of the decade. Beginning in FY 84, USAID will jointly fund an S&T-applied research effort on coastal management resources. The project's major focus will be Ecuador's burgeoning private sector shrimp industry. These initial efforts could lead to a subsequent bilateral project designed to improve the technology and management of this resource, an important earner of foreign exchange.

The three productive sectors chosen for A.I.D. private enterprise interventions are agro-industry, nontraditional exports, and small-scale enterprise. Agro-industry accounts for many of those nontraditional exports for which Ecuador exhibits a comparative advantage, are of special interest

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because of the potential for domestic value added and for structural linkages with other sectors of the economy. Small-scale enterprise interventions offer the possible additional benefit of widening the distributive base of the market economy while, at the same time, achieving goals of employment (the cost of creating a job in small-scale industry is less than 20% of the cost in larger scale industry) and capital formation, especially among women heads of households. In addition, USAID will support human resource development activities to address management, skills, and behavioral constraints which cut across all three productive areas. Human resources for the private sector have been identified in Ecuador as a limiting factor to increases in output and productivity and success in this area would increase the potential for long-term impact.

CHAPTER III

THE ECONOMY

A. Background

The Ecuadorean economy, after a decade of sustained growth and transformation, began facing a serious downturn in the first half of 1982. Per capita GDP, which expanded at an annual rate of over 5% between 1970 and 1980, fell to under 1% in 1981 and a -2.1% in 1982. During the last 6 years, the country's net public and private foreign debts due to the international banking system increased eightfold and sixfold, respectively. At the same time export earnings fell, resulting by 1982 in the country being unable to meet its debt service obligations.

Since the arrears in payments that began later in 1982, it has been virtually impossible for most Ecuadorean importers to receive credit from abroad. This has resulted in reductions of imported capital goods and/or production inputs with the result that utilization of existing plant and, thereby, employment have fallen off.

To combat the underlying causes of the crisis the government instituted a stabilization program in March of 1983, consisting of the refinancing of the public and private debts and the introduction of fiscal, monetary and exchange policy reforms through the establishment of an IMF stand-by agreement signed in July 1983.

An integral part of the stabilization program is the need to arrest the deterioration of the productive sector which is having an increasingly adverse effect on the production of nontraditional goods.

Alongside the rapid deterioration in the foreign accounts, a perhaps more serious situation has developed as a result of the inability of private financial institutions to mobilize credit. In this area, public financial institutions appear to have a decided advantage over private ones, first, because of their ability of issue tax exempt bonds; and second, as a result of their ability to tap through the Central Bank counterpart funding of dollar loans provided through A.I.D. and other donors.

As late as the early 1970s, Ecuador was one of the poorest countries in the Western Hemisphere. It had a large population living in conditions of extreme poverty, a highly concentrated income distribution pattern with the agricultural sector accounting for 24% of GDP and occupying 55% of the active population, dependent on the export of three products: bananas, coffee and cocoa.

Once the pipeline was constructed which connects the petroleum reserves in the Amazonian region with the Coast, and exports of that petroleum were initiated in August 1972, the country experienced temporary foreign exchange abundance (particularly after 1974 and the rapid rise of oil prices) abundance. However, the resulting prosperity encouraged the nationalization of petroleum production; followed by an intensified industrialization effort with increased state intervention in both the production and marketing of goods; large social and economic infrastructure investments; and substantial increases in energy and food price subsidies.

During the decade 1970-80, the economy grew at an average annual rate of 8.9% with moderate inflation rates, significant productivity improvements and declines in unemployment and underemployment rates.

By 1980, the overall demand and supply structure of the economy had been transformed. The economy was participating more heavily in world markets, with foreign trade having grown from 32.6% of GDP to 50.8%, imports rising from 18.6% to 25.4% and exports from 14% to 25.2%. Investment as a percentage of GDP led by the GOE and its various parastatals had risen from a relatively modest 18.2% in 1970 to 26.1% by 1980. Furthermore, important changes had been introduced in the structure of the economy. Agriculture had reduced its participation in the GDP from 24% to 12.1% (although nearly half -- 48% -- of the active population still gained its livelihood therefrom.)

On the other hand, petroleum, which represented slightly over one-half of 1% of GDP in 1971 rose to 12% in 1980. Manufacturing, as percentage of GDP, despite the industrialization effort during the decade, fell from 20.2% in 1971 to 17.7% in 1980 due largely to the increased importance of the petroleum sector.

Heavy public expenditures during the 1970s led to marked improvements in the standard of living for the vast majority of the Ecuadorean people. Both employment and income distribution improved during the decade.

Per contra, the government's role in the economy grew progressively larger, resulting in government outlays significantly outstripping income, leading to even wider gaps between savings and national investment and growing international payments shortfalls, so that increased foreign borrowings reached critical levels by 1981.

During 1980-81, the growth in Ecuador's GDP fell to annual rates of 4.9% and 4.5%, respectively, following a period of annual average growth rates of over 6% in the preceeding 6 years. These declines were largely due to reductions in petroleum production and declining petroleum prices. Public investment expenditures increased and the fiscal deficit as a percentage of GDP rose to 7.2% in 1981.

Despite an increase in exports in 1980, and resulting positive trade balances, a services deficit, largely attributable to rising interest costs on foreign debt, led to an overall deficit on current account equivalent to 5% of GDP. Continued easy access to international credit, however, permitted a net accumulation of new debt on the capital accounts of over $1 billion which permitted net international reserves to increase to a high of over $900 million.

During 1981, the fiscal deficits continued despite increasing government revenues and exportable surpluses of petroleum products. A series of events, including the border conflict with Peru; the death of the first civilian President following protracted military rule; expectations of a large public deficit; leveling off of export earnings; and increasingly negative internal interest rates, contributed to speculation in exchange rates and capital flight. In spite of the net accumulation of another $1 billion in foreign debt during the year, net international reserves dropped by $340 million. The parallel exchange market, that began the year with a 12% premium over the official rate, ended the year 33% above the same rate.

During 1982, GDP grew by only 1.4%, leading to the first negative per capita growth rate in over a decade, fostered by continuing weakness in petroleum production and prices. Floods at the end of the year lowered growth of the agricultural sector, and the effects of these events exacerbated the emerging crisis. Earlier in 1982, the government had initiated a number of measures to reduce the foreign imbalance, restricting imports and strengthening exports, in addition to devaluing the Sucre from 25 to the dollar to 33. Despite the devaluation, lowered expectations of export earnings and the large fiscal deficit continued to encourage speculation as the parallel market premium rose from 60% to 100% over the new official rate.

International borrowing became more difficult as the possibility of a Mexican default (later realized) also restricted Ecuador's access to external credit. Term borrowing from foreign banks fell from 1981's $387 million to $99 million; new suppliers credits to the government declined from $185 million in 1981 to only $6 million in 1982. At the same time, lower petroleum exports led to a $400 million reduction in export earnings during the year. This reduction, added to debt servicing, made it impossible for Ecuador to meet its obligations during the year and led to refinancing during late 1982 and 1983 of much of the outstanding foreign public and private debt. Net international reserves declined by $353 million to an end-of-year total of $210 million, equivalent to slightly more the 1-month imports.

By the end of 1982 an Ecuadorean importer could not obtain export credit abroad save for limited bilateral credit agreements. Two-thirds of 1982 government capital requirements were financed by net borrowing equivalent to $840 million. Three quarters of this was financed externally. Foreign debt payments due after November were suspended and submitted for renegotiation with the rest of foreign public debt.

In 1983, GDP registered a decline of 1%, leading to an estimated negative growth rate of 4.4% in per capita GDP for the year. Continued flooding in the costal area lowered agriculture output by 24% below 1982 levels. Net international reserves declined another $100 million during the year as the international lending sources deteriorated despite dramatic improvements in the current account fueled by $800 million trade surplus.

MAIN INDICATORS (1970-1983)

	1970-80	1980	1981	1982	1983
GDP per capita real growth	5.2	1.4	1.0	(-2.0)	(-4.4)
Inflation (CPI)	12.6	12.8	14.7	16.3	48.4
National savings as % of GDP	19.9	21.2	18.9	16.5	14.8
Gross Investment as % of GDP	25.3	26.1	21.6	20.2	16.4
Savings/Investment gap (as % of GDP)	(5.4)	(4.9)	(5.7)	(3.7)	(1.6)
Public sector deficit as % of GDP	(3.5)	(6.2)	(7.2)	(6.5)	(0.3)
Public external debt as % of GDP	18.2	30.3	31.8	40.6	47
Net monetary reserves (US $ millions)	382	906	563	210	110

By early 1983, the country was on the verge of economic paralysis. The measures taken to reduce the fiscal deficit had failed, foreign exchange reserves declined in the previous year in the face of rising debt obligations, petroleum prices were failing and arrears on current international payments led to a cutoff of international credit. In March, the government put into effect a new stabilization program for 1983 and 1984, taking a series of actions which were integrated into the IMF stand-by agreement signed in July 1983 for the equivalent of $171 million to refinance the foreign debt.

Central to the program and the IMF agreement was the following measure:

The Sucre was devalued again, in March 1983, to 42 to the dollar, and a crawling peg exchange rate was instituted with devaluations of .04 and then .05 sucres/calendar day. The intent was for the exchange rate to maintain parity with that of Ecuador's trading partners and to gradually merge the official and parallel markets through adjustments in the crawling peg rate.

The devaluation was accompanied by the establishment of an official parallel market that mirrors movements in the free market. This exchange rate is used for the importation of items considered less essential and for determining the rate of exchange for nontraditional exports.

It is noteworthy that the "official parallel" rate has indeed remained quite close to the "free" rate so that they can readily be considered as one. This augurs well for the ultimate success in effectively merging the official and parallel markets. In fact, the premium of the parallel over official rates at the end of 1983 was 64% (90 vs. 55), a significant improvement over the 100% premium at year-end 1982.

official windows including those replenished by international credit institutions and donor agencies.

In Ecuador, the local fixed-rate securities market is available almost exclusively to GOE agencies for all practical purposes, inasmuch as their instruments are the only ones issued on a tax-free basis. One of the main purposes of this facility is to force a policy dialogue with the new GOE to allow private financieras to issue their own Development Bonds on similar tax-free basis.

A. Financiera Ibero-Americana S.A.--" FINIBER"

As of December 31, 1983, FINIBER had total assets of $48.5 million, stockholders equity of $3.8 million, converted from Sucres at the rounded-off parallel rate of 90 Sucres per one dollar (actually, the parallel rate has settled at 88 Sucres to one dollar as of this writing).

FINIBER is wholly owned by private institutions and investors, including one commercial bank, Banco Popular. It is quite customary that the "non-bank" finance and development institutions have links to one commercial bank in the area, so as to complement each other's financial services to their traditional clientele.

Out of the 10 leading private financieras in Ecuador, FINIBER Occupies the sixth place in both total assets and stockholders equity. It is considered to be well managed by a highly professional staff headed by Raul Daza Martinez, whose experience ranges from World Bank Task Force working within the Central Bank of Ecuador to chief operational officer of another large finance company FINANSA prior to his position of Executive Vice President at FINIBER. The Chairman of FINIBER is Ricardo Crespo, prominent lawyer, businessman and former Ambassador to the U.S. The external auditors of FINIBER are Price Waterhouse.

B. Financiera de Guayaquil S.A.--"FINGUASA"

With total assets of $56 million, and stockholders equity of $5.8 million at exchange rates prevailing as of December 31, 1983, Financiera de Guayaquil (FINGUASA) ranks second in equity and fourth in total assets amongst the 10 leading private financieras in Ecuador.

FINGUASA is by far the most important finance company in the Guayaquil area. The province of Guayas, which includes Guayaquil, has been traditionally more important economically than the high plateau of Ecuador in which the capital of Quito is located. It is true, however, that this relationship in GDP shares of the two areas has been changing slowly but steadily in favor of the "high country" or the "Sierra," although the coastal region centered around Guayaquil remains ahead.

Despite its heavy identification with the Banco de Guayaquil group, FINGUASA has been traditionally developing its own customer base. It is well managed, the staff headed by Miquel Babra Lyon, well known and respected in international banking circles. FINGUASA is also audited by Price Waterhouse.

C. General

FINIBER and FINGUASA were chosen as participants in this facility as the result of the following:

1. In early April, the Mission requested assistance in restructuring its Agroindustrial Fund program for implementation through the parastatal financiera, Corporacion Financiera Nacional.

2. In order to sound out the private financial sector, there were consulted two prominent bankers, one each from Guayaquil and Quito, who also served as the first and second Finance Minister in the first elected

Administration following the military era. Neither of the two has any formal direct or indirect interest or connection with either of the participants, other than a small personal shareholding in FINIBER by the Quayaquil banker.

3. It was found that both participants are well managed, headed by professionals well known and respected internationally. Also, both are quite active in and knowledgeable of the agribusiness sector.

4. The Mission also found the managers of the two quite helpful in its Agroindustrial Fund project, so that this facility which is really quite complementary to the Mission's program, will fit very well into the same, particularly with respect to the policy dialogue that is needed to secure the GOE cooperation in the legislative area.

See Attachments A and B which outline the Price Waterhouse financials as of December 31 for both institutions. As Attachment C, we are showing comparative ratios for all 10 Ecuadorean private financieras as of December 7, 1983 which will be used as a basis for assessing the creditworthiness of FINIBER and FINGUASA.

CHAPTER V

NEXT STEPS

- Invite Ecuadoreans to Washington the week of July 16 to negotiate loan terms and conditions.

- Get some baseline date to determine the extent to which small enterprises in Ecuador access (a) foreign exchange; and (b) long-term credit. (Some of this information is available in an IDB study on the subject as well as in the USAID/Ecuador Agro-Industrial Fund PID.).

- Analyze FINIBFR and FINGUASA to determine whether these institutions are creditworthy for the proposed PRE facility.

- Determine at the IOP the policy issues that need resolution and incorporation into the IP.

- Set aside monies for a formal evaluation of the project 2 years from loan signing, and then again at the 5-year mark. Determine basis upon which project should be evaluated.

Ecuador

Comparative Balance Sheets
Of Finance Companies as of 12/7/83

(millions of Sucres - $1=90 Sucres)

Assets	FINIBER (1)	%	COFIEC	%	FINANSA	%	FIRESA	%	AMERAFIN	%	FINANDES	%	FIN.GQUIL (2)	%	FINANSUR	%	FINEC	%	ECUFINSA	%
Cash & Equiv.	173.9	4.0	150.7	1.1	203.4	2.7	22.3	2.7	66.0	5.6	122.4	7.1	147.9	2.4	73.4	1.1	69.4	3.0	197.2	3.4
Loans	2.444.0	56.2	4.677.8	34.6	1.752.4	23.3	68.8	8.2	184.8	15.7	157.6	9.2	625.2	10.2	552.9	8.2	1.604.0	69.4	1.502.1	25.9
Equity Investments	13.7	0.3	146.9	1.0	64.6	0.9	0.5	---	---	---	0.2	---	23.6	0.4	1.0	---	75.2	3.3	10.5	0.2
Reserve/equity Investments	0.4	---	(10.0	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Investments in Securities	---	---	0.4	---	---	---	0.5	---	---	---	---	---	2.1	---	---	---	---	---	---	---
Receivables under acceptances	101.2	2.3	236.4	1.8	140.2	1.9	34.8	4.2	49.3	4.2	47.6	2.8	177.8	2.9	116.5	1.7	4.0	0.2	113.1	2.0
Receivables under letters of credit	155.4	3.6	902.2	6.7	369.1	4.9	---	---	6.6	0.6	19.6	1.1	602.7	9.8	283.1	4.2	---	---	579.2	10.0
Loans Overdue	286.2	6.6	836.6	6.2	426.0	5.7	19.2	2.3	125.3	10.6	266.5	15.6	478.7	7.8	260.0	3.9	42.4	1.8	328.9	5.7
Loan/loss Reserve	(30.7)	(0.7)	(140.7)	(1.0)	(63.0)	(0.8)	(1.0)	(0.1)	(13.0)	(1.1)	(48.0)	(2.8)	(65.0)	(1.0)	---	---	(18.3)	(0.8)	(27.1)	(0.5)
Loans overdue refinanced	---	---	---	---	731.1	9.7	---	---	---	---	252.2	14.7	---	---	---	---	---	---	---	---
Loans rediscounted w/ recourse	494.7	11.4	1.137.8	8.4	1.111.5	14.8	294.0	35.0	244.4	20.7	260.8	15.2	1490.2	24.2	2973.5	44.0	121.1	5.2	960.3	16.5
Other assets	128.0	3.0	1.313.5	9.7	609.8	8.1	61.2	7.3	66.0	5.6	118.1	6.9	500.8	8.1	252.3	3.7	63.6	2.8	475.5	8.2
Furniture, equipment, etc.	35.9	0.8	79.0	0.6	23.7	0.3	5.9	0.7	4.7	0.4	6.1	0.4	14.6	0.2	18.0	0.3	2.7	0.1	14.0	0.2
Real Estate	56.0	1.3	124.5	0.9	5.8	---	20.4	2.4	18.6	1.6	15.9	1.0	51.4	0.8	---	---	---	---	27.2	0.4
Deferred Expenses	59.5	1.3	127.2	0.9	59.2	0.8	21.4	3.0	12.2	1.0	6.7	0.4	290.1	4.7	29.6	0.4	38.3	1.7	43.3	0.8
Branch Offices	---	---	16.1	0.1	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Total Assets	3.918.2	90.1	9.598.4	71.0	5.433.8	72.3	548.0	65.3	764.9	64.9	1225.7	71.6	4340.1	70.5	4560.3	67.5	2.002.2	86.7	4.224.2	72.8
Counter Accounts	428.0	9.9	3.911.5	29.0	2.082.4	27.7	291.1	34.7	413.1	35.1	486.0	28.4	1811.6	29.5	2198.1	32.5	307.7	13.3	1.575.6	27.2
Grand Total	4.346.2	100.0	13.509.9	100.0	7.516.2	100.0	839.1	100.0	1178.0	100.0	1711.7	100.0	6151.7	100.0	6758.4	100.0	2.309.9	100.0	5.799.8	100.0

(1) Financiera Ibero-Americana (2) Financiera Guayaquil

Ecuador
Comparative Balance Sheets
Of Finance Companies as of 12/7/83

Liabilities	FINIBER (1)	%	COFIEC	%	FINANSA	%	FIRESA	%	AMERAFIN	%	FINANDES	%	FIN.GQUIL (2)	%	FINANSUR	%	FINEC	%	ECUFINSA	%
Demand Deposits	129.1	3.0	1667.0	12.3	681.7	9.1	22.1	2.6	32.6	2.8	331.8	19.4	641.8	10.4	453.1	6.7	158.4	6.9	818.6	14.
Term Deposits	2310.1	53.2	4137.6	30.6	2296.6	30.6	321.1	38.3	115.5	9.8	220.1	12.7	1738.9	28.2	2081.7	30.8	1667.5	72.2	73.7	1.
Acceptances	101.2	2.3	226.4	1.8	140.2	1.9	34.8	4.1	49.3	4.2	47.6	2.8	177.8	2.9	116.5	1.7	4.0	0.2	113.1	1.
Letters of Credit	155.3	3.6	902.2	6.7	369.1	4.9	--	--	6.6	0.6	19.6	1.2	602.7	9.8	283.2	4.2	--	--	579.2	10.
Bonds	360.0	8.2	851.3	6.3	356.0	4.7	--	--	12.0	1.0	101.1	5.9	117.5	1.9	175.2	2.6	6.0	0.3	227.0	3.
Other Liabilities	494.6	11.4	874.6	6.5	1111.5	14.8	35.4	4.2	118.5	10.0	23.1	1.4	60.9	1.0	903.4	13.4	--	--	64.8	1.
Rediscount	--	--	--	--	--	--	--	--	240.2	20.4	273.7	16.0	--	--	--	--	--	--	1875.4	32.
Deferred Credit	36.1	0.8	211.5	1.6	91.7	1.2	24.6	2.9	30.0	2.6	69.4	4.0	507.6	8.2	79.3	1.2	9.8	0.4	80.9	1.
Capital	275.0	6.3	616.3	4.6	300.0	4.0	100.0	11.9	128.5	10.9	140.0	8.2	393.0	6.4	400.0	5.9	150.0	6.5	301.7	5.
Surplus and revaluation	--	--	--	--	4.4	--	1.4	0.2	--	--	1.4	0.1	--	--	1.9	--	--	--	--	--
Reserves	44.2	1.0	86.9	0.6	71.7	1.0	2.1	0.3	19.1	1.6	12.9	0.8	52.3	0.9	37.6	0.6	0.7	--	21.8	0.
Head Office	0.6	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Losses prior year	--	--	--	--	--	--	--	--	--	--	(7.2)	(0.4)	--	--	--	--	(4.7)	(0.2)	--	--
Losses current year	--	--	--	--	(14.4)	(0.2)	--	--	--	--	(7.8)	(0.5)	--	--	--	--	--	--	--	--
Profit prior year	--	--	--	--	25.4	0.3	2.4	0.3	--	--	--	--	18.2	0.3	15.2	0.2	--	--	--	--
Profit current year	12.0	0.3	14.6	0.1	--	--	4.1	0.5	12.6	1.0	--	--	29.4	0.5	13.2	0.2	10.5	0.4	68.0	1.
Total Liabilities	3918.2	90.1	9598.4	71.0	5433.8	72.3	548.0	65.3	764.9	64.9	1225.7	71.6	4340.1	70.5	4560.3	67.5	2002.2	86.7	4224.2	72.
Counter Accounts	428.0	9.9	3911.5	29.0	2082.4	27.7	291.1	34.7	413.1	35.1	486.0	28.4	1811.6	29.5	2198.1	32.5	307.7	13.3	1575.6	27.
Grand Total	4346.2	100.0	13509.9	100.0	7516.2	100.0	839.1	100.0	1178.0	100.0	1711.7	100.0	6151.7	100.0	6758.4	100.0	2309.9	100.0	5759.8	100.

(1) Financiera Ibero-Americana
(2) Financiera Guayaquil

Comparative Financial Ratios
As of 12/7/83

	FINIBER (1)	COFIEC	FINANSA	FIRESA	AMERAFIN	FINANDES	FIGUSA (2)	FINANSUR	FINEC	ECUFINSA
Shareholders equity: (millions of Sucres)	331.80	717.80	387.70	110.00	160.20	139.30	492.90	467.90	156.50	391.50
Liquidity ratio: Current assets / Current liabilities	1.35	0.09	0.30	1.01	2.02	0.37	0.23	0.16	0.44	0.24
Loans overdue / total loans	0.07	0.07	0.17	0.03	0.12	0.35	0.09	0.04	0.02	0.07
Loan loss reserve / loans overdue	0.11	0.17	0.05	0.05	0.10	0.09	0.14	0/260.	0.43	0.08
Other assets / Total assets	0.03	0.14	0.11	0.11	0.09	0.10	0.12	0.06	0.03	0.11
Total operations / Total assets	0.90	0.87	0.88	0.84	0.87	0.87	0.84	0.94	0.90	0.87
Total shareholders equity / Total assets	0.08	0.07	0.07	0.20	0.21	0.11	0.11	0.10	0.08	0.09
Legal reserves / Total shareholders equity	0.13	0.12	0.18	0.02	0.12	0.09	0.11	0.08	0.0045	0.06
Debt: Demand deposits; Term deposits and acceptances; Letter of credit; Bonds in circulation; Other Liabilities and counter accounts; / Total Shareholders Equity	11.99	17.53	18.18	6.40	6.17	10.79	10.45	13.27	13.70	13.61