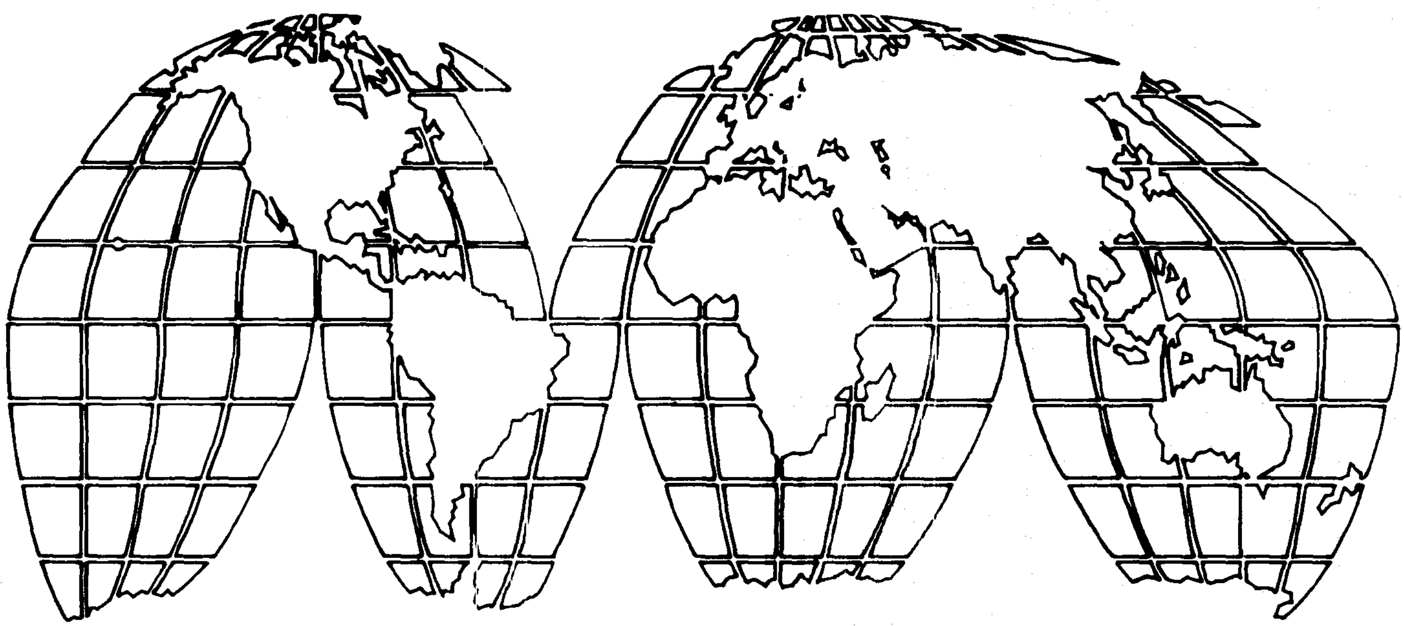
A.I.D. Evaluation Special Study No. 25

Ecuador Industrial Development Finance



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ECUADOR INDUSTRIAL DEVELOPMENT FINANCE

AID SPECIAL STUDY NO. 26

by

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FOREWORD

This study is one in a series undertaken by the Center for Development Information and Evaluation, Bureau for Program and Policy Coordination, to examine Agency for International Development (AID) experience with the implementation of the Private Sector Development Initiative since 1981.

The other related papers in the series are as follows:

AID Program Evaluation Report No. 14 (PN-AAL-049), A Review of AID's Experience in Private Sector Development, April 1985

AID Evaluation Special Study No. 23 (PN-AAL-047), Private Sector Development in the Thai Seed Industry, June 1985

AID Evaluation Special Study No. 24 (PN-AAL-050), Management Education in Modern Tunisia: L'Institut Supérieur de Gestion, Tunis, April 1985

AID Evaluation Special Study No. 26 (PN-AAL-052), Promoting the Manufacture and Use of Small-Scale Agricultural Machinery in Indonesia, June 1985

AID Evaluation Special Study No. 29 (PN-AAL-054), Private Development Corporation in the Philippines (Summer 1985)

We are indebted to the authors of these papers for their contributions to AID's understanding of the role of the private sector in development, and of the Agency's role in that development.

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SUMMARY

In the renewed interest in providing development assistance to the private sector in developing countries, the Agency for International Development (AID) should apply lessons learned from its past efforts in that sector. This study attempts to define certain of these lessons for future program development.

The purpose of this Special Study is to determine what set of circumstances led to the relative success of two AID industrial development credit projects implemented in Ecuador in the mid-1960s.

We have attempted to highlight the comparison of the successes and failures that can be traced to implementing the projects through private and public industrial banking facilities. The emphasis will be on how each bank type can contribute to overall AID development goals.

The study will identify some areas where the objectives of the original projects were not reached and propose solutions for similar projects in the future.

The study proceeds through three levels of data collection and analysis:

1. The macroeconomic context within which the two development banks were formed and have operated. The specific focus is on the industrial and financial sectors and on the institutional and legal factors affecting them.

2. An institutional review of the development of both banks, including organizational development, management and lending procedures, a characterization of their portfolios, and an analysis of their financial performance.

3. An analysis of a representative sample of AID subloan projects conducted on the basis of a nonformal stratification of their lending portfolios at different times according to industrial classifications, size of loans, term and vintage of loans, repayment performance, and so forth.

GLOSSARY OF ABBREVIATIONS

AID	-	Agency for International Development
ANDE	-	Asociacion Nacional de Empresarios
BCE	-	Central Bank of Ecuador (Banco Central del Ecuador)
BNF	-	Banco Nacional de Fomento
CEFE	-	Centro de Formacion Empresarial
CENDES	-	Industrial Development Center (Centro de Desarrollo Industrial)
CFN	-	National Finance Corporation (Corporation Financiera Nacional)
CNV	-	Comision Nacional de Valores (predecessor agency to CFN)
COFIEC	-	Ecuadorean Development Finance Company, S.A. (Compania Financiera Ecuatoriana de Desarrollo, S.A.)
CONADE	-	Consejo Nacional de Desarrollo
ECLA	-	Economic Commission for Latin America (United Nations)
GOE	-	Government of Ecuador
INEC	-	Instituto Nacional de Estadisticas y Censos
INEN	-	Instituto Nacional de Normalizacion
JUNAPLA	-	Junta Nacional de Planificacion
MICEI	-	Ministry of Industry, Commerce, and Integration (Ministerio de Industrias, Comercio e Integracion)
S/	-	Sucres, the currency of Ecuador (see Appendix G for exchange rates)
SCIIAM	-	The Inter-American Cooperative Service for Industrial and Manual Arts (Servicio Cooperativo Interamericano de Industrias y Artes Manuales)
USOM	-	United States Operating Mission (predecessor agency to AID)

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1. MACROECONOMIC OVERVIEW

1.1 Introduction

The industrialization process and general development "model" that Ecuador has followed since 1964, the year in which the first Economic and Social Development Plan was published, are clearly derived from the economic events and circumstances of the 1950s. A brief analysis of that period is therefore required as background to the policy environment within which the Corporacion Financiera Compania Nacional (CFN) and Financiera Ecuatoriana de Desarrollo, S.A. (COFIEC) were created during the early 1960s.

The historically acute dependence of the Ecuadorean economy on foreign trade was made evident during the second half of the 1950s when a fall in the prices of its principal exports forced a reduction in imports of production inputs vital to its continued growth. The accompanying decline in public revenues--which were highly dependent on the taxation of foreign trade--had to be compensated through the absorption of private savings and, subsequently, through recourse to a degree of foreign indebtedness that was significant within the context of the times. The resulting stagnation of private investment accentuated the limited capacity of the financial sector to provide long-term industrial development credit. The private commercial banking sector was not able to adequately fulfill this need.

In response to these circumstances, the Economic and Social Development Plan of 1964 provided for the development of a new legal and institutional framework to foster the development of the industrial development finance sector.

1.2 Economic Structure and Growth During the 1950s and Early 1960s

Although Ecuador's gross national product (GNP) grew at about 5.7 percent per year during the 1950s--one of the highest rates in Latin America--this average obscures a marked deterioration during the second half of the decade. Export growth fell from about 11 percent per year during the first half of the decade to only about 4 percent during the second half, due primarily to declining prices for bananas, cocoa, and coffee, which together made up about 80 percent of total exports during the period. Gross domestic product (GDP) growth fell from 6.1 percent during 1950-1955 to 4.4 percent during 1955-1960.

The decline in foreign exchange earnings from exports critically and directly affected the economy in three major ways. First, by directly affecting the country's ability to finance imports, which in large measure consisted of raw materials and intermediate and capital goods necessary to sustain domestic production, it had a direct effect on production and income.

Second, public sector revenues during the period (and today) depended excessively on foreign commerce. Thus, a decline in the growth of export revenues, with an accompanying decline in import growth, had an immediate and sizable effect on public sector revenues. As public sector current expenditures were steadily and, for all practical purposes, irreversibly growing during the period, declining public sector revenue growth implied increasing recourse to private savings and foreign indebtedness to finance current expenditures. This negatively affected both private and public sector investment, and, through investment, growth in production and income.

Third, foreign debt service requirements absorbed an increasing share of export earnings, further depressing growth in savings, investment, production, and income. During the 1950s the growth of imports fell from about 12 percent per year in the first half to only 2 percent per year in the second half of the decade. Foreign indebtedness increased from 9.4 million sucres (S/) in 1955 to S/24.6 million in 1960, and private sector investment fell in absolute terms from S/1,052 million in 1956 to S/975 million in 1960.

The deteriorating economic performance experienced in Ecuador during the latter half of the 1950s, accompanied by growing social and political tensions, brought forth a clear awareness on the part of Government of the need to fundamentally alter the productive structure of the economy, particularly in the sense of reducing its dependence on and susceptibility to fluctuating commodity export markets.

Industrial development was thought to hold the key to the economic transformation that was required. As Ecuadorean-manufactured goods were not initially competitive in international markets, the only avenue for industrial development open to the economy was the manufacture of industrial consumer goods as substitutes for imports. Production for this market would enjoy the obvious benefits of access and preferential treatment, as required, and would additionally result, it was thought, in substantial savings of foreign exchange.

Fundamental institutional, legal, and policy reforms were included in the Development Plan of 1964. These had been in gestation over a period of years prior to the publication of the Plan and included heavy emphasis on restructuring the financial sector of the economy, with a view to efficiently mobilizing the resources that would be needed to support industrial expansion.

Until the creation of CFN, and later COFIEC, in the early 1960s, the financial sector comprised the Central Bank, the Cajas de Prevision (public savings institutions), the Comision Nacional de Valores (predecessor agency to CFN), and the private commercial banking sector. The three public institutions mentioned dealt primarily in lending to the public sector through the acquisition of State securities, whereas the banking sector primarily financed short-term commercial operations. As of 1959, only about 12 percent of bank credit was being directed at industry, of which only 10 percent (1.2 percent of bank lending) was available at terms of 1 year or longer.[1]

Equity markets were virtually nonexistent in Ecuador at the time because of the small number of potential investors, the traditional family-held nature of existing industries, the lack of institutional mechanisms needed to support such markets, and tax legislation that discouraged stock issues and trade. The development of the institutional means to mobilize savings and allocate resources--through the development of both long-term securities and equity markets--was a fundamental objective of the industrial development program initiated in Ecuador in the early 1960s. As will be discussed in the next section, U.S. Agency for International Development (USAID--then USOM) assistance played a major role in this and other key institutional initiatives undertaken to promote industrial growth.

1.3 Origins of AID's Development Assistance Efforts With CFN and COFIEC

The lending programs that led to the creation of the two financieras, CFN and COFIEC, can be traced back to the joint efforts of the Government of Ecuador and the Inter-American Cooperative Service for Industrial and Manual Arts (SCIIAM), which was established in Ecuador during the early 1950s under the U.S. Point IV bilateral assistance program.

U.S. Government assistance programs in Ecuador began with a yellow fever eradication campaign for Guayaquil (1906-1920). Subsequent programs prior to the establishment of the Point IV program in 1942 also included the Kemmerer Mission (1927-1928), which helped to establish the Central Bank of Ecuador (BCE), the Controller's Office of the Nation, the Superintendency of Banks, and the Banco Hipotecario, which later became the Banco Nacional de Fomento (BNF).

Under Point IV, U.S. development assistance was administered through cooperative services or "servicios" which, in the health, agriculture, and industrial sectors, operated as virtual Government of Ecuador (GOE) ministries, because no Ecuadorean entities existed in these sectors during the 1940s and much of the 1950s.

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[1]JUNAPLA, Credit Requirement for the Ecuadorean National Industrial Development Program (CENDES, November 1960).

SCIIAM initiated the country's first program for developing and marketing its artisan products, promoted small business and private sector development, and provided technical advisers who helped lay the foundation for the industrial development policies of the 1960s and 1970s.[2]

As discussed more extensively below, the CFN and COFIEC loans formed part of a more comprehensive GOE program, significantly assisted by USAID, of institutional development and policy reform intended to accelerate industrial growth in Ecuador. The following briefly highlights significant milestones in the design and implementation of this program of institutional development and policy reform.

1.3.1 Diagnosis of Industrial Development Opportunities and Constraints

Ecuadorean development since colonial times has been export led, albeit through the export of a relatively small number of traditional commodities. As late as 1960-1962, bananas, coffee, and cocoa together averaged close to 90 percent of the total value of Ecuador's exports. Manufactured exports (about 6 percent of total exports) were insignificant and composed principally of processed fish products, lumber, and a small number of pharmaceuticals.

Manufactured imports, on the other hand, made up about 94 percent of total imports and about 102 percent of total exports. Mechanical equipment made up about 44 percent of imports in 1960 (up from about 42 percent in 1950), while processed foodstuffs, beverages, cigarettes, textiles, cardboard and paper, rubber products, fertilizers and insecticides, glass, and ceramics continued to absorb close to 40 percent of Ecuador's import bill in that year.[3]

Given the incipient nature of Ecuador's manufacturing industry at the time, it was natural that priority development efforts were focused on the substitution of a variety of manufactured imports with expanded domestic production. Growth in domestic industrial capacity and capabilities achieved through import substitution would, it was believed, gradually enable Ecuadorean entry into selected industrial export markets.

The development and dissemination of this import-substitution "model" in Latin America is today closely associated with

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[2]This and the preceding discussion draw heavily on the USAID/Ecuador Briefing Book FY 1983.

[3]Galo M. Salvador, El Modelo de Desarrollo Industrial Ecuatoriano (CONADE, 1982), p. E-30.

the U.N. Economic Commission for Latin America (ECLA) and its first director, Raul Prebisch. Both were influential in Ecuador during the early 1960s and contributed to the organization of the National Planning Board (JUNAPLA, today CONADE), which was established in 1954 and which quickly set about adapting the model to Ecuadorean circumstances. By 1957, the country's first Industrial Promotion Law (Ley de Fomento Industrial) had been passed, and a series of seminal studies aimed at the analysis of industrial development constraints and development priorities had been initiated.[4]

Among the constraints to industrial development that are cited in these documents, the following are notable:

-- The reduced size of the domestic market for manufactures, resulting from the country's small population (approximately 4.5 million in 1960) and extremely skewed income distribution.[5] Scale limitations thus restricted industrial development potential.

-- The nonexistence of capital markets and severe limitations of the financial system with regard to the availability of medium- and long-term credit.

-- Limited infrastructure in roads, ports, power, and water supply.

-- Limited entrepreneurial and managerial skills outside of the traditional export agriculture and commercial sectors.

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[4]Key documents relating to this period include the following:

a. JUNAPLA, Plan Inmediato de Desarrollo, 1961-1962, 1960.

b. JUNAPLA, Credit Requirement for the Ecuadorean National Industrial Development Program (CENDES, November 1960). (Revised March 1961.)

c. Checchi and Co., Expansion de la Inversion Privada para el Crecimiento Economico del Ecuador (CENDES, 1962).

d. Edward J. Wygard, JUNAPLA: Bases para una Politica de Fomento Industrial en el Ecuador, 1962.

e. JUNAPLA, Plan General de Desarrollo Economico y Social: 1964-1973, 1963.

[5]The 1964-1974 Development Plan cites estimates indicating that 75 percent of the population in 1956 had a per capita annual income of less than US$200.

- -- Shortages of skilled labor.
- -- Low quality, high cost, and irregular supply of domestically produced inputs.
- -- Deficiencies in public services and policy such as the taxation of retained earnings; import tariffs discriminating against intermediate goods; cumbersome, protracted, and often partial administrative procedures; inadequacies in the dissemination of market information, and so forth.

1.3.2 Institutional Reform and Incentives for Industrial Development

The limitations described above led the Government to adopt several fiscal and institutional measures intended to benefit and promote industrial development. Among these, the main incentives were as follows:

- -- Tariff barriers and compulsory consumption. Tariff protection to domestic production has on several occasions been complemented by the prohibition of certain classes of imports and regulations compelling public institutions to purchase domestic goods when available.
- -- The Industrial Development Law and the Law for the Promotion of Small Industry, which, among other benefits, waived all taxes for legal incorporation or modification of enterprises, waived all export taxes and facilitated importation of goods not produced in the country, granted tax waiver certificates in relation to export volumes, and provided for substantial income tax holidays and deductions.

These incentives were complemented by the establishment of an institutional framework favorable to industrial development. Besides CFN and COFIEC, the Industrial Development Center (CENDES)--which also was assisted by AID--was to play a key role as the Government institution responsible for identifying, evaluating, and designing industrial projects.

Other institutional measures included the establishment of the Export Promotion Fund (FOPEX) within CFN; creation of the Preinvestment Fund (FONAPRE), the main objective of which is to analyze public investment projects and design studies as requested by the industrial private sector; and creation of the Executive Center (Centro de Executivos) and later of the Center for Entrepreneurial Development (CEFE), institutions charged with entrepreneurial/ public administration training. The National Development Bank was established, as was the industrial development secretariat within the Ministry of Industries, Commerce, and

Integration, which implemented the regulatory and other measures contained in the industrial incentives policy.

These fiscal and institutional actions were carried out within a new legal framework that included--in addition to the Industrial Development Law passed in 1957--a modification of the Mercantile Law, which in 1964 admitted two new types of companies: limited liability and public/private joint ventures. Also, modifications to the Industrial Development Law in 1962, 1964, and especially 1970 introduced more generous tax exemptions, and the Tariff Law of 1965 provided heavy protection to domestic industry.

1.3.3 The Andean Pact and the Industrial Sector

In 1967, Ecuador became a member of the Andean Common Market joining Bolivia, Colombia, Chile, and Peru. The main objectives of the Andean Pact may be summed up as follows:

- Making possible the more intensive use of available resources in the Andean region
- Taking advantage of scale economies through expansion of markets
- Increasing productivity through specialization of each country in a number of previously agreed-to products
- Achieving greater diversification in regional industrial production in order to reduce manufactured imports of the region

Although these objectives are clearly rational and were widely supported by the respective governments, the integration process fell short of expectations. A principal problem resided in the conceptualization of the regional industrialization process: the integration process was intended to permit the free organization of each country's production in such a way that the finished product depended on several regional inputs; instead, industries promoted under the Andean Pact tended toward specialization and very limited interdependence.

The industrialization model adopted by Ecuador has been characterized by its orientation toward import substitution, but this substitution was planned to take place within the context of a broader regional market which also implied, in theory, the stimulation of industrial exports from each member country. However, the Andean Pact agreements have been only partially implemented, and, in the interim, import-substitution policies of each country have conflicted with the objective of promoting intra-regional exports. This conflict is illustrated by the differences in tariff levels and tariff revenue dependence among the member countries, as is shown below in Table 1. Member countries have been reluctant to reduce tariff protection afforded to their domestic industries, which has hampered the development of intra-regional trade.

Table 1. Composition of Public Revenue for the Andean Pact Countries, 1970 (percentage)

Revenues	Bolivia	Colombia	Chile	Ecuador	Peru
Income Tax	33.5	50.9	37.7	16.2	41.5
Tariffs on Foreign Trade	43.0	25.5	15.9	60.5	23.9
Internal Taxes	19.4	18.6	37.8	13.9	33.5
Other Taxes	4.1	5.0	7.5	9.4	1.1
Total Revenues	100.0	100.0	100.0	100.0	100.0

Sources: Junta del Acuerdo de Cartagena, Document J/PE/13, revised October 13, 1972.

The benefits to Ecuador of continued membership in the Andean Pact are less clear today than they appeared to be at the beginning of the 1970s. Ecuador now must begin to align its tariff structure with that of other member countries, and local manufactures will soon encounter increasing competition through the elimination of duties on imports from other Pact members.

1.4 Industrial Development Finance and the Growth of the Industrial Sector

As was intended under the terms of the two original AID loan documents, both CFN and COFIEC have focused their operations primarily on medium-and large-scale industry. Although CFN has maintained a small-industry rediscount window since its organization, the volume of operations with this category of industries has been small (less than 2 percent of total disbursements during 1963-1980), and the principal responsibility for serving the credit needs of the small industry and handicrafts sector has remained the province of the BNF.

The discussion contained in this section on the development of the industrial sector since the creation of CFN and COFIEC will therefore also be focused primarily on medium- and large-scale industry. Some comparative information relating large- and small-scale industry is presented below, however, to provide perspective on the contributions of each sector to domestic value-added, labor productivity, and employment.

Available data shown in Table 2 indicate much more rapid growth in both employment and value-added among medium and large industries than among small industries and handicrafts for the period 1961-1979. During this 18-year period, employment provided by large industry grew at an average annual rate of about 8 percent, compared with less than 4 percent for small industry and handicrafts. Although employment provided within the latter category still represented 60 percent of total industrial employment in 1979, this share has been continually declining as has the contribution of small industry to total industrial value-added. Large industry contributed more than 80 percent of industrial value-added in 1979, with an average productivity per worker estimated at more than six times that of small manufacturing establishments.

Higher productivity is, of course, a reflection of the higher capital intensity of large industries, which in turn is partially the result of more favorable access to long-term financial resources such as are provided by CFN and COFIEC.

Small industry remains crucially important as a source of employment in Ecuador and undoubtedly merits increasing attention from the Government with regard to enhanced delivery of financial and other services. However, this is a subject for another report. For the purposes of this analysis, it suffices to point out that the contribution of medium- and large-scale industry to expanding employment, at an average annual rate of 8 percent a year, has been impressive. Real value-added per worker in the large industry sector has increased at about 2 percent per year, while wages have increased at about 2.5 percent in real terms.[6]

Over the principal subperiods selected for this analysis, industrial value-added has consistently grown at a faster rate than GDP, both measured in real terms (see Table 3). Over the whole period 1965-1982, industrial value-added has grown at a rate about 1.4 times as great as that of GDP.

Industrial growth in Ecuador has been accompanied, however, by very rapid growth in industrial imports of processed raw materials and intermediate, capital, and consumer goods. Real growth in manufactured imports between 1965 and 1981 averaged

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[6]Salvador. Figures used in the calculation include both wages and fringe benefits.

Table 2. Indicators of the Development of Large- and Small-Scale Industry in Ecuador, 1961 and 1979

Category	1961 Medium and Large Industry	1961 Small Industry and Handicrafts	1979 Medium and Large Industry	1979 Small Industry and Handicrafts
Number of Firms	522	31,945	2,343	NA
Number of Employees	27,628	88,001	109,451	166,900
Total Value-Added (million sucres)	1,181	689	31,541	7,844
Value-Added per Worker (thousand sucres)	42.7	7.8	288.2	47.0
Percentage of Firms	1.6	98.4	NA	NA
Percentage of Employment	23.9	76.1	39.6	60.4
Percentage of Value-Added	63.2	36.8	80.1	19.9

Source: Galo Salvador, El Modelo de Desarrollo Industrial Ecuatoriano (CONADE, 1982).

about 11 percent, while the ratio of the value of manufactured imports to the value of domestic industrial production increased from 0.20 in 1966 to 0.44 in 1981.

Table 3. Relative Real Growth Rates of GDP and Industrial Value-Added for Selected Periods, 1965-1982

Period	GDP	Industrial Value-Added
1965-1973	8.5	10.4
1973-1980	6.3	10.5
1980-1982	3.1	4.1
Average	6.8	9.7

Source: IBRD.

As is shown in Table 4, imports of industrial consumer goods as a proportion of domestic supply have also grown over the period, indicating that growth in domestic demand for manufactures has exceeded the rapid rates of growth achieved in industrial production. Industrial exports, on the other hand, have grown at a slower real rate (approximately 7.3 percent during 1966-1981) and have fallen from about one-half to one-quarter the value of industrial imports over the period.

The contributions of CFN and COFIEC to industrial development in Ecuador may be qualitatively assessed through the examination of their roles in the allocation of financial resources to the manufacturing sector. CFN and COFIEC contributed from 15 to 20 percent of the total credit extended to the industrial sector during the 1970s (see Table 5). Moreover, they have served as the principal sources of long-term finance for industrial investment in Ecuador, both through lending at up to 12-year terms and through direct equity investments in industrial enterprises. Long-term lending and equity investments of these two institutions have provided a major and increasing share of resources for investment in the industrial sector of Ecuador (see Table 6). As of 1979, CFN and COFIEC had provided almost 30 percent of the financial resources for industrial investment. When it is considered that, at minimum, 25-30 percent of industrial investment is financed through direct equity participation of industrial shareholders, the significance of CFN and COFIEC within the industrial development finance sector of Ecuador becomes immediately apparent.

Table 4. Indicators of External Dependence of Ecuadorean Industrial Manufacturing, Selected Years, 1966-1981
(in millions of sucres)

Indicator	1966	1973	1979	1981
1. Imports of the Industrial Sector				
Raw Materials and Intermediate Goods	1,177	3,734	NA	NA
Capital Goods	543	2,100	NA	NA
Subtotal	1,720	5,834	31,783	NA
2. Imports of Industrial Consumer Goods	600	1,602	14,130	NA
3. Total, Industrial Imports	2,320	7,436	45,913	62,406
4. Industrial Exports	1,060	1,210	13,453	15,492
5. Value of Industrial Output	11,569	28,847	109,211	141,212
Ratios Computed From Above				
6. (2/5) x 100	5.2	5.5	12.9	NA
7. (3/5) x 100	20.1	25.8	42.0	44.2
8. (4/5) x 100	9.2	4.2	12.3	11.0

Sources: 1966-1979, International Bank for Reconstruction and Development; 1981, Central Bank of Ecuador.

Table 5. CFN and COFIEC Shares in Industrial Credit, Selected Years, 1970-1981 (in millions of sucres)

Year	Industrial Borrowing[a]	CFN Financing[b]	COFIEC Financing	CFN and COFIEC Share of Total (%)
1970	2,492	166	199	14.6
1973	4,058	479	439	22.6
1979	26,338	2,994	2,158	19.6
1980	36,288	3,088	2,304	14.9
1981	48,410	4,202	3,050	15.0

Note: Figures for CFN and COFIEC reflect loan disbursements and guarantees, but do not include equity financing or funds expended for industrial promotion or preinvestment studies.

[a]Source: Dr. René Benalcazar, Analisis del Sistema Financiero Ecuatoriano (Banco Central del Ecuador, 1982).

[b]Source: CFN, Boletin Estadistico, No. 7, 1982; and COFIEC, Annual Reports.

As the data in Table 2, above, indicate, approximately 81,800 new jobs were created in medium- and large-scale manufacturing industries in Ecuador during the period 1961-1979. From startup through 1980, CFN provided S/17.7 billion of credit to the manufacturing industry, while COFIEC provided S/11.5 billion. Assuming job creation proportional to total lending, CFN estimates that its participation in industrial investment contributed to the creation of about 23,000 of these jobs;[7] it can be estimated that COFIEC contributed approximately another 15,000 jobs. Thus, a total of about 38,000 new jobs, or about 46 percent of the total of new industrial jobs created during the period, may be attributed to the operations of these two institutions.

Cumulative disbursements of the two institutions are shown by subsector in Table 7. The structural evolution of industrial production in Ecuador is shown in Table 8.

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[7]CFN, Boletin Estadistico No. 7, 1982.

Table 6. CFN and COFIEC Industrial Long-Term Lending and New Equity Investments Related to Total Manufacturing Industry Investment, 1966, 1978, and 1979
(in millions of sucres)

Year	Industrial Investment[a]	Long-Term Lending		New Equity Investments		Long-Term Resources Allocated to Industrial Investment[d] (% of total invest.)
		CFN[b]	COFIEC[c]	CFN	COFIEC	
1966	540.5	107.6	3.4	4.5	1.1	21.6
1978	10,703.3	1,347.1	1,091.0	190.4	40.9	24.9
1979	11,283.4	1,117.8	1,967.7	286.1	-9.7	29.8

[a]Excludes small industry and handicrafts (source: BCE and INEC).
[b]Industrial credit approvals with terms of 1 year and over (source: CFN).
[c]Disbursements of industrial loans to finance fixed capital investment (source: COFIEC).
[d]Total CFN and COFIEC long-term lending and new equity investments as a percentage of total industrial investment.

Sources: See individual notes.

Table 7. CFN and COFIEC Cumulative Disbursements by Industrial Subsector Through 1980 (in millions of sucres)

Industrial Subsector	CFN Disbursements (1963-1980)	CFN Percentage Distribution[a]	COFIEC Disbursements (1966-1980)	COFIEC Percentage Distribution[a]	Total CFN and COFIEC Disbursements	CFN Share of Total Disbursements (percentage)
Food, Beverages, & Tobacco	8,522	48	2,892	25	11,414	75
Textiles, Clothing, Leather, & Shoes	1,947	11	1,861	16	3,808	51
Wood & Furniture	738	4	580	5	1,318	56
Paper & Printing	773	4	823	7	1,596	48
Chemicals	1,499	8	1,980	17	3,479	43
Basic Minerals, Glass, Ceramics, & Metals	2,251	13	393	3	2,644	85
Metal Manufactures & Other	1,955	11	2,921	26	4,876	40
Total Manufactures	17,685	100	11,450	100	29,135	61

[a]Percentages may not total 100 because of rounding.

Source: CFN and COFIEC.

Table 8. Structure of Industrial Production in Ecuador, 1966, 1973, and 1981
(in percentages and millions of sucres)

Subsector	1966 (%)[a]	1973 (%)[a]	1981 (%)[a]	Value of Production (1981)
Food, Beverages, & Tobacco	58	52	46	64,736
Textiles, Clothing, Leather, & Shoes	14	18	16	22,685
Wood & Furniture	5	6	8	10,628
Paper & Printing	7	6	6	7,828
Chemicals	11	7	8	11,358
Basic Minerals, Glass, Ceramics, & Metals	4	7	10	14,748
Metal Manufactures & Other	2	4	6	8,691
Total Manufactures	100	100	100	140,674

[a]Percentages may not total 100 because of rounding.

Source: Central Bank of Ecuador.

Although the pattern of lending of both institutions reflects a degree of demand responsiveness, COFIEC lending appears to have been more heavily concentrated in the more dynamic industrial subsectors, such as chemicals and metal manufactures, whereas CFN has focused more resources on what might be termed "basic" industries, such as food processing, minerals, ceramics, glass, and basic metals.

1.5 Current Situation and Prospects

The growth of industrial production experienced in the period 1965-1980 occurred in response to growing domestic demand, fueled in large measure by petroleum-export revenues and bolstered by Government incentives implemented through credit, tariff, and tax policies and, to a more limited extent, by Ecuador's participation in the Andean Common Market.

As has been described in the previous section, this combination of circumstances and policies has undoubtedly contributed to some fairly solid achievements in the industrial development of Ecuador; nonetheless, it has not proved sufficiently robust to sustain growth through the recent period of worldwide economic recession and financial contraction. This crisis, which has been fully transferred to the Ecuadorean economy, has laid bare a number of inconsistencies and distortions inherent in the policy framework predominating during the 1965-1980 period.

Among the most negative aspects that may be observed in the growth process today are the following:

-- Reduced GDP growth. From 1971 through 1978, GDP grew at an average rate of 7.9 percent; in 1979, this rate fell to 5.3 percent; in 1980, 4.8 percent; in 1981, 4.3 percent; and in 1982, 1.5 percent. It was estimated that GDP in 1983 would grow at only 1.3 percent, implying negative per capita GDP growth during the last 2 years.

-- Stagnant agricultural production. Real agricultural value-added increased at only 2.5 percent during 1971-1978, a rate lower than the population growth. Following a 3.3 percent growth in 1981, the sector contracted by 1 percent in 1982, and a further 0.3 percent fall in output is expected for 1983.

-- Industrial deceleration. Following the long period of sustained growth described above, industrial output expanded at only 3.7 percent in 1982 and was expected to grow at only 2 percent during 1983.

Furthermore, economic, particularly industrial, growth in recent years has been subject to the following characteristics:

-- Increasing import content in the value of final output

-- Excessive capital intensity combined with low levels of capacity utilization

-- Labor legislation favoring urban workers, with relatively large, frequent, and abrupt increases in salaries and fringe benefits, accompanied by labor contracts assuring urban workers of stability in employment, whereas masses of underemployed and unemployed rural workers are not covered by legislation

-- Growing dependence on petroleum for generating foreign exchange and financing public sector budget deficits

-- Generalized inflationary expectations that have resulted in the diversion of financial resources toward speculation in real assets and capital flight out of the country

-- Growing imbalance between manufactured exports and manufactured imports, caused by high domestic production costs fueled by wages and inflation in the cost of imported inputs

-- Cessation of the influx of foreign financial resources on which new investments in the industrial sector have become increasingly dependent in recent years

Although the economic slowdown in Ecuador over the last 3 years is due in large measure to external factors, attention must be given to reducing distortions in relative factor prices, particularly of capital and labor. This implies reducing the tariff and tax preferences given to imported capital and intermediate goods and restoring positive real interest rates and realistic exchange rates.

With respect to the financial sector, the most urgent need is for the implementation of policy measures that will enable the sector to more effectively mobilize domestic savings to reduce the country's dependence on foreign borrowing. Over the long run, this will require the restoration of positive real interest rates payable to depositors and purchasers of long-term securities and, more immediately, legislative and fiscal reforms stimulating the development of equity capital markets in the country.

2. COMPARATIVE INSTITUTIONAL REVIEW: CFN AND COFIEC, 1966-1982

2.1 Background

In order to compare CFN and COFIEC, we collected and analyzed historical financial data and interviewed knowledgeable personnel who have worked or are working in the sector. The financial analysis was performed in the following format:

1. Assets Composition
2. Portfolio Growth
3. Programs and Composition of Portfolio
4. Financial Structure: Liabilities, Equity, and Reserves
5. Sources of Funds
6. Use of Revenues
7. Operating Procedures
8. Financial Performance Evaluation

Both financieras began functioning at approximately the same time: CFN in 1964 and COFIEC in 1966. We have analyzed them over the 1966 through 1982 timeframe, both as institutions and as financial entities. Although detailed data were relatively scarce for the early years, we were able to obtain the general financial data, such as balance sheets and income statements, and some detailed data, such as the makeup of the AID portfolio. Also, we obtained substantial information in working sessions with executives who have been with the financieras since their inception.

Both CFN and COFIEC have grown to be the largest and most prestigious institutions of their kind in Ecuador. Their importance is reflected physically in the size and modernity of their main office buildings, as shown in the photographs on the following page. The rates of growth, while large, have maintained a fairly consistent assets-to-liabilities relationship over the entire 16-year period: CFN at 1.3:1 and COFIEC at 1.2:1. In the 10-year period from 1973 through 1982, the total assets of CFN grew seven times and those of COFIEC nine times. Table 9 displays data that indicate the growth of the institutions in general financial terms over time. (Summarized financial statements for both CFN and COFIEC for all years of operation appear in Appendix E). These indicators show that the institutions, while experiencing rapid expansion, have been able to keep their total debt to a reasonable and consistent level.

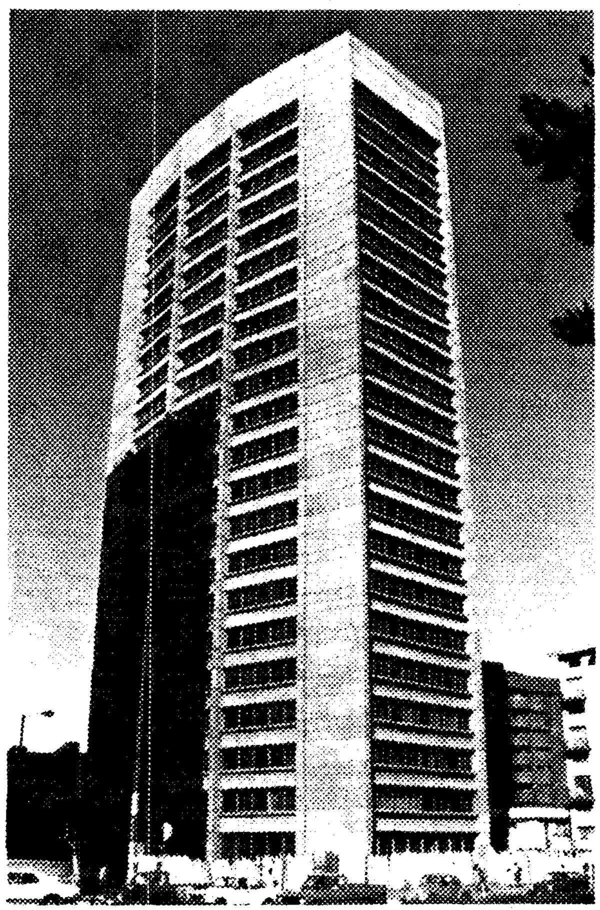
2.2 Assets Composition

For the purpose of our analysis, the asset accounts were broken down into three categories--(1) Loan Portfolio, (2) Equity Investments, and (3) Cash and Other Assets--mainly to show the usage of CFN and COFIEC's resources by revenue-generating and non-revenue-generating assets. As indicated by the graph in Figure 1, it appears that CFN has maintained a higher proportion of earning assets to total assets than COFIEC--the average during the 4 selected years is 60 percent for CFN versus 50 percent for COFIEC. On the other hand, COFIEC has maintained an average of 8 percent of its assets in equity investment in other profit-making organizations.

CFN, as a public institution, has been required to enter into Government projects with little or no investment return. The CFN 1982 Annual Report shows that approximately 45 percent of its equity investments are experiencing technical or financial difficulties (see Appendix F). Table 10 further illustrates the relationships over time of the asset composition of the two institutions.

COFIEC AND CFN MAIN HEADQUARTERS

COFIEC
Quito-Main Headquarters



CFN
Quito-Main Headquarters

Figure 1.

CFN AND COFIEC ASSETS COMPOSITION, SELECTED YEARS, 1966 - 1982

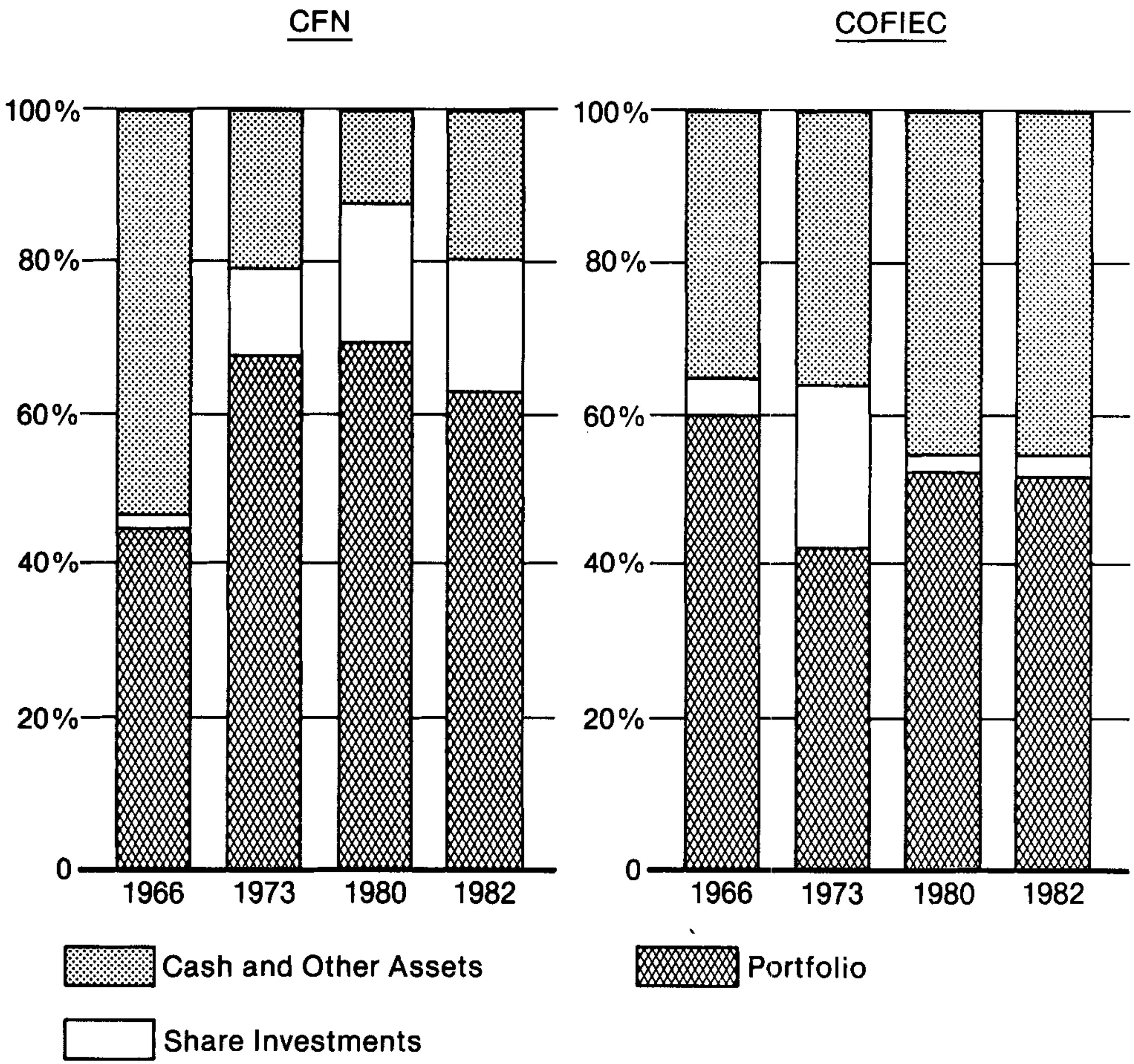


Table 9. General Financial Growth Indicators for CFN and COFIEC, Selected Years, 1966-1982
(*millions of sucres in nominal terms*)

Growth Indicator	1966		1973		1980		1982	
	CFN	COFIEC	CFN	COFIEC	CFN	COFIEC	CFN	COFIEC
Current Assets	61.4	18.5	462.1	340.0	2,804.7	2,381.2	4,948.6	3,719.2
Fixed Assets	1.3	0.4	26.4	10.7	200.8	162.1	385.1	162.0
Total Assets[a]	698.2	35.2	1,430.9	523.4	8,027.2	3,664.8	11,543.5	5,428.9
Current Liabilities	7.8	8.8	149.1	208.2	2,242.9	2,330.3	3,670.9	3,243.6
Other Liabilities	202.4	5.4	680.9	203.7	3,860.9	798.1	5,119.7	1,481.8
Capital	471.5	21.0	600.9	111.5	1,958.7	536.4	2,752.9	703.5
Contingent Assets[b]	2.0	11.4	-	455.8	-	1,958.7	-	3,022.9
Interest Income[c]	40.2	1.7	123.7	48.5	671.6	328.4	872.1	543.7
Interest Expense[c]	2.3	0.2	68.2	13.9	515.4	167.7	635.9	316.4
Administrative Costs[c,d]	4.5	1.7	37.6	13.8	158.9	64.0	226.5	104.5
Net Income	37.0	-	41.6	14.6	2.2	81.3	36.7	98.6

[a]Does not include contingent assets resulting from loan guarantees.
[b]Shown in the balance sheets as assets and liabilities in equal amounts.
[c]For CFN, 1965 and 1974 data were used because of a lack of information for 1966 and 1973.
[d]Includes administrative expenses only.

Source: CFN and COFIEC.

Table 10. CFN and COFIEC Asset Composition,
Selected Years, 1966-1982
(percentages)

	Loan Portfolio		Equity/ Investments		Cash and Other Assets	
Year	CFN	COFIEC	CFN	COFIEC	CFN	COFIEC
1966	45	60	2	5	53	35
1973	66	42	13	22	21	36
1980	68	53	17	2	15	45
1982	63	52	17	3	20	45
Average	61	52	12	8	27	40

Source: CFN and COFIEC.

2.3 Portfolio Growth

The total lending portfolios of both institutions have grown an average of 26.2 percent annually in nominal terms and an average of 12.9 percent annually in real terms over the 1966 through 1982 period (see Table 11). (The analysis of the portfolios appears later in this section.) This growth demonstrates both the demand for the type of credit provided by these institutions and the ability of the institutions to attract financing from outside sources.

2.4 Programs and Composition of Portfolio

2.4.1 Activities in Industrial Lending and Equity Finance

To meet the demand in medium- and long-term fixed asset financing and match their financial resources terms to lending terms, CFN and COFIEC have maintained portfolios well balanced between working capital, fixed asset, and equity financing. They are flexible enough to meet changing demands on terms of financing without jeopardizing their own short- and long-term borrowing positions. CFN has allocated the largest portion of its lending to longer term fixed asset financing (55.1 percent in 1982), whereas COFIEC has directed its financing to short-term working capital loans (68.6 percent in 1982). The relative positions of the types of lending of CFN and COFIEC, as well as the nominal growth of each type of lending, appears in Table 12.

Table 11. CFN and COFIEC Portfolio Growth, Selected Years, 1966-1982 (in millions of sucres)

In Nominal Terms

Institution	1966		1973		1980		1982
CFN	313.7		965.5		5,506.0		7,283.5
COFIEC	39.3		866.4		4,905.6		7,375.3
Total	353.0		1,831.9		10,421.6		14,658.8
Annual Average Per Period		26.5%		28.2%		18.6%	

In 1982 Sucres

Institution	1966		1973		1980		1982
CFN	1,882.2		3,881.3		7,433.1		7,283.5
COFIEC	235.8		3,482.9		6,636.1		7,375.3
Total	2,118.0		7,364.2		14,069.2		14,658.8
Annual Average Per Period		19.5%		9.7%		2.1%	

Source: CFN and COFIEC.

2.4.2 Sectoral Composition of Portfolios

Both CFN and COFIEC have directed the largest part of their lending to the manufacturing sector--CFN 91 percent and COFIEC 58 percent in 1982. However, COFIEC has diversified by providing some credit to six of the major economic sectors, whereas CFN has concentrated on only two. A careful review of the data in Table 13 shows that over the 16 years covered by this study, the institutions have maintained generally constant proportions in allocating credit among the sectors.

Table 12. Type of Credit Provided by CFN and COFIEC, Selected Years, 1966-1982
(in millions of sucres)

Type of Credit	1966 (S/)	1966 %	1973[a] (S/)	1973[a] %	1980 (S/)	1980 %	1982 (S/)	1982 %
CFN								
Working Capital (short-term)[a]	76.1	11.6	304.8	23.6	1,356.1	18.5	2,409.3	24.8
Fixed Assets (long-term)[b]	216.8	32.9	647.6	50.1	4,345.5	59.4	5,342.3	55.1
Equity (long-term)	365.5	55.5	340.2	26.3	1,616.7	22.1	1,949.4	20.1
Subtotal	658.4	100.0	1,292.6	100.0	7,318.3	100.0	9,701.0	100.0
COFIEC								
Working Capital (short-term	31.6	76.3	477.1	70.3	NA		5,222.8	68.6
Fixed Assets (long-term)	7.7	18.6	170.4	25.1	NA		2,233.4	29.3
Equity (long-term)	2.1	5.1	31.3	4.6	NA		157.0	2.1
Subtotal	41.4	100.0	678.8	100.0			7,613.2	100.0
Total Portfolios (CFN and COFIEC)	699.8		1,971.4		7,318.3		17,314.2	

[a]For COFIEC, 1972 data were used because of a lack of information for 1973.
[b]Estimated.

Source: CFN and COFIEC.

Table 13. Sectoral Composition of CFN and COFIEC Portfolios, Selected Years, 1966-1982 (in millions of sucres)

Sector	1966	1973	1980	1982
CFN				
Manufacturing	NA	NA	5,158.2	7,450.3
Other	NA	NA	513.2	693.3
COFIEC				
Agriculture	1.7	67.3	412.1	706.9
Fishing	1.0	3.2	87.6	129.0
Mines and Quarries	-	3.8	7.6	17.6
Manufacturing	32.4	530.7	3,045.1	4,289.1
Construction	-	153.5	653.9	1,661.8
Other	4.2	129.5	755.7	559.9

Source: CFN and COFIEC.

2.4.3 End-Use Classification of Portfolios

As noted above, both CFN and COFIEC have been able to maintain a lending program balanced between long-term investment loans and short-term working capital loans. As a result of the current financial crisis in Ecuador, both *financieras* began in 1983 to switch the major part of their lending programs to working capital loans. Investment borrowing by the industrial sector has slowed to a trickle. When the investment climate reverses, both institutions will be in good position to convert a portion of their short-term portfolios back to long-term investment credit to meet new demand.

Our analysis shows that the largest portion of CFN and COFIEC long-term credit has been provided for foreign currency purchases of equipment. During the long period of financial stability and foreign exchange equilibrium in Ecuador, the industrial sector entered into these foreign currency obligations without hesitation. Now, with the radical exchange rate increases and serious lack of foreign exchange, borrowers are not entering into long-term debt contracts for investment. In addition, they are experiencing serious difficulties in meeting their payment obligations under existing long-term debt contracts. The recent negotiation with the United States commercial banking sector has resulted in a breathing space for private sector dollar debt repayments. Until these debts have been repaid, both the *financieras* and the borrowers have withdrawn from the investment credit market.

Data detailing the historical balance between foreign and domestic currency lending of the two institutions are presented in Table 14.

Table 14. CFN and COFIEC Foreign and Domestic Currency Lending, Selected Years, 1966-1982 (in millions of sucres)

Category	1966	1973	1980	1982
CFN				
Foreign Currency Portfolio	251.0	656.5	161.7	589.5
Domestic Currency Portfolio	62.7	309.0	5,344.3	6,994.0
COFIEC				
Foreign Currency Portfolio	18.3	213.9	44.7	4,034.8
Domestic Currency Portfolio	21.0	652.5	4,870.9	3,340.5

Source: CFN and COFIEC.

The regional dispersion of industrial credit throughout Ecuador did not occur as planned. Although we were not able to obtain specific data on the location of all CFN and COFIEC lending, it was clear that almost all lending occurred in Quito and Guayaquil, with some activity in the Cuenca area. The officials of the *financieras* indicated that the major reason for this failure was the serious lack of public infrastructure in all other areas of the country. As a result, few industries were interested in locating outside the three areas, and no demand for credit was generated.

2.5 Financial Structure: Liabilities, Equity, and Reserves

The financial structures of both CFN and COFIEC during 4 selected years is described in Table 15. Analysis shows that both corporations have obtained credit from local and offshore organizations to finance their operations. This demonstrates the level of confidence that the lenders have in these two organizations. In 1976, the corporations' own capital and reserves financed approximately 68 percent and 45 percent, respectively, of CFN and COFIEC activities; in 1982, this relationship dropped to 23 percent for CFN and 8 percent for COFIEC. The average of the financing with liabilities (short- and long-term) represents 67 percent (CFN) and 81 percent (COFIEC) for the 4 selected years. Figure 2 compares the financial structure of the two corporations for the 4 selected years.

2.6 Sources of Funds

Both institutions obtain their financing for relending from various sources with varying terms and conditions. As a result of their natures--as either a public or private institution--the mix of the types of fund sources is quite different for each. Table 16 summarizes the various types of funding they have obtained over time.

Several details regarding the information displayed in Table 16 are worth noting. One is the relative success of COFIEC in mobilizing domestic resources. While CFN has obtained about 30 percent of its resources (total liabilities and paid-in capital) from domestic sources during the period 1973 through 1982, COFIEC has averaged closer to 80 percent. This is all the more striking in view of the fact that about 40 percent of CFN domestic resources (S/2 billion in 1982) were capital contributions of the GOE.

Second, both institutions have had comparable success in generating long-term resources to support their investment banking operations, both averaging between 60 and 70 percent. COFIEC is much less dependent on public and official development resources, however, with resources obtained from the private sector averaging over 90 percent of the total during the early 1980s. By contrast, CFN has relied on public and official resources to a much greater extent, ranging from 64 to 94 percent of the total during the 1973 through 1982 period.

Table 15. CFN and COFIEC Financial Structure: Liabilities, Equity, and Reserves, Selected Years, 1966-1982 (percentages)

Financial Structure	1966	1973	1980	1982	Average
CFN					
Capital, Reserves, and Retained Earnings as a % of Portfolio	68	42	24	23	39
Long-Term Liabilities and Continuing Guarantees as a % of Share/Investment	32	47	48	45	43
Current Liabilities as a % of Cash and Other Assets	-	11	28	32	24
COFIEC					
Capital, Reserves, and Retained Earnings as a % of Portfolio	45	12	9	8	19
Long-Term Liabilities and Continuing Guarantees as a % of Share/Investment	36	67	48	51	50
Current Liabilities as a % of Cash and Other Assets	19	21	43	41	31

Source: CFN and COFIEC.

Figure 2.
CFN AND COFIEC FINANCIAL STRUCTURE, SELECTED YEARS, 1966 - 1982

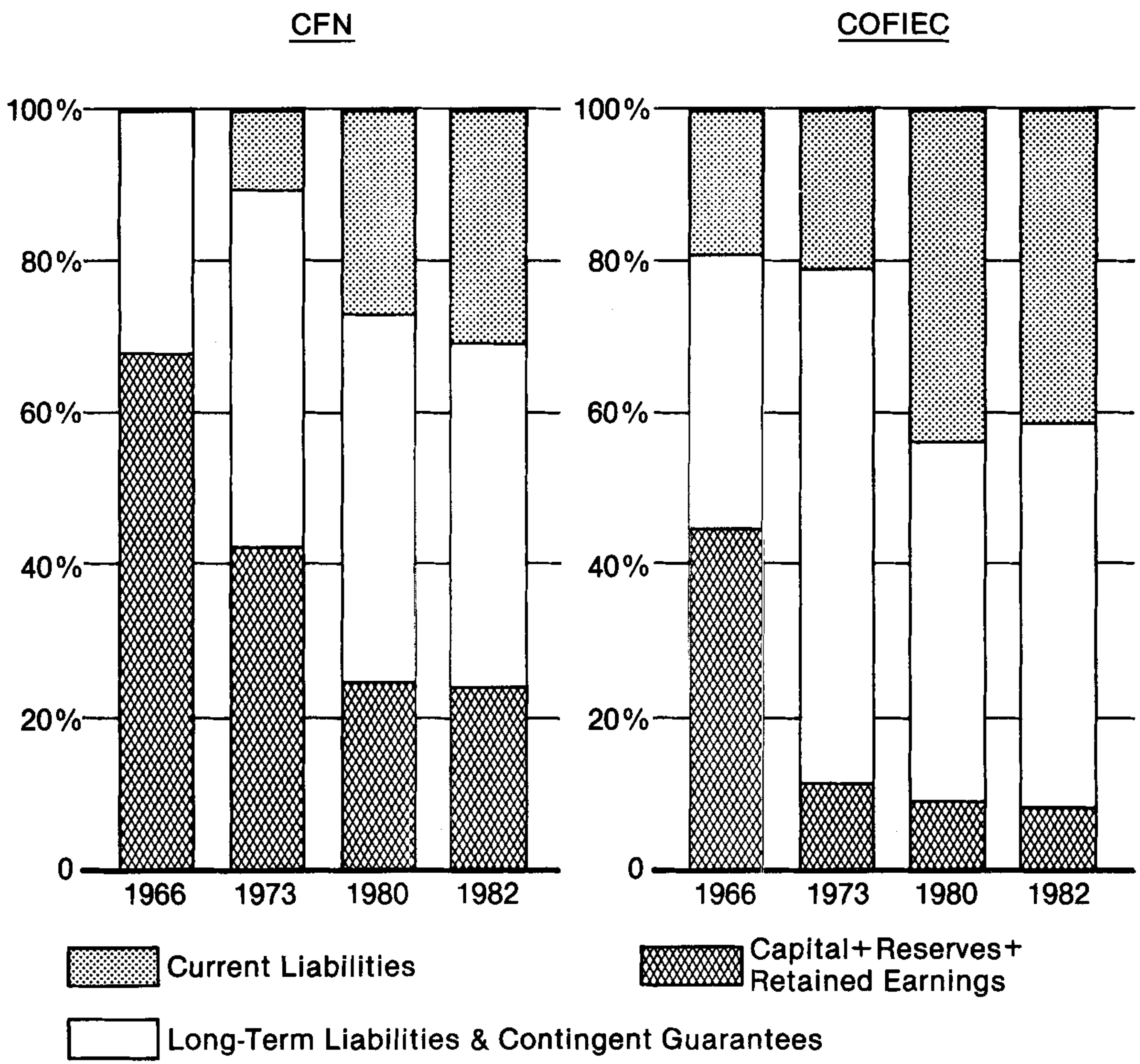


Table 16. Financial Summary of CFN and COFIEC Resources by Source and Term, Selected Years, 1966-1982 (in millions of sucres)

Source/Term	1966	1973	1980	1982
CFN				
Foreign	22.9	644.4	3,352.7	5,557.7
Domestic	644.9	685.6	4,751.1	5,232.8
Long-Term	494.4	1,180.9	5,874.4	7,119.6
Short-Term	173.4	149.1	2,229.4	3,670.9
Public	642.6	614.8	3,292.4	9,342.7
Development Institution	22.9	523.3	1,901.2	795.0
Private	2.3	191.9	2,910.2	652.8
COFIEC				
Foreign	11.1	297.4	441.4	1,809.3
Domestic	31.3	655.4	5,073.5	6,520.5
Long-Term	33.6	744.7	3,163.8	5,043.5
Short-Term	8.8	208.1	2,351.1	3,286.3
Public	11.4	71.9	395.1	11.6
Development Institution	2.6	157.9	178.3	597.3
Private	39.8	723.0	4,941.5	7,720.9

Note: Data represent yearend balances, not flow of funds. Additional details are given in Appendix D.

Source: CFN and COFIEC.

2.7 Use of Revenues

The analysis performed for 3 selected years[8] shows that the interest and commissions paid on loans increased steadily for both CFN and COFIEC and represent an average of 58 and 40 percent, respectively, of the total revenues of the corporations. The average of the administrative expenses and other costs to total revenues is 30 percent for CFN and 38 percent for COFIEC. These expenses increased for CFN during the selected years, whereas COFIEC's dropped from 48 percent in 1973 to 34 percent in 1982. The balance of the revenues represents the net income for the corporations.

Table 17 and Figure 3 describe the composition of the usage of the revenues during the selected years for CFN and COFIEC.

2.8 Operating Procedures

The two institutions followed different procedures for analyzing and approving loan applications. The public *financiera*, CFN, followed very rigid and defined analysis procedures, whereas the private *financiera*, COFIEC, was more flexible and required less information for its analyses. As a result, for the common type of industrial lending portfolio, CFN experienced a much smaller default rate over time and COFIEC expended less in administrative costs to perform the analyses. Because of their different roles--COFIEC as risk-taker and CFN as conservative banker acting in the public interest--an important complementarity was achieved in financing the emerging industrial sector during this period.

That CFN applied relatively difficult procedures was confirmed by the interviews held with the sample of AID borrowers. Some of the borrowers complained about the rigorous review of their loan applications by CFN and commented favorably on the ease and speed of the procedures used by COFIEC.

2.9 Financial Performance Evaluation

To determine the relative financial performance of the two *financieras* over time, we evaluated both financial operations and financial positions for selected years.

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[8] Complete data for 1966 were not available.

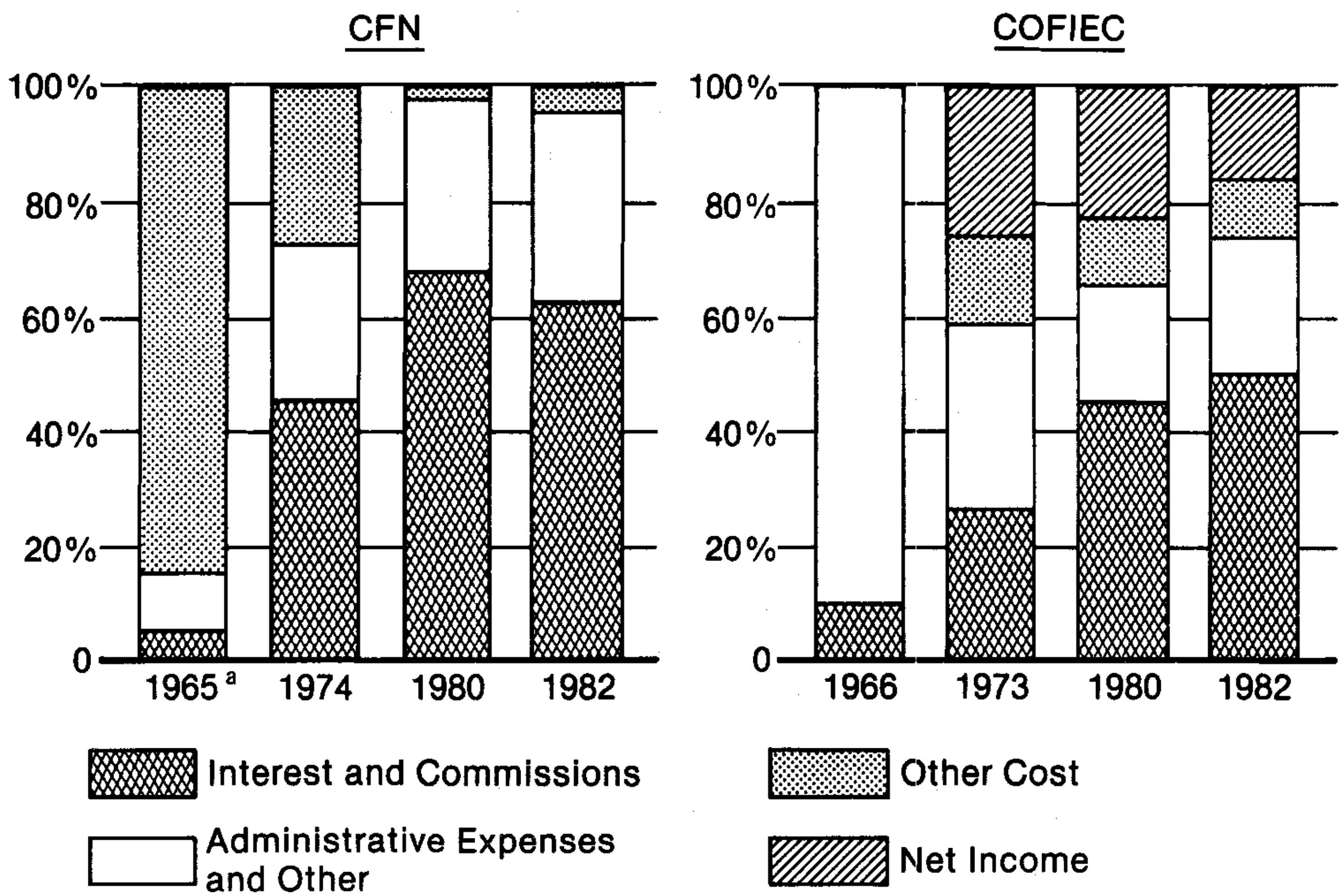
Table 17. CFN AND COFIEC USE OF REVENUES, SELECTED YEARS, 1973 - 1982 (percentages)

Year	Int. & Commissions		Adm. Expenses		Other Costs		Net Income	
	CFN	COFIEC	CFN	COFIEC	CFN	COFIEC	CFN	COFIEC
1973[a]	45	26	27	35	—	13	28	26
1980	67	45	30	22	—	11	3	22
1982	62	50	33	24	—	10	5	16
Average	58	40	30	27	—	11	12	22

[a] For CFN, 1974 data were used because of a lack of information for 1973.

The Following Design Shows Graphically the Use of the Revenues for the two above referred corporations.

Figure 3.
CFN AND COFIEC USE OF REVENUES, SELECTED YEARS, 1965 - 1982



[a] For CFN, 1965 data were used because of a lack of information for 1966

The financial efficiency of banking institutions is best shown by the relationship of net interest (interest earned less interest paid) to average earning assets (loans and other interest-earning contracts). Table 18 displays these relationships for CFN and COFIEC.

The resultant percentage represents the rate on earning assets available to pay the costs of banking operations and provide profits. COFIEC appears better able to effectively match lending and borrowing rates as its interest profitability is substantially higher than that of CFN. Table 19 shows the operating costs of the financieras as they relate to total portfolio, total revenues, and average earning assets. Again, COFIEC demonstrates a substantially lower relative cost of operations.

Although there are differences in relative financial efficiencies between CFN and COFIEC, both institutions are well within acceptable ranges. The appearance of lesser efficiency in CFN is a result of its role as a public institution required to enter into Government projects with little or no return. In 1982, CFN invested S/1,104 million in minimal or no-return projects, an amount that was diverted from an earning portfolio.

As a private, profit-making institution, COFIEC has continued over time to be a solid investment for its owners. (See Table 20 for profit indicators.) It should not be considered as solely a development financial institution.

Because most shareholders purchased their shares in COFIEC directly from the Corporation at par value, the dividends-to-paid-in-capital indicator shows the annual rate of return on the shareholders' investment--a range from 10 to 15 percent. This, in itself, is a higher return than provided by savings and, when combined with a presumed steadily increasing value of the stock, indicates a solid investment.

The one area in which CFN compares favorably with COFIEC in financial efficiency is in the quality of its portfolio.

The comparative analysis of risk management of the two financieras, both of their portfolios and of the matching of their lending with their borrowing, shows that both institutions performed well, except that the repayment quality of COFIEC's portfolio is less than that of CFN's. Table 21 provides data on loan arrearages for CFN and COFIEC, and Table 22 on the term matching of the two financieras for 1982.

Table 23 presents the foreign exchange position of CFN and COFIEC. In the current period of rapidly rising exchange rates, the foreign exchange position of the financieras can drastically diminish domestic currency availabilities as the foreign currency debt servicing requirements use up more of these sucres.

Table 18. Relationship of Net Interest to Average Earning Assets for CFN and COFIEC, Selected Years, 1965-1982 (in millions of sucres)

Item	1966[a]	1973[a]	1980	1982
CFN				
Net Interest Income	37.9	55.5	156.2	236.2
Average Earning Assets	601.4	1,448.5	5,851.2	7,777.8
Net Interest Income/ Average Earning Assets (%)	6.3	3.8	2.7	3.0
COFIEC				
Net Interest Income	1.5	34.6	160.7	227.3
Average Earning Assets	19.7	717.5	4,418.1	6,484.5
Net Interest Income/ Average Earning Assets (%)	7.6	4.8	3.6	3.5

[a]For CFN, 1965 and 1974 data were used because of a lack of information for 1966 and 1973.

Source: CFN and COFIEC.

Table 19. Operating Cost Relationships for CFN and COFIEC, Selected Years, 1966-1982

Cost Ratio	1966[a]	1973[a]	1980	1982
CFN				
Operating Costs/ Portfolio	5.1	2.6	3.1	3.3
Operating Costs/ Revenues	10.3	25.8	22.2	23.8
Operating Costs/ Average Earning Assets	0.7	2.7	2.9	3.1
COFIEC				
Operating Costs/ Portfolio	4.3	1.7	1.4	1.5
Operating Costs/ Revenues	NA	26.6	19.1	18.2
Operating Costs/ Average Earning Assets	8.6	2.0	1.6	1.7

[a]For CFN, 1965 and 1974 data were used because of a lack of information for 1966 and 1973.

Source: CFN and COFIEC.

Table 20. COFIEC Profit Indicators, Selected Years, 1966-1982

Indicator	1966	1973	1980	1982
Net Income/ Average Earning Assets	NA	2.0	1.8	1.5
Net Income/ Average Equity	NA	14.6	17.1	14.8
Dividends/ Paid-in Capital	NA	11.2	13.2	14.6

Source: COFIEC.

Table 21. Analysis of CFN and COFIEC Portfolio Arrearages, 1982 Year-End (in millions of sucres)

Arrearage	CFN		COFIEC	
	(S/)	(%)	(S/)	(%)
None				
No. of Loans	1,188	85.3	310	57.1
Amount	6,028.1	82.8	3,986.2	53.5
1 to 30 Days				
No. of Loans	8	0.6	49	9.0
Amount	4.7	0.1	1,053.4	14.1
31 to 90 Days				
No. of Loans	21	1.5	40	7.4
Amount	34.2	0.4	735.8	9.9
91 Days and Over				
No. of Loans	176	12.6	144	26.5
Amount	1,216.5	16.7	1,680.8	22.5
Total				
No. of Loans	1,393	100.0	543	100.0
Amount	7,283.5	100.0	7,456.2	100.0

Source: CFN and COFIEC.

Table 22. CFN and COFIEC Term Matching, 1982
(in millions of sucres)

Term	CFN	COFIEC
Long-Term		
Portfolio	3,578.3	4,556.1
Borrowing	5,119.6	4,462.0
Short-Term		
Portfolio	3,705.2	2,819.2
Borrowing	3,300.1	2,534.2

Source: CFN and COFIEC.

Table 23. CFN and COFIEC Foreign Currency Matching, 1982
(in millions of sucres)

Item	CFN	COFIEC
Foreign Currency Portfolio	289.5	4,034.8
Foreign Currency Borrowing	3,089.4	4,336.2
Net Foreign Currency Position	2,799.9	301.47
Domestic Currency Portfolio	6,994.0	3,340.5
Domestic Currency Borrowing	5,330.3	2,660.0
Net Domestic Currency Position	1,663.7	680.5

Source: CFN and COFIEC.

3. REVIEW OF AID SUBLOAN PROJECTS

3.1 Disbursements of AID Subloans and Evaluation Sample

Of the US$5 million lent to CFN, approximately US$4.54 million was relent to 33 subborrowers, with the remainder devoted to equity investments, small-industry loans channeled through the BNF, and technical assistance.

The largest AID subloan extended by CFN was to FERTISA, a fertilizer manufacturer, for S/17.7 million or almost US$1 million. The smallest subloan extended by CFN was for S/102,000 (about US$6,000) to a small printing establishment in Quito. The average AID subloan extended by CFN was for US$138,000, with a standard deviation on loan size of US$198,000. In total, five AID subloans extended by CFN were for US$336,000 or more (average loan size plus one standard deviation), for a total of US$2.65 million. These five loans represent about 58 percent of the AID funds disbursed by CFN as subloans. Disbursement of AID funds by CFN was completed in 1970.

By contrast, the largest subloan extended by COFIEC of the US$3 million provided to it by AID was for US$300,000, also extended to FERTISA. COFIEC extended 41 subloans averaging US$58,000, with a standard deviation on loan size of US$63,000. Of the 41 subloans, 7 were in the amount of US$121,000 or above, for a total of US$1.21 million, or about 43 percent of AID funds disbursed as subloans.

Table 24 shows the distribution of AID subloans extended by CFN and COFIEC by region and by economic subsector of the recipients. As shown, 65 of the 74 subloans were made in Pichincha and Guayas Provinces (primarily in Quito and Guayaquil).

CFN was relatively more active than COFIEC in other areas of the country, having extended a total of eight subloans in Azuay and Manabi Provinces. Table 24 also shows that AID funds re-lent through CFN were much more heavily concentrated in the manufacturing industry (31 of 33 subloans) than was the case with COFIEC, which also lent extensively to other sectors, primarily agricultural enterprises in Guayas Province. Eleven agricultural subloans were identified for the COFIEC/AID portfolio. A total of 27 AID subloans, of the 74 extended by CFN and COFIEC together, were directed toward agriculture and agroindustries (food processing, beverages, and tobacco). Metal manufactures, chemicals, rubber products, textiles, and wood products, in that order, made up the bulk of the remaining AID subloan portfolio.

Table 24. Number of AID Subloans Extended by CFN and COFIEC, by Subsector and Province

Subsector	CFN					COFIEC				Total CFN and COFIEC
	Total Subloans	Pinchincha (Quito)	Guayas (Guayaquil)	Azuay (Cuenca)	Other	Total Subloans	Pinchincha (Quito)	Guayas (Guayaquil)	Azuay (Cuenca)	
Manufacturing										
Food, Beverages, Tobacco	7	1	2	2	2	9 (2)	3	6 (2)	-	16 (2)
Textiles, Clothing, Leather, Shoes	5 (3)	4 (2)	-	1 (1)	-	1	1	-	-	6 (3)
Wood, Wood Products	-	-	-	-	-	-	-	-	-	-
Paper, Printing	5 (2)	2	3 (2)	-	-	-	-	-	-	5 (2)
Chemicals, Rubber, Plastics	6	3	2	1	-	3 (1)	1	2 (1)	-	9 (1)
Nonmetallic Minerals	-	-	-	-	-	1 (1)	-	-	1 (1)	1 (1)
Basic Metals	-	-	-	-	-	-	-	-	-	-
Metal Manufactures	7 (3)	5 (1)	-	2 (2)	-	4	2	2	-	11 (3)
Other Manufactures	1	1	-	-	-	-	-	-	-	1
Other Sectors	2 (2)	-	2 (2)	-	-	23 (2)	7 (1)	16 (1)	-	25 (4)
Total	33 (10)	16 (3)	9 (4)	6 (3)	2	41 (6)	14 (1)	26 (4)	1 (1)	74 (16)

Note: Numbers in parentheses indicate interviews performed by the evaluation team.

Source: CFN and COFIEC.

Table 24 also indicates, in parentheses, the regional and subsectoral distribution of AID subloan recipients interviewed by the evaluation team. In total, 16 subborrowers were interviewed of the 60 whose continued corporate existence could be confirmed by CFN and COFIEC. Interviews were conducted in Quito, Guayaquil, and Cuenca (Azuay Province), and the sample included at least one interview from each major manufacturing subsector that received AID subloans. The sample also included two interviews classified in the tourism sector; Ecuatoriana de Aviacion (Ecuador's international airline); and a banana, rice, and cotton plantation in the Guayaquil area.

3.2 General Observations of Interviewees Regarding CFN, COFIEC, and Government Policies

With few exceptions, interviewees regard CFN as more demanding, slower, and more bureaucratic in its loan evaluation and administrative procedures than COFIEC. The exceptions tended to be those companies that had worked with CFN on a continuing basis and that were in a more secure financial situation at the time the interviews were conducted. This group of interviewees had little difficulty in working with either CFN or COFIEC.

The impression of the evaluation team is that CFN is in fact the more conservatively managed institution and that this is reflected in the quality of its current loan portfolio, as was discussed in Section 2 above. COFIEC management appears to be more growth oriented, a factor appreciated by loan applicants during the easy money period associated with the oil boom of the 1970s. Viewed from today's perspective, however, CFN's more deliberate and cautious approach is paying dividends, in spite of the fact that its policies have in the past discouraged a number of would-be borrowers. Perhaps, paradoxically in relation to the common view of the role of public development institutions as risk-bearers, the private sector institution seems to be the more risk oriented in the case of Ecuador.

Most COFIEC subborrowers had become repeat customers with two or more loans from this institution, whereas only about one-third of CFN/AID subloan recipients had become regular customers. Those who had not requested further loans invariably cited the time-consuming nature of CFN loan evaluation procedures as their reason, some claiming that up to 1 year was needed when dealing with CFN. Even these critics, however, stated that they would be likely to approach CFN in the case of a major expansion project or in an attempt to restructure short-term debt, as this institution is reputed to have greater access to long-term funds than COFIEC.

Observations of industrial subborrowers regarding Government policies clustered around labor legislation, delays in Central Bank disbursements of foreign exchange, and Government price controls. Real interest rates have been fixed at low (and even negative) levels for most of the 1970s and 1980s, and access to credit has not been a problem until recently. These issues, therefore, did not figure prominently among private sector complaints. Likewise, the system of tariff protection and special exemptions and incentives in force in Ecuador has been highly favorable to the industrial sector and did not give rise to comment except in the case of minor inconsistencies in the application of these policies.

Difficulties regarding labor legislation involved three areas: complexity, minimum wage levels, and restrictions limiting staff reductions. One industrialist claimed that, under prevailing legislation, wages are payable to each worker under 18 different wage codes and that this contributed substantially to his administrative costs.

Minimum wages have more than doubled in nominal terms since early 1982, and percentage increases have been applied even where wages were above the minimum. Furthermore, industrialists cited Government acquiescence in strikes called prior to the expiration of existing labor contracts, and new legislation entitling workers to a full year's severance pay at increased rates, which was incorporated in minimum wage revisions during the last 2 years. This new provision of labor legislation has caused particular financial difficulty for manufacturers facing reduced demand, such as one concern that has recently lost 30 percent of its market because of disruptions within the Andean Pact.

Surprisingly little was stated regarding the appropriateness of recent currency devaluations. However, a major problem was cited in regard to Central Bank delays in refunding foreign exchange expenditures needed for imports of raw materials. Industrialists must finance foreign exchange acquired at the free market rate for a period of 6 to 8 months, it was claimed, before receiving foreign exchange from the Central Bank at the official rate.

Price controls were not prevalent among the sample firms interviewed. Nonetheless, comments regarding their effects were frequent, with broad reference to the AZTRA sugar mill, the Selva Alegre cement plant, and the FERTISA fertilizer plant. These are well-known cases of companies that have passed into the public sector as a result of cost squeezes against Government-imposed sales price ceilings. These firms are also among those in which CFN, as a public institution, has been required to invest substantial amounts of equity in recent years, to the detriment of the overall profitability of CFN operations.

Finally, it must be noted that, in spite of specific complaints or criticisms, virtually all interviewees stressed the importance of CFN and COFIEC to the industrial development of Ecuador.

3.3 AID Subloan Sample Cases

Appendix H contains a brief narrative description of the experiences of six AID subloan recipients, three from CFN and three from COFIEC, whose cases illustrate specific aspects of the industrial development process in Ecuador since AID's initial involvement with industrial development finance. The sample cases are purely anecdotal, and no claims are made regarding the representativeness of the sample.

Nonetheless, these histories may be helpful in clarifying and particularizing some of the policy and institutional issues discussed elsewhere in this report. Together, they clearly illustrate the importance of overall macropolicies both in determining the structure of demand for industrial credit and in determining the success or failure of industrial development programs. Effective industrial development finance institutions, although necessary for industrial development, are by no means sufficient to ensure its success.

3.4 Summary of Development Experience

At the time that the two AID loans providing seed capital for the organization of CFN and COFIEC were made, virtually no institutional mechanisms for mobilizing long-term financial resources for industrial investment existed in Ecuador. Commercial banking dominated the financial sector, and less than 2 percent of total credit was available at terms of 1 year or longer. The lack of long-term financing was correctly identified by the Government of Ecuador and USAID as a major constraint to accelerating industrial development.

CFN and COFIEC have been eminently successful in bridging this gap. From 1966 through 1982, their combined portfolios have grown sevenfold in real terms. Both are well managed and financially sound institutions that continue to be successful in mobilizing domestic and external financial resources for industrial development. The study team estimates that these two institutions together have been responsible for mobilizing about 25 percent of capital investment in medium- and large-scale Ecuadorean industry from 1966 through 1982 and that they have thereby contributed to the creation of about 45 percent of the new jobs in this sector over the period. Total new job creation in medium- and large-scale industry has grown at an average of 8 percent per year, while value-added has grown at an estimated 9.7 percent per year in real terms.

The experience of both organizations is summarized below:

1. Both CFN and COFIEC have concentrated their loans in Quito and Guayaquil and among industries whose development impact (in terms of domestic value-added, foreign exchange earnings, employment generation) has been less than desired. This result is due more to external circumstances and to macropolicy, however, than to any institutional deficiencies of CFN and COFIEC.

2. Development finance institutions, whether public or private, are constrained in the term structure of their lending by the term structure of the resources accessible to them. Macroeconomic policy measures (interest rate ceilings, taxation) have severely limited the ability of both CFN and COFIEC to mobilize domestic savings. Both are heavily dependent on external resources (private and official) to finance long-term lending.

3. With the institution of appropriate mechanisms enabling access to long-term domestic or external savings, both private and public development finance institutions can effectively provide the long-term financing required for industrial development. Both CFN and COFIEC have had some success with long-term bond issues, and both engage in medium- and long-term lending to the industrial sector. To the extent that the CFN portfolio is more heavily concentrated in larger and longer term loans than COFIEC's, this reflects primarily differences in access to long-term public and external resources. Periodic Government capital subscriptions, for example, have enabled CFN to undertake programs specifically aimed at development objectives, such as FOPEX (export promotion) and FOPINAR (small industry promotion). Public resources of this kind are clearly not available to COFIEC. To a certain extent, however, CFN's advantages in access to public resources are offset by its officially imposed obligations to support, through credit investments, problem industries judged to be of strategic importance by the Government.

4. As a consequence of their excessive dependence on external borrowing (due in part to the limitations placed on them in mobilizing domestic savings), CFN and COFIEC have been severely affected by the recent currency devaluations and by their foreign currency exposure. Relative to other private financieras and to the commercial banking sector, however, their position is secure and their long-term viability does not appear to be seriously threatened at this time.

5. CFN loan analysis and administrative procedures appear to be more time consuming and demanding of potential borrowers than COFIEC's. However, CFN has maintained a higher quality portfolio.

6. COFIEC's administrative costs (in relation to total earning assets) are lower than CFN's. COFIEC has maintained higher profitability than CFN, but through a higher risk, lower quality portfolio.

7. CFN is naturally more subject to Government policy directives than COFIEC. This does not imply politization of the institution, however. Although policy influence on CFN has affected its profitability through the imposition of more complex administrative procedures and through CFN's obligations with respect to problem industries, this policy influence has probably also encouraged CFN to scrutinize the economic development benefits of its lending activities more thoroughly than does COFIEC.

8. The creation, as a matter of public policy, of both public and private industrial development finance institutions has had several benefits:

   -- More rapid growth in the volume of industrial credit

   -- Development of a degree of complementarity in the credit lines of the two institutions

   -- A wider choice of options for industrial borrowers, which maintains some competition between the institutions

   The creation of CFN and COFIEC was part of a broader package of institutional, legal, and policy measures undertaken by the Government to foster industrial development. The success of these two financial institutions owes much to the presence of other elements of the package, especially the prior creation of CENDES, which undertook project identification, project analysis, and industrial promotion activities. CENDES worked very closely with CFN and COFIEC during their early years.

9. The autonomy and continuity of management and technical staff at CFN and COFIEC have contributed to their institutional development and effectiveness.

10. CFN and COFIEC have had a role in the continuing development of the financial sector of Ecuador, both through financial support of new *financieras* and as a training ground for *financiera* administrators.

11. AID involvement in the provision of seed capital to CFN and COFIEC has been successful in attracting ongoing support from other sources and in establishing clearly viable institutions. The success of these projects reinforces the value of AID's role in pioneering innovative approaches, the riskiness of which makes other donor startup support unlikely.

12. The development impact of CFN and COFIEC operations might have been enhanced had AID been able to maintain a presence and, especially, policy dialogue regarding implementation on a more continuous basis.

3.5 Suggestions for Future Project Design

In speculating on the possibility of new AID programs in the area of financial intermediation in developing countries, we have sought to extract from the experiences of CFN and COFIEC a few general observations for the consideration of project designers. These remarks may perhaps best be framed in the context of a simply stated definition of the economic functions of a financial intermediary, namely to mobilize savings in the form of financial resources and to allocate these toward the most productive investment opportunities available.

Judged in light of this definition, the most serious failing of the broader development initiative implemented in part through CFN and COFIEC was the failure of the financial system to adequately mobilize and capture domestic savings. Both institutions--indeed, the financial sector of Ecuador as a whole--have been too dependent on external savings (foreign borrowing) to finance domestic investment.

The dangers of excessive reliance on external resources and the need to develop policies, legislation, and institutional mechanisms to more effectively mobilize domestic savings in support of investment were clearly recognized in all of the major documents produced 20 years ago in the course of preparing for CFN and COFIEC. Many documents--the first 10-year Development Plan, the Checchi study, the CENDES study, the AID loan documents--emphasize the savings-mobilization aspect of the functioning of CFN and COFIEC within the reformed industrial development finance system, not only through the further development of a domestic market in long-term debt instruments, but especially through the development of functioning equity markets.

In this crucial aspect, the projects have failed, as have similar attempts in other developing countries around the world. Yet, if the current worldwide debt-service crisis of developing countries tells us anything, it is that development finance cannot be allowed to rely so heavily in the future on foreign borrowings as it has in the past. The problems of more effectively mobilizing domestic savings for financing development--long ago recognized but largely neglected in practice--must now be seriously addressed by developing country governments and development institutions alike.

The problems, beginning with poverty itself, are many, and not much domestic savings is available. Nonetheless, in a vast majority of developing countries, including Ecuador, a significant portion of the savings that do exist, for a variety of reasons, eludes the financial system and is diverted into speculative and scarcely productive uses. Instability and lack of confidence, punitive fiscal legislation, inadequate enforcement of tax laws in general, and short-sighted monetary policies are among the intractable obstacles that must be dealt with. And, although we must rather lamely admit to a shortage of specific solutions at this time, the experience of Ecuador clearly points to a need for a new direction in assistance to developing countries in the area of financial sector development.

A second observation that can be made on the basis of the Ecuadorean experience is that both public and private institutions can function effectively in the allocation of long-term financial resources for development. Both CFN and COFIEC have done so, but mainly on the basis of external resources funneled through them by the public sector. The problem that both share is the need to develop their capacity to mobilize domestic savings.

In considering policy, legislative, and institutional reforms to facilitate the mobilization of resources, however, care should be taken not to discriminate between public and private institutions. Both can be effective, and each is likely to be more effective in the presence of potential competition from the other.

Finally, in the area of allocation of financial resources, two brief observations are in order. First, regarding policy, it must be remembered that demand for financial resources is as important as supply. If credit is to flow toward the most productive potential uses in society, the financial returns to entrepreneurs from engaging in these activities must be in line with socioeconomic cost-benefit criteria. To the extent that Government policies distort financial returns away from the most economically productive uses, the demand for funds within these sectors simply will not materialize and the development finance institutions will remain helpless to perform their economic function effectively, regardless of the quality of their project analysis and administrative procedures. Neither the evaluation nor the future programming of financial sector development projects can afford to neglect the policy framework that determines the demand for development funds.

Second, management systems and the knowledge required to support more cost-effective operation of development finance institutions in allocating the resources at their disposal is an area--in Ecuador as, we suspect, elsewhere--that remains open for programs oriented toward technology transfer. Data acquisition, information management systems, computerized evaluation and monitoring aids, and upgraded human skills remain critical factors in determining the financial operating costs and economic efficiency of such institutions in developing countries and appear to offer a promising area for continuing development assistance.

APPENDIX A

AID SUBLOAN DISBURSEMENTS BY CFN AND COFIEC

AID Subloan Disbursements
(in thousands of sucres)

Name of Firm	Total Loan	Regional Area	CIIU Code	Disbursement Year	Comments
CFN					
Murko Cierres	775.0	Quito	39	1966	
[illegible]riana	1,243.8	Quito	38	1965	
[illegible]	3,395.9	Quito	34	1965	
[illegible]	445.1	Quito	31	1966	
Elaborados de Carne	1,523.4	Cuenca	31	1965	
Sydet Prod. Quimicos	1,419.7	Quito	35	1965	
Boticas y Lab. H.G.	193.1	Guayaquil	35	1966	
LARSA	157.1	Quito	35	1966	
ECASA	869.6	Quito	38	1965	Sample
FANTEX	7,561.6	Quito	32	1965	Sample
La Internacional	6,942.2	Quito	32	1966	Sample
Ind. del Caucho	583.6	Quito	35	1965	
Fab. de Aluminio UMCO	1,177.6	Quito	38	1966	
Pasamaneria	3,581.2	Cuenca	32	1966	Sample
Inmobiliaria Miraglia S.A.	218.6	Guayaquil	63	1966	Sample
Baterias Ecuatorianas S.A.	497.3	Quito	38	1966	
Rectif. Cigue]al BOTAR	302.5	Quito	38	1966	
Papelera Nac., S.A.	8,635.5	Guayaquil	34	1966	Sample
Ecuatoriana del Caucho	4,400.0	Cuenca	35	1966	
Publicidad ABAD	153.7	Guayaquil	34	1966	
EPACA	3,650.0	Manta	31	1966	
Ind. Graficas Guerrero	101.8	Quito	34	1966	
Frio Ind. y Comercio	400.0	Guayaquil	31	1966	
Tuberia Galvanizada Ecuatoriana	1,736.4	Cuenca	38	1966	Sample
FERTISA	17,725.5	Guayaquil	35	1966	
La Europea	830.0	Quito	32	N.A.	
Vanderbilt, S.A.	500.0	Cuenca	38	N.A.	Sample
ECUASAL	6,850.0	Salinas	31	1966	
Hotel Palace	1,363.5	Guayaquil	63	N.A.	Sample

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Name of Firm	Total Loan	Regional Area	CIIU Code	Disbursement Year	Comments
Ind. Alimenticia	793.8	Cuenca	31	1965	
Textil San Vicente	1,509.7	Quito	32	N.A.	
Sistemas Papel Carbon	1,630.7	Guayaquil	34	N.A.	Sample
Frigorifico MANTA	331.7	Manab§	34	1966	
COFIEC					
Incubadora Nacional	431.9	Quito	31	1966	
Prov. Automotriz, S.A.C.	471.8	Quito	38	1966	
Vicu]a Cía. Ltda.	108.0	Quito	32	1966	Sample
Enlatadora de Prod. Alimenticios	253.4	Guayaquil	31	1966	
Alfarina del Ecuador, Cia. Ltda.	1,519.3	Quito	31	1967	
La Avelina Cia. Ltda.	797.7	Guayaquil	31	1966	
Corp. Pesquera Ecuatoriana S.A.	252.8	Guayaquil	31	1967	Sample
Refrescos S.A.	2,338.2	Guayaquil	31	1967	Sample
Superior Ecuatoriana S.A.	1,153.0	Guayaquil	-	1967	
Americana de Conservas	291.0	Guayaquil	31	1967	
Ecuatoriana de Aviacion	2,700.0	Quito	71	1967	Sample
Agricola Aray, S.A.	413.0	Guayaquil	11	1967	
Rex Plastics, Cia. Ltda.	66.3	Quito	35	1967	
Pacific Products, S.A.	443.5	Guayaquil	11	1967	
Andevo, Cia. Ltda.	340.9	Quito	-	1967	
Fertilizantes Ecuatorianos, S.A.	5,400.0	Guayaquil	35	1967	Sample
Cautivo - Emp. Petrolera	4,500.0	Guayaquil	35	1967	
Soc. Agric. e Ind. San Carlos	2,250.0	Guayaquil	11	1967	
Constr. Nac. de Carreteras, S.A.	1,768.8	Guayaquil	50	1967	
Hacienda Pichicona	590.9	Guayaquil	11	1967	
Ing. Francisco Amador	802.1	Guayaquil	13	1967	
Federico Arteta-Menatlas	236.3	Quito	50	1967	
Ecuatoriana de Artefactos, S.A.	419.6	Quito	38	1967	Sample

Name of Firm	Total Loan	Regional Area	CIIU Code	Disbursement Year	Comments
Eduardo Vernaza Requena	312.4	Guayaquil	50	1967	
Ing. Leonardo Guarderas S.	632.1	Guayaquil	11	1967	
Auto Comercio, S.A.	1,625.4	Guayaquil	38	1967	
American Mushroom Co.	1,612.0	Quito	31	1967	
Monolitica, S.A.	1,224.0	Quito	50	1967	
Carlos Mantilla H.	121.9	Quito	-	1967	
Agricola Plantaciones Trop.	426.7	Guayaquil	11	1967	Sample
Ecuavia, C.A.	796.5	Quito	71	1967	
Cia. Ecuatoriana de Pavimentos	2,200.7	Quito	50	1967	Sample
Deshidratadora Ind. Nac., S.A.	205.2	Guayaquil	31	1967	
Los Alamos, C.A.	216.0	Guayaquil	11	1966	
Turismo Aereo	2,334.9	Guayaquil	71	1968	
Ing. Leopoldo Carrera y C. Dassum	256.5	Guayaquil	11	1968	
Auto Comercio, S.A.	1,092.6	Guayaquil	38	1968	
Cia. Agric. e Ind. Alfadomus	900.9	Guayaquil	11	1968	
Helge Olsen F.	281.1	Guayaquil	11	1968	
Soc. Agric. y Gan. Angelica, S.A.	330.8	Guayaquil	11	1968	
Ceramicas Andinas	636.8	Cuenca	36	1966	Sample[1/]

1/ Equity investment.

Source: CFN and COFIEC.

APPENDIX B

CFN AND COFIEC BORROWERS SAMPLE MATRIX

CFN

BORROWERS SAMPLE MATRIX

Name of Firm	Good	Bad	CIIU CODES										Region			Loan Size			Year			
			31	32	33	34	35	36	37	38	39	Other	Quito	Guay.	Cuenca	1	2	3	1st 1/2	2nd 1/2	New	Exp
Murko Cierres, S.A.	X										X		X			X			X		X	
Carroceria Ecuat. Thomas	-	-											X			X				X	-	-
El Comercio	X					X							X				X		X			X
Molinos La Union	X		X										X			X			X			X
Elaborados de Carne	X		X												X		X		X		X	
Syndet Prod. Quimicos		X					X						X				X		X			X
Boticas y Lab. H.G.	X						X							X		X			X			X
LARSA	X						X						X			X			X			X
ECASA	X									X			X			X				X		X
Ind. Tex. Fantex	X			X									X					X		X		X
La Internacional	X			X									X					X	X			X
Ind. del Caucho	X						X						X			X			X			X
Lab. de Aluminio UMCO	X									X			X			X			X			X
Pasamaneria, S.A.	X			X											X		X		X			X
Inmobiliaria Miraglia, S.A.	X											63		X		X				X		X
Baterias Ecuador, S.A.	X									X			X			X			X			X
Rectif. Cigue]al BOTAR	X									X			X			X			X			X

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Name of Firm	Good	Bad	31	32	33	34	35	36	37	38	39	Other	Quito	Guay.	Cuenca	1	2	3	1st 1/2	2nd 1/2	New	Exp
			CIIU CODES										Region			Loan Size			Year			
Papelera Nac., S.A.	X					X								X				X	X		X	
Ecuatoriana del Caucho	X						X								X			X	X			X
Publicidad ABAD	X					X								X		X			X			X
EPACA		X	X										Manta				X		X		X	
Ind. Graficas Guerrero		X				X							X			X			X			X
Frio Ind. y Comercio		X	X											X		X			X		X	
Tuberia Galv. Ecuat.	X									X					X		X		X		X	
FERTISA	X						X							X				X	X			X
La Europea	X			X									X			X			-	-		X
Vanderbilt, S.A.	X									X					X	X			-	-	X	
ECUASAL	X		X											X				X	X	-	X	
Hotel Palace	X											63		X			X		-	-		X
Ind. Alimenticia		X	X												X	X			X		X	
Textil S. Vicente	X			X									X				X		-	-	-	-
Sistemas Papel Carbón	X					X											X		-	-		X
Frig. Manta		X	X										Manta			X			X		X	
	26	6	7	5	0	5	6	0	1	6	1	2	16	9	6	18	9	6	24	4	10	21

Notes:

- = no data available
32 = textile (5)
34 = paper (5)
36 = non-metallic minerals (0)
38 = metal manufactures (6)
63 = Hotels and Restaurants (2)
31 = food & beverages (7)
33 = wood (0)
35 = chemicals, plasctics (6)
37 = basic metals (1)
39 = other (1)

Loan size: 1 (0-50 million), 2 (50-150 million), and 3 (over 150 million)

Source: USAID files.

COFIEC

BORROWERS SAMPLE MATRIX

Name of Firm	Good	Bad	CIIU				C O D E S						Region			Loan Size			Year			
			31	32	33	34	35	36	37	38	39	Other	Quito	Guay.	Cuenca	1	2	3	1st 1/2	2nd 1/2	New	Exp
Incubadora Nacional S.A.	X		X										X			X			X			
Prov. Automotriz, S.A.C.	X									X			X			X			X			X
Vicula Cia. Ltda.	X			X									X			X			X		X	
Enlatadora de Prod. Alimenticios		X	X											X		X			X			
Alfarina del Ecuador, Cia. Ltda.		X	X										X				X		X		X	
La Avelina Cia. Ltda.	X		X											X		X			X			
Corp. Pesquera Ecuatoriana S.A.	X											13		X		X				X		X
Refrescos S.A.	X		X											X			X		X			
Superior Ecuatoriana S.A.		X												X			X		X			
Americana de Conservas			X											X		X			X	X		
Ecuatoriana de Aviacion	X											71	X					X	X			X
Agricola Aray, S.A.		X										11		X		X			X			
Rex Plastics, Cia. Ltda.		X					X						X			X			X			

Name of Firm	Good	Bad	CIIU CODES										Region			Loan Size			Year			
			31	32	33	34	35	36	37	38	39	Other	Quito	Guay.	Cuenca	1	2	3	1st 1/2	2nd 1/2	New	Exp
Pacific Products, S.A.	X				X									X		X			X			
Andevo, Cia. Ltda.		X											X			X			X		X	
Fertilizantes Ecuatorianos, S.A.	X						X							X				X	X	X		
Cautivo - Emp. Petrolera		X					X							X				X	X			
Soc. Agric. e Ind. San Carlos	X											11		X			X		X			
Constr. Nac. de Carreteras, S.A.		X										50		X			X		X			
Hacienda Pichicona		X										11		X		X		X				
Ing. Francisco Amador	X											13		X		X			X			
Federico Arteta-Menatlas	X											50	X			X			X			
Ecuatoriana de Artefactos, S.A.	X									X			X			X			X			
Eduardo Vernaza Requena	X											50		X		X			X		X	
Ing. Leonardo Guarderas S.	X											11		X		X			X			
Auto Comercio, S.A.	X									X				X			X		X			

Name of Firm	Good	Bad	CIIU 31	32	33	34	35	36	37	38	39	CODES Other	Region Quito	Guay.	Cuenca	Loan Size 1	2	3	Year 1st 1/2	2nd 1/2	New	Exp
American Mushroom Co.		X	X										X				X			X	X	
Monolitica, S.A.		X										50	X				X		X		X	
Carlos Mantilla H.	X											43	X			X			X			
Agricola Plantaciones Trop.		X										11		X		X			X			
Ecuavia, C.A.	X											71	X			X			X			
Cia. Ecuatoriana de Pavimentos	X											50	X				X			X		X
Deshidratadora Ind. Nac., S.A.	X		X											X		X			X			
Los Alamos, C.A.	X											11		X		X			X			
Turismo Aereo	X											71		X			X			X		
Ing. Leopoldo Carrera y C. Dassum	X											11		X		X				X		
Auto Comercio, S.A.	X									X				X			X			X		
Cia. Agric. e Ind. Alfadomus	X							X						X			X			X		
Helge Olsen F.	X											11		X		X				X		
Soc. Agric. y Gan. Angelica, S.A.	X											11		X		X				X		
	27	12	8	1	1	–	3	1	–	4	–	20	14	26	25	12	3	31	9	5	7	

Source: USAID files.

APPENDIX C

COMPARATIVE PERFORMANCE OF SAMPLE FIRMS RECEIVING CFN AND COFIEC LOANS

Comparative Performance

Sample Firms

(average annual growth rates)

	CFN		COFIEC	
	Real	Nominal	Real	Nominal
Sales				
CIIU 11 Agriculture	-	-	1.9	15.6
CIIU 13 Fishery	-	-	1.7	17.3
CIIU 32 Textiles	6.95	19.6	-	-
CIIU 35 Chemical products	-	-	7.7	20.6
CIIU 38 Metallic products	15.3	29.1	13.6	29.2
CIIU 71 Transport and warehousing	-	-	11.8	26.5
Direct Employment				
CIIU 32 Textiles	-	5.2	-	-
CIIU 36 Mineral products, non-metallic	-	-	-	5.9
CIIU 38 Metallic products	-	16.9	-	-
CIIU 71 Transport and warehousing	-	-	-	8.2

Source: CFN and COFIEC.

APPENDIX D

CFN AND COFIEC FINANCIAL RESOURCES, BY SOURCE AND TERM, 12/31/82

CFN

FINANCIAL RESOURCES BY SOURCE

12/31/82

	S/ 000,000	%
	834.1	7.7
LOANS FROM NATIONAL AND INTERNATIONAL INSTITUTIONS		
NATIONAL	2,398.7	22.2
INTERNATIONAL	5,557.7	51.5
	7,956.5	73.7
TOTAL LIABILITIES	8,790.5	81.4
GOE BUDGET CONTRIBUTIONS TO CAPITAL	2,000.0	18.6
TOTAL FINANCIAL RESOURCES 12/31/83	10,790.5	100.0

NOTE: Capital reserves and retained earnings of S/. 752,948 were not included as this amount does not represent resources of funds outside of the institution.

Source: CFN.

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COFIEC

FINANCIAL RESOURCES BY SOURCE

12/31/82

	S/000,000	%
BONDS ISSUED	704.9	8.5
LOANS FROM NATIONAL AND INTERNATIONAL INSTITUTIONS		
NATIONAL	2,211.2	26.5
INTERNATIONAL	1,809.3	21.7
TOTAL LIABILITES	4,725.4	57.7
PAID-IN CAPITAL	581.5	7.0
TOTAL FINANCIAL RESOURCES 12/31/82	5,306.9	63.7
CONTINGENT LIABILITIES - GUARANTEES ($)	3,022.9	36.3
TOTAL FINANCIAL RESOURCES INCLUDING GUARANTEES	8,329.8	100.0

NOTE: Capital reserves and retained earnings of S/.122,053,810 were not included as this amount does not represent sources of funds outside of the institution.

Source: COFIEC.

CFN AND COFIEC

FINANCIAL RESOURCES - SHORT TERM

12/31/82

(S/. 000)

	CFN	%	COFIEC	%
BONDS ISSUED	465,000	12.7	76,780	2.3
LOANS FROM NATIONAL AND INTERNATIONAL INSTITUTIONS:				
NATIONAL	2,398,745	65.3	1,712,810	52.2
INTERNATIONAL	807,185	22.0	1,496,703	45.5
	3,205,930	87.3	3,209,513	97.7
TOTAL LIABILITIES -SHORT TERM-	3,670,930	100.0	3,286,293	100.0
PAID-IN CAPITAL	-	-	-	-
TOTAL FINANCIAL -SHORT TERM- 12/31/82	3,670,930	100.0	3,286,293	100.0

Source: CFN and COFIEC.

CFN AND COFIEC

FINANCIAL RESOURCES - LONG TERM

12/31/82

(S/. 000)

	CFN	%	COFIEC	%
BONDS ISSUED	369,080	5.18	628,080	12.4
LOANS FROM NATIONAL AND INTERNATIONAL INSTITUTIONS				
NATIONAL	-	-	498,410	9.9
INTERNATIONAL	4,750,529	66.7	312,597	6.2
	4,750,529	66.7	811,007	16.1
TOTAL LIABILITIES -LONG TERM-	5,119,609	71.9	1,439,087	28.5
PAID-IN CAPITAL	-	-	581,476	11.6
GOE BUDGET CONTRIBUTION TO CAPITAL	2,000,000	28.1		
TOTAL FINANCIAL RESOURCES -LONG TERM- 12/31/82	7,119,609	100.0	2,020,563	40.1
CONTINGENT LIABILITES GUARANTEES($)			3,022,900	59.9
			5,043,463	100.0

Source: CFN and COFIEC.

APPENDIX E

COMPARATIVE BALANCE SHEETS AND PROFIT AND LOSS STATEMENTS OF CFN AND COFIEC

CFN

COMPARATIVE BALANCE SHEETS

1963 THROUGH 1982

(S/. 000,000)

	JUNE 30, 1963	JUNE 30, 1964	JUNE 30, 1965	JUNE 30, 1966	JUNE 30, 1967	JUNE 30, 1968	JUNE 30, 1969	JUNE 30, 1970	JUNE 30, 1971	JUNE 30., 1972
ASSETS										
CURRENT ASSETS										
CASH	7.7	22.5	7.6	20.6	17.1	13.5	7.0	13.2	22.7	50.5
RECEIVABLES										
LOANS (NET)	-	-	85.5	24.5	17.0	45.9	.8	1.1	306.1	177.6
OTHER	-	2.0	486.3	16.3	19.6	342.0	304.6	267.9	286.0	244.4
SHORT TERM INVESTMENTS	-	-	-	-	-	-	-	-	-	-
PREPAID EXPENSES	-	-	-	-	.9	3.9	4.5	3.0	5.4	1.5
TOTAL CURRENT ASSETS	7.7	24.5	579.4	61.4	54.6	405.3	316.9	285.2	620.2	474.0

	DEC. 31, 1973	DEC. 31, 1974	DEC. 31, 1975	DEC. 31, 1976	DEC. 31, 1977	DEC. 31, 1978	DEC. 31, 1979	DEC. 31, 1980	DEC. 31, 1981	DEC. 31, 1982
ASSETS										
CURRENT ASSETS										
CASH	30.7	28.9	65.8	128.7	197.8	302.9	451.6	210.6	265.4	446.9
RECEIVABLES LOANS (NET)	216.2	322.8	493.4	682.1	1,594.3	1,936.6	2,008.4	2,237.4	3,202.3	3,705.2
OTHER	213.2	225.8	220.0	167.4	180.5	239.6	312.7	333.3	418.6	762.9
SHORT TERM INVESTMENTS	-	-	-	-	-	-	-	-	-	-
PREPAID EXPENSES	2.0	6.1	2.5	3.9	7.8	9.4	13.5	23.4	43.1	33.6
TOTAL CURRENT ASSETS	462.1	583.6	781.7	982.1	1,980.4	2,488.5	2,786.2	2,804.7	3,929.4	4,948.6

	JUNE 30, 1963	JUNE 30, 1964	JUNE 30, 1965	JUNE 30, 1966	JUNE 30, 1967	JUNE 30, 1968	JUNE 30, 1969	JUNE 30, 1970	JUNE 30, 1971	JUNE 30, 1972
OTHER ASSETS										
LOANS RECEIVABLE OVER 12 MONTHS	3.3	20.0	2.0	289.2	210.2	336.5	461.2	532.7	435.4	518.3
OTHER RECEIVABLES OVER 12 MONTHS	547.1	510.6	96.3	340.5	376.1	13.5	23.5	27.6	28.9	39.7
INVESTMENT - LONG TERM	1.8	.2	-	4.1	5.2	7.0	14.5	31.9	62.3	101.5
OTHER ASSETS	31.2	34.3	6.1	3.7	-	-	-	-	1.9	11.9
BLDG., LAND, EQPT. (NET)	-	-	.4	1.3	2.9	2.7	3.1	3.8	3.9	6.1
TOTAL OTHER ASSETS	583.4	565.1	104.8	638.8	594.4	359.7	502.3	596.0	532.4	677.5
TOTAL ASSETS	591.1	589.6	684.2	700.2	649.0	765.0	819.2	881.2	1,152.6	1,151.5
LIABILITIES AND CAPITAL										
CURRENT LIABILITIES										
LOANS PAYABLE SHORT TERM	-	-	35.4	-	80.5	-	-	-	16.1	29.6
BONDS PAYABLE SHORT TERM	-	8.7	-	-	-	143.6	115.0	105.0	158.4	8.0
OTHER PAYABLE SHORT TERM	7.8	19.4	-	-	-	7.3	7.6	-	37.3	33.3
TOTAL CURRENT LIABILITIES	7.8	28.1	35.4	-	80.5	150.9	122.6	105.0	211.8	70.9
DEFERRED INCOME UNEARNED INTEREST RECEIVED	18.8	-	-	30.3	27.2	29.0	26.3	25.4	4.8	1.0

	DEC. 31, 1973	DEC. 31, 1974	DEC. 31, 1975	DEC. 31, 1976	DEC. 31, 1977	DEC. 31, 1978	DEC. 31, 1979	DEC. 31, 1980	DEC. 31, 1981	DEC. 31, 1982
OTHER ASSETS										
LOANS RECEIVABLE OVER 12 MONTHS	749.3	1,169.6	1,461.5	2,217.9	2,516.2	2,872.7	3,319.4	3,268.6	3,254.9	3,578.3
OTHER RECEIVABLES OVER 12 MONTHS	-	-	-	-	-	133.7	139.4	83.2	36.8	596.6
INVESTMENT - LONG TERM	162.4	478.3	615.6	879.2	1,007.6	1,066.7	1,352.3	1,601.2	1,739.7	1,937.8
OTHER ASSETS	30.7	37.9	21.3	47.9	95.2	8.4	76.6	68.7	56.2	97.1
BLDG., LAND, EQPT. (NET)	26.4	32.3	36.2	44.8	69.4	81.8	125.5	200.8	287.2	385.1
TOTAL OTHER ASSETS	968.8	1,718.1	2,134.6	3,189.8	3,688.4	4,163.3	5,013.2	5,222.5	5,374.8	6,594.9
TOTAL ASSETS	1,430.9	2,301.7	2,916.3	4,171.9	5,668.8	6,651.8	7,799.4	8,027.2	9,304.2	11,543.5
LIABILITIES AND CAPITAL										
CURRENT LIABILITIES										
LOANS PAYABLE SHORT TERM	45.7	106.7	204.6	525.4	1,542.8	1,936.1	1,885.0	1,915.9	2,412.2	2,835.1
LOANS PAYABLE SHORT TERM	59.0	119.4	69.1	40.0	40.0	40.0	40.0	40.0	102.5	465.0
BONDS PAYABLE SHORT TERM	44.4	128.9	116.3	156.4	222.6	209.6	241.8	287.0	270.4	370.8
TOTAL CURRENT LIABILITIES	149.1	355.0	390.0	721.8	1,805.4	2,185.7	2,166.8	2,242.9	2,785.1	3,670.9
DEFERRED INCOME										
UNEARNED INTEREST RECEIVED	-	-	-	-	-	-	-	-	-	-

	JUNE 30, 1963	JUNE 30, 1964	JUNE 30, 1965	JUNE 30, 1966	JUNE 30, 1967	JUNE 30, 1968	JUNE 30, 1969	JUNE 30, 1970	JUNE 30, 1971	JUNE 30, 1972
MEDIUM + LONG TERM LIABILITIES										
LOANS PAYABLE-LONG TERM	183.6	148.9	158.2	194.1	86.5	87.0	87.0	87.0	147.4	144.0
BONDS PAYABLE-LONG TERM	-	-	-	-	-	-	-	-	85.2	85.4
OTHER PAYABLE-LONG TERM	-	-	31.7	2.3	3.5	14.7	59.8	105.3	173.1	295.2
TOTAL MED. • LONG TERM LIAB.	183.6	148.9	189.9	196.4	90.0	101.7	146.8	192.3	405.7	524.6
TOTAL LIABILITIES	210.2	177.0	225.3	226.7	197.7	281.6	295.7	322.7	622.3	596.5
CAPITAL										
AUTHORIZED CAPITAL (S/. 2,000,000,000)										
PAID-IN CAPITAL	206.5	384.3	421.9	471.5	413.6	443.6	463.6	481.7	500.0	500.0
RESERVES	-	-	-	-	16.0	-	-	-	-	-
RETAINED EARNINGS	26.2	28.3	37.0	-	-	-	-	-	30.3	55.0
TOTAL CAPITAL	232.7	412.6	458.9	471.5	429.6	443.6	463.6	481.7	530.3	555.0
TOTAL LIABILITIES AND CAPITAL	442.9	589.6	684.2	698.2	627.3	725.2	759.3	804.4	1,152.6	1,151.5
CONTINGENT LIABILITIES	148.2	-	-	2.0	21.7	39.8	59.9	76.8	-	-
TOTAL LIABILITIES, CAPITAL + CONTING. LIABILITIES	591.1	589.6	684.2	700.2	649.0	765.0	819.2	881.2	1,152.6	1,151.5

	DEC. 31, 1973	DEC. 31, 1974	DEC. 31, 1975	DEC. 31, 1976	DEC. 31, 1977	DEC. 31, 1978	DEC. 31, 1979	DEC. 31, 1980	DEC. 31, 1981	DEC. 31, 1982
MEDIUM + LONG TERM LIABILITIES										
LOANS PAYABLE- LONG TERM	654.3	915.7	1,132.5	1,765.7	1,925.3	2,713.8	3,215.0	3,251.0	3,660.6	4,750.6
BONDS PAYABLE- LONG TERM	26.6	141.0	412.6	631.3	728.6	588.4	652.7	609.9	438.7	369.1
OTHER PAYABLE- LONG TERM	-	-	-	-	-	-	-	-	-	-
TOTAL MED. + LONG TERM LIAB.	680.9	1,056.7	1,545.1	2,397.0	2,653.9	3,302.2	3,867.7	3,860.9	4,099.3	5,119.7
TOTAL LIABILITIES	830.0	1,411.7	1,935.1	3,118.8	4,459.3	5,487.9	6,034.5	6,103.8	6,884.4	8,790.6
CAPITAL										
AUTHORIZED CAPITAL (S/. 2,000,000,000)										
PAID-IN CAPITAL	500.0	500.0	500.0	981.2	1,295.8	1,387.9	2,000.0	2,000.0	2,000.0	2,000.0
RESERVES	-	247.5	267.7	-	(159.7)	(274.8)	(170.0)	(56.8)	383.9	679.7
RETAINED EARNINGS	100.9	142.5	213.5	71.9	73.4	50.8	(65.1)	(19.8)	35.9	73.2
TOTAL CAPITAL	600.9	890.0	981.0	1,053.1	1,209.5	1,163.9	1,764.9	1,923.4	2,419.8	2,752.9
TOTAL LIABILITIES AND CAPITAL	1,430.9	2,301.7	2,916.3	4,171.9	5,668.8	6,651.8	7,799.4	8,027.2	9,304.2	11,534.5
CONTINGENT LIABILITIES										
TOTAL LIABILITIES, CAPITAL + CONTING. LIABILITIES	1,430.9	2,301.7	2,916.3	4,171.9	5,668.8	6,651.8	7,799.4	8,027.2	9,304.2	11,534.5

Source: CFN.

CFN

PROFIT AND LOSS STATEMENT

(IN MILLION OF SUCRES)

	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
REVENUES										
INTEREST AND COMMISSIONS EARNED	31.9	31.0	40.2	-	-	-	55.8	62.1	-	-
OTHER REVENUES	.1	5.0	3.6	-	-	-	4.9	4.8	-	-
TOTAL REVENUES	32.0	36.0	43.8	-	-	-	60.7	66.9	-	-
EXPENSES										
INTEREST AND COMMISSIONS	3.9	4.7	2.3	-	-	-	8.3	10.4	-	-
ADMINISTRATIVE EXPENSES	1.9	3.0	4.5	-	-	-	11.8	16.1	-	-
DEPRECIATION AND AMORTIZATION OF INVEST-MENT LOSS PROVISION	-	-	-	-	-	-	.4	.7	-	-
PROVISION FOR DOUBTFUL ACCOUNTS	-	-	-	-	-	-	-	3.2	-	-
OTHER EXPENSES	-	-	-	-	-	-	-	1.6	-	-
TOTAL EXPENSES	5.8	7.7	6.8	-	-	-	20.5	32.0	-	-
INCOME FROM OPERATIONS	26.2	28.3	37.0	-	-	-	40.2	34.9	-	-

	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
EMPLOYEES PARTICIPATION	-	-	-	-	-	-	-	-	-	-
PROVISION FOR INCOME TAX	-	-	-	-	-		-	-	-	-
NET INCOME	26.2	28.3	37.0	-	-	-	40.2	34.9	-	-
RETAINED EARNINGS - PREVIOUS YEAR	-	26.2	28.3	-	-	-	-	-	-	-
SUB TOTAL	26.2	54.5	65.3	-	-	-	40.2	34.9	-	-
DIVIDENDS	-	-	-	-	-	-	-	-	-	-
TO RESERVE/PAID-IN CAPITAL	-	26.2	28.3	-	-	-	40.2	34.9	-	-
ADJUSTMENTS AND OTHER	-	-	-	-	-	-	-	-	-	-
RETAINED EARNINGS	26.2	28.3	37.0	-	-	-	-	-	-	-

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
REVENUES										
INTEREST AND COMMISSIONS EARNED	-	123.7	187.6	299.9	407.3	484.7	608.3	671.6	711.3	872.1
OTHER REVENUES-	-	26.9	67.7	47.7	68.4	100.5	55.6	90.5	95.2	137.0
TOTAL REVENUES	-	150.6	255.3	347.6	475.7	585.2	663.9	762.1	806.5	1,009.1
EXPENSES										
INTEREST AND COMMISIONS	-	68.2	99.3	175.5	264.9	346.3	495.2	515.4	527.1	635.9
ADMINISTRATIVE EXPENSES	-	37.6	70.3	78.6	108.0	138.0	151.3	158.9	184.5	226.5
DEPRECIATION AND AMORTIZATION OF INVEST-MENT LOSS PROVISION	-	1.2	1.3	6.7	8.2	20.9	25.5	10.1	11.8	12.8
PROVISION FOR DOUBTFUL ACCOUNTS	-	2.0	10.0	15.0	21.2	29.2	57.0	75.5	47.2	97.2
OTHER EXPENSES	-	-	-	-	-	-	-	-	-	-
TOTAL EXPENSES	-	109.0	180.9	275.8	402.3	534.4	729.0	759.0	770.6	972.4
INCOME FROM OPERATIONS	-	41.6	74.4	71.8	73.4	50.8	(65.1)	2.2	35.9	36.7

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
EMPLOYEES PARTICIPATION	-	-	-	-	-	-	-	-	-	-
PROVISION FOR INCOME TAX	-	-	-	-	-	-	-	-	-	-
NET INCOME	-	41.6	74.4	71.8	73.4	50.8	(65.1)	2.2	35.9	36.7
RETAINED EARNINGS - PREVIOUS YEAR	-	100.9	142.5	213.5	71.9	73.4	50.8	(65.1)	(19.8)	35.9
SUB TOTAL	-	142.5	216.9	285.3	145.3	124.2	(14.3)	(62.9)	16.1	72.6
DIVIDENDS	-	-	-	-	-	-	-	-	-	-
TO RESERVE/PAID-IN CAPITAL	-	-	216.9	213.4	71.9	73.4	50.8	-	(19.8)	-
ADJUSTMENTS AND OTHER	-	-	(3.4)	-	-	-	-	(43.1)	-	.6
RETAINED EARNINGS	-	142.5	213.5	71.9	73.4	50.8	(65.1)	(19.8)	35.9	73.2

Source: CFN.

C O F I E C

COMPARATIVE BALANCE SHEETS

1966 THROUGH 1982

(S/. 000,000)

	DEC. 31, 1966	DEC. 31, 1967	DEC. 31, 1968	DEC. 31, 1969	DEC. 31, 1970	DEC. 31, 1971	DEC. 31, 1972	DEC. 31, 1973	DEC. 31, 1974
ASSETS:									
CURRENT ASSETS:									
CASH	1.9	9.5	8.4	23.5	26.6	18.8	60.8	45.7	58.2
RECEIVABLES									
LOANS (NET)	13.1	62.8	154.7	135.0	170.8	149.3	151.9	248.5	486.2
OTHER	1.5	1.9	5.9	5.9	12.9	15.6	13.4	13.7	17.8
SHORT TERM INVESTMENTS	1.8	2.1	1.6	1.9	12.5	17.4	25.8	29.7	28.5
PREPAID INTEREST AND OTHER	.2	.2	.4	.4	2.4	2.6	2.1	2.4	4.0
TOTAL CURRENT ASSETS	18.5	76.5	171.0	166.7	225.2	203.7	254.0	340.0	594.7
OTHER ASSETS:									
LOANS									
RECEIV. - OVER 12 MOS.	14.8	48.7	78.2	74.4	71.4	77.7	170.4	162.1	267.5
INVESTMENTS - LONG TERM	.3	.8	4.8	6.8	5.5	6.4	5.5	9.8	11.0
BLDG., LAND, EQUIP., (NET)	.4	1.8	6.3	7.7	8.7	8.3	8.3	10.7	21.7
DEFERRED EXPENSES	1.2	1.3	1.2	1.5	1.4	1.2	1.0	.8	.8
TOTAL OTHER ASSETS	16.7	52.6	90.5	90.4	87.0	93.6	185.2	183.4	301.0
TOTAL ASSETS	35.2	129.1	261.5	257.1	312.2	297.3	439.2	523.4	895.7

	DEC. 31, 1975	DEC. 31, 1976	DEC. 31, 1977	DEC. 31, 1978	DEC. 31, 1979	DEC. 31, 1980	DEC. 31, 1981	DEC 31, 1982
ASSETS:								
CURRENT ASSETS:								
CASH	68.6	82.4	93.2	141.6	107.5	185.4	210.8	77.1
RECEIVABLES								
LOANS (NET)	721.2	719.2	892.5	859.4	1,263.0	1,870.6	1,967.0	2,819.2
OTHER	34.7	42.7	52.0	117.6	139.1	204.0	301.1	644.8
SHORT TERM INVESTMENTS	22.7	60.4	48.9	113.3	204.1	99.0	131.2	154.9
PREPAID INTEREST AND OTHER	5.7	4.3	9.1	10.9	16.1	22.2	18.9	23.2
TOTAL CURRENT ASSETS	852.9	909.0	1,095.7	1,242.8	1,729.8	2,381.2	2,629.0	3,719.2
OTHER ASSETS:								
LOANS								
RECEIV. - OVER 12 MONTHS	368.2	437.1	450.9	760.8	963.9	1,086.3	1,388.5	1,533.2
INVESTMENTS - LONG TERM	8.2	18.8	31.4	31.4	27.0	24.1	3.1	2.1
BLDG., LAND, EQUIP., (NET)	61.8	133.6	141.6	164.5	165.8	162.1	145.6	162.0
DEFERRED EXPENSES	1.6	1.8	1.1	3.3	1.1	11.1	10.2	12.4
TOTAL OTHER ASSETS	439.8	591.3	625.0	960.0	1,157.8	1,283.6	1,547.4	1,709.7
TOTAL ASSETS	1,292.7	1,500.3	1,720.7	2,202.8	2,887.6	3,664.8	4,176.4	5,428.9

	DEC. 31, 1966	DEC. 31, 1967	DEC. 31, 1968	DEC. 31, 1969	DEC. 31, 1970	DEC. 31, 1971	DEC. 31, 1972	DEC. 31, 1973	DEC. 31, 1974
CONTINGENT ASSETS FROM GUARANTEES	11.4	33.2	4.2	172.9	299.8	246.2	325.2	455.8	429.8
TOTAL ASSETS + CONTINGENT ASSETS	46.6	162.3	265.7	430.0	612.0	543.5	764.4	979.2	1,325.5

	DEC. 31, 1975	DEC. 31, 1976	DEC. 31, 1977	DEC. 31, 1978	DEC. 31, 1979	DEC. 31, 1980	DEC. 31, 1981	DEC 31, 1982
CONTINGENT ASSETS FROM GUARANTEES	452.8	739.0	853.8	1,414.0	1,693.7	1,958.7	2,238.1	3,022.9
TOTAL ASSETS + CONTINGENT	1,745.5	2,239.3	2,574.5	3,616.8	4,581.3	5,623.5	6,414.5	8,451.8

C O F I E C

COMPARATIVE BALANCE SHEETS
1966 THROUGH 1982

	DEC. 31, 1966	DEC. 31, 1967	DEC. 31, 1968	DEC. 31, 1969	DEC. 31, 1970	DEC. 31, 1971	DEC. 31, 1972	DEC. 31, 1973	DEC. 31, 1974
LIABILITIES AND CAPITAL									
CURRENT LIABILITIES									
LOANS PAYABLE - SHORT TERM	8.8	36.3	92.4	66.1	73.1	73.0	83.0	162.0	208.6
BONDS PAYABLE - SHORT TERM	-	-	-	-	-	-	2.7	4.8	13.8
OTHER PAYABLES - SHORT TERM	-	9.6	29.7	22.8	48.4	36.8	52.2	41.4	104.2
TOTAL CURRENT LIABILITIES	8.8	45.9	122.1	88.9	121.5	109.8	137.9	208.2	326.6
DEFERRED INCOME									
UNEARNED INTEREST RECEIVED	2.8	3.7	14.5	10.9	9.7	7.7	5.0	5.1	11.5
MEDIUM + LONG TERM LIABILITIES									
LOANS PAYABLE - LONG TERM	2.6	40.8	72.3	86.7	106.4	105.1	196.7	170.4	336.4
BONDS PAYABLE - LONG TERM	-	-	-	-	-	3.7	10.7	28.2	73.2
OTHER PAYABLES - LONG TERM	-	-	-	-	-	-	-	-	-
TOTAL MED. + LONG TERM LIABIL.	2.6	40.8	72.3	86.7	106.4	108.8	207.4	198.6	409.6
TOTAL LIABILITIES	14.2	90.4	208.9	186.5	237.6	226.3	350.3	411.9	747.7

	DEC. 31, 1975	DEC. 31, 1976	DEC. 31, 1977	DEC. 31, 1978	DEC. 31, 1979	DEC. 31, 1980	DEC. 31, 1981	DEC. 31, 1982
LIABILITIES AND CAPITAL								
CURRENT LIABILITIES								
LOANS PAYABLE - SHORT TERM	372.0	481.6	659.7	690.9	912.0	1,261.9	1,215.7	1,433.0
BONDS PAYABLE - SHORT TERM	15.3	19.0	34.0	39.3	47.6	51.8	58.3	76.8
OTHER PAYABLES - SHORT TERM	173.5	204.0	193.6	314.1	620.2	1,016.6	1,182.8	1,733.8
TOTAL CURRENT LIABILITIES	560.8	704.9	887.3	1,044.3	1,579.8	2,330.3	2,456.8	3,243.6
DEFERRED INCOME								
UNEARNED INTEREST RECEIVED	15.6	12.5	17.7	15.0	17.4	16.0	16.1	42.7
MEDIUM + LONG TERM LIABILITIES								
LOANS PAYABLE - LONG TERM	457.2	420.3	360.9	606.5	628.1	464.2	640.6	754.6
BONDS PAYABLE - LONG TERM	75.0	102.0	151.7	197.6	247.4	315.7	424.8	628.1
OTHER PAYABLES - LONG TERM	-	-	-	-	2.1	2.2	4.9	56.4
TOTAL MED. + LONG TERM LIABIL.	532.2	522.3	512.6	804.1	877.6	782.1	1,070.3	1,439.1
TOTAL LIABILITIES	1,108.6	1,239.7	1,417.6	1,863.4	2,474.8	3,128.4	-	4,725.4

	DEC. 31, 1966	DEC. 31, 1967	DEC. 31, 1968	DEC. 31, 1969	DEC. 31, 1970	DEC. 31, 1971	DEC. 31, 1972	DEC. 31, 1973	DEC. 31, 1974
CAPITAL									
AUTHORIZED CAPITAL (S/. 800,000,000 IN 1981 AND 1982)									
PAID - IN CAPITAL	21.0	36.0	45.0	57.1	64.0	65.4	72.0	90.0	120.0
RESERVES	-	-	1.4	6.1	3.8	4.3	5.4	6.8	8.9
RETAINED EARNINGS	-	2.7	6.2	7.4	6.8	1.3	11.5	14.7	19.1
TOTAL CAPITAL	21.0	38.7	52.6	70.6	74.6	71.0	88.9	111.5	148.0
TOTAL LIABILITIES AND CAPITAL	35.2	129.1	261.5	257.1	312.2	297.3	439.2	523.4	895.7
CONTINGENT LIABILITIES FROM GUARANTEES	11.4	33.2	4.2	172.9	299.8	246.2	325.2	455.8	429.8
TOTAL LIAB., CAPITAL + CONTING. LIABILITIES	46.6	162.3	265.7	430.0	612.0	543.5	764.4	979.2	1,325.5

	DEC. 31, 1975	DEC. 31, 1976	DEC. 31, 1977	DEC. 31, 1978	DEC. 31, 1979	DEC. 31, 1980	DEC. 31, 1981	DEC. 31, 1982
CAPITAL								
AUTHORIZED CAPITAL (S/. 800,000,000 IN 1981 AND 1982)								
PAID - IN CAPITAL	140.9	200.0	230.0	248.4	293.1	400.0	472.0	581.5
RESERVES	11.1	22.0	30.7	40.0	58.0	63.3	74.4	86.8
RETAINED EARNINGS	32.1	38.6	42.4	51.0	61.7	73.1	86.8	35.2
TOTAL CAPITAL	184.1	260.6	303.1	339.4	412.8	536.4	633.2	703.5
TOTAL LIABILITIES AND CAPITAL	1,292.7	1,500.3	1,720.7	2,202.8	2,887.6	3,664.8	4,176.4	5,428.9
CONTINGENT LIABILITIES FROM GUARANTEES	452.8	739.0	853.8	1,414.0	1,693.7	1,958.7	2,238.1	3,022.9
TOTAL LIAB., CAPITAL + CONTING. LIABILITIES	1,745.5	2,239.3	2,574.5	3,616.8	4,581.3	5,623.5	6,414.5	8,451.8

Source: COFIEC.

C O F I E C

PROFIT AND LOSS STATEMENTS

(S/. 000,000)

	1966	1967	1968	1969	1970	1971	1972	1973	1974
REVENUES									
INTEREST + COMMISSIONS EARNED	1.7	7.2	18.0	26.7	25.3	38.5	39.7	48.5	74.5
OTHER REVENUES	.2	.6	1.7	2.0	2.3	2.2	5.0	5.3	6.5
TOTAL REVENUES	1.9	7.8	19.7	28.7	27.6	40.7	44.7	53.8	81.0
EXPENSES									
INTEREST + COMMISSIONS	.2	.9	5.7	9.3	5.8	10.5	11.8	13.9	30.2
ADMINISTRATIVE EXPENSES	1.7	3.7	6.0	8.4	9.6	12.0	11.0	13.8	17.2
DEPRECIATION + AMORTIZATION OF PROVIS.	-	.2	.3	.4	.5	.5	.5	.5	.5
PROVISION FOR DOUBTFUL ACCOUNTS	-	-	.7	1.5	1.8	10.2	4.0	3.6	4.2
OTHER EXPENSES									
TOTAL EXPENSES	1.9	4.8	12.7	19.6	17.7	33.2	27.3	31.8	52.1

	1975	1976	1977	1978	1979	1980	1981	1982
REVENUES								
INTEREST + COMMISSIONS EARNED	124.2	139.3	162.6	198.4	271.0	328.4	411.6	543.7
OTHER REVENUES	7.0	9.6	11.1	28.9	44.0	43.2	59.3	72.7
TOTAL REVENUES	131.2	148.9	173.7	227.3	315.0	371.6	470.9	616.4
EXPENSES								
INTEREST + COMMISSIONS	56.1	55.5	64.3	90.1	147.7	167.7	215.2	316.4
ADMINISTRATIVE EXPENSES	21.3	28.0	34.2	47.4	56.9	64.0	79.7	104.5
DEPRECIATION + AMORTIZATION OF PROVISIONS	.8	1.1	1.4	5.9	6.8	7.0	7.2	7.3
PROVISION FOR DOUBTFUL ACCOUNTS	3.8	4.7	7.1	7.2	7.2	8.2	12.0	37.2
OTHER EXPENSES								
TOTAL EXPENSES	82.0	89.3	107.0	150.6	218.6	246.9	314.1	465.4

	1966	1967	1968	1969	1970	1971	1972	1973	1974
INCOME FROM OPERATIONS	-	3.0	7.0	9.1	9.9	7.5	17.4	22.0	28.9
EMPLOYEES PARTICIPATION	-	.3	.8	1.3	2.0	2.4	3.4	4.3	5.3
PROVISION FOR INCOME TAX	-	-	-	.4	1.1	3.8	2.8	3.1	4.5
NET INCOME	-	2.7	6.2	7.4	6.8	1.3	11.2	14.6	19.1
RETAINED EARNINGS - PREVIOUS YEAR	-	-	2.7	6.2	7.4	6.8	1.3	11.5	14.7
SUB TOTAL	-	2.7	8.8	13.6	14.2	8.1	12.5	26.1	33.8
DIVIDENDS	-	-	-	1.1	5.7	6.1	-	10.1	12.6
TO RESERVES	-	-	1.4	4.7	1.5	.5	1.1	1.4	2.1
ADJUSTMENTS AND OTHER	-	-	1.3	.4	.2	.2	(.1)	(.1)	-
RETAINED EARNINGS	-	2.7	6.2	7.4	6.8	1.3	11.5	14.7	19.1

	1975	1976	1977	1978	1979	1980	1981	1982
INCOME FROM OPERATIONS	49.2	59.6	66.7	76.7	96.4	124.7	156.8	151.0
EMPLOYEES PARTICIPATION	8.5	10.9	12.5	14.7	18.0	22.5	29.0	27.1
PROVISION FOR INCOME TAX	8.7	10.2	11.8	11.0	16.7	20.9	20.2	25.3
NET INCOME	32.0	38.5	42.4	51.0	61.7	81.3	107.6	98.6
RETAINED EARNINGS - PREVIOUS YEAR	19.1	32.1	38.6	42.4	51.0	61.7	73.1	86.8
SUB TOTAL	51.1	70.6	81.0	93.4	112.7	143.0	180.7	185.4
DIVIDENDS	16.8	21.1	30.0	39.1	44.7	52.8	72.0	85.0
TO RESERVES	2.2	10.9	8.6	9.2	6.6	17.1	10.9	65.2
ADJUSTMENTS AND OTHER	-	-	-	(5.9)	(.3)	-	11.0	-
RETAINED EARNINGS	32.1	38.6	42.4	51.0	61.7	73.1	86.8	35.2

Source: COFIEC.

APPENDIX F

ANALYSIS OF CFN AND COFIEC BALANCE SHEETS AND PROFIT AND LOSS STATEMENTS

CFN

ANALYSIS OF BALANCE SHEETS

BY % OF TOTAL ASSETS FOR SELECTED YEARS

	1966	1973	1980	1982
	%	%	%	%
ASSETS				
CURRENT ASSETS				
CASH	3.0	2.2	2.6	3.9
LOANS RECEIVABLE	3.5	15.1	27.9	32.1
OTHER RECEIVABLES	2.3	14.9	4.3	6.6
INVESTMENTS	-	-	-	-
PREPAID EXPENSES	-	.1	.1	.3
TOTAL CURRENT ASSETS	8.8	32.3	34.9	42.9
OTHER ASSETS				
LOANS RECEIV. LONG-TERM	41.3	52.4	40.7	31.0
OTHER RECEIV. LONG-TERM	48.7	-	1.0	5.2
LONG TERM INVESTMENTS	1.0	11.3	19.9	16.8
OTHER ASSETS	.1	2.0	1.0	.8
BLDG., LAND, EQUIP. (NET)	.1	2.0	2.5	3.3
	91.2	67.7	65.1	57.1
TOTAL ASSETS	100.0	100.0	100.0	100.0

LIABILITIES AND CAPITAL				
CURRENT LIABILITIES				
LOANS PAYABLE	-	3.2	23.9	24.6
BONDS PAYABLE	-	4.1	.5	4.0
OTHER PAYABLE	-	3.1	3.5	3.2
TOTAL CURRENT LIABILITES	-	10.4	27.9	31.8
DEFERRED INCOME INTEREST, ETC.	4.4	-	-	-
MEDIUM AND LONG TERM LIAB.				
LOANS PAYABLE	27.9	-	40.5	41.2
BONDS PAYABLE	-	-	7.6	3.2
OTHER PAYABLE	.1	-	-	-
TOTAL MED. AND LONG TERM LIAB.	28.0	47.6	48.1	44.4
TOTAL LIABILITIES	32.4	58.0	76.0	76.2
CAPITAL				
AUTHORIZED CAPITAL (S/.2,000,000,0000)				
PAID-IN CAPITALS	67.5	34.9	24.9	17.3
RESERVES	-	-	(.7)	5.9
RETAINED EARNINGS	-	7.1	(.2)	.6
	67.5	42.0	24.0	23.8
CONTINGENCY RESERVES	.1	-	-	-
TOTAL LIABILITES, CAPITAL AND RESERVES	100.0	100.0	100.0	100.0

Source: CFN.

CFN

ANALYSIS OF PROFIT AND LOSS STATEMENTS BY % OF REVENUES FOR SELECTED YEARS

	JUNE 30, 1965 (1)	DEC. 31, 1974 (1)	DEC. 31, 1980	DEC. 31, 1982
REVENUES				
INTEREST AND COMMISSIONS	91.8	82.1	88.1	86.4
OTHER REVENUES	8.2	17.9	11.9	13.6
TOTAL REVENUES	100.0	100.0	100.0	100.0
EXPENSES				
INTEREST AND COMMISSIONS	5.3	45.3	67.6	63.0
ADMINISTR. EXPENSES	10.3	25.0	20.9	22.4
DEPRECIATION AND AMORTIZ.	-	.8	1.3	1.4
PROVISION FOR DOUBTFUL ACCOUNTS	-	1.3	9.9	9.6
TOTAL EXPENSES	15.6	72.4	99.7	96.4
INCOME FROM OPERATIONS	84.4	27.6	.3	3.6
EMPLOYEES PARTICIPATION	-	-	-	-
PROVISION FOR INCOME TAX	-	-	-	-
NET INCOME	84.4	27.6	.3	3.6
RETAINED EARNINGS-PREV. YEAR	64.6	67.0	(8.6)	3.6
SUB TOTAL	149.0	94.6	(8.3)	7.2
DIVIDENDS	-	-	-	-
TO RESERVES	64.6	-	-	-
ADJUSTMENTS AND OTHER	-	-	(5.7)	.1
RETAINED EARNINGS	84.4	96.4	(2.6)	7.3

(1) No data available for 1966 and 1973. For purpose of comparison between CFN and COFIEC it was taken the closest data available to the referred years, that is 1965 and 1974.

Source: CFN.

C O F I E C

ANALYSIS OF BALANCE SHEETS

BY % OF TOTAL ASSETS FOR SELECTED YEARS

	1966	1973	1980	1982
	%	%	%	%
ASSETS				
CURRENT ASSETS				
CASH	4.1	4.7	3.3	.9
LOANS RECEIVABLE	28.1	25.4	33.3	33.4
OTHER RECEIVABLES	3.2	1.4	3.6	7.6
INVESTMENTS	3.9	3.0	1.8	1.8
PREPAID INTEREST	.4	.2	.4	.3
TOTAL CURRENT ASSETS	39.7	34.7	42.4	44.0
OTHER ASSETS				
LOANS RECEIV. - LONG TERM	31.7	16.6	19.3	18.1
INVESTMENTS - LONG TERM	.6	1.0	.4	
BLDG., LAND, EQUIP - NET	.9	1.1	2.9	1.9
DEFERRED EXPENSES	2.6	.1	.2	.2
TOTAL OTHER ASSETS	35.8	18.8	22.8	20.2
TOTAL ASSETS	75.5	53.5	65.2	64.2
CONTINGENT GUARANTEES	24.5	46.5	34.8	35.8
TOTAL ASSETS AND CONTING. ASSETS	100.0	100.0	100.0	100.0

	1966	1973	1980	1982
	%	%	%	%
LIABILITIES AND CAPITAL				
CURRENT LIABILITIES				
LOANS PAYABLE	18.9	16.6	22.4	17.0
BONDS PAYABLE		.5	.9	.9
OTHER PAYABLES		4.2	18.1	20.5
TOTAL CURRENT LIABILITIES	18.9	21.3	41.4	38.4
DEFERRED INCOME UNEARNED INTEREST REC'D	6.0	.5	.4	.5
MEDIUM + LONG TERM LIABILITIES				
LOANS PAYABLE	5.6	17.4	8.3	8.9
BONDS PAYABLE		2.9	5.6	7.4
OTHER PAYABLES				.7
TOTAL MED. + LONG TERM LIABILITIES	5.6	20.3	13.9	17.0
TOTAL LIABILITIES	30.5	42.1	55.6	55.9
CAPITAL				
AUTHORIZED CAPITAL (S/. 800 IN 1982)				
PAID IN CAPITAL	45.0	9.2	7.1	6.9
RESERVES		.7	1.1	1.0
RETAINED EARNINGS		1.5	1.3	.4
TOTAL CAPITAL	45.0	11.4	9.5	8.3
TOTAL LIABILITIES + CAPITAL	75.5	53.5	65.2	64.2
CONTINGENT GUARANTEES	24.5	46.5	34.8	35.8
TOTAL LIABILITIES, CAPITAL + CONTING. LIABILITIES	100.0	100.0	100.0	100.0

Source: COFIEC.

C O F I E C

ANALYSIS OF PROFIT AND LOSS STATEMENTS

BY % OF REVENUES FOR SELECTED YEARS

	1966	1973	1980	1982
	%	%	%	%
REVENUES				
INTEREST + COMMISSIONS	89.5	90.1	88.4	88.2
OTHER REVENUES	10.5	9.9	11.6	11.8
TOTAL REVENUES	100.0	100.0	100.0	100.0

	1966	1973	1980	1982
	%	%	%	%
EXPENSES				
INTEREST + COMMISSIONS	10.5	25.8	45.1	51.3
ADMINISTRATIVE EXPENS.	89.5	25.7	17.2	17.0
DEPRECIATION + AMORTIZ.	-	.9	1.9	1.2
PROVISION FOR DOUBTFUL ACCOUNTS	-	6.7	2.2	6.0
TOTAL EXPENSES	100.0	59.1	66.4	75.5
INCOME FROM OPERATIONS	-	40.9	33.6	24.5
EMPLOYEES PARTICIPATION	-	8.0	6.1	4.4
PROVISION FOR INCOME TAX	-	5.8	5.6	4.1
NET INCOME	-	27.1	21.9	16.0
RETAINED EARNINGS - PREV. YR.	-	21.4	16.6	14.1
SUB TOTAL	-	48.5	38.5	30.1
DIVIDENDS	-	18.8	14.2	13.8
TO RESERVES	-	2.6	4.6	10.6
ADJUSTMENTS + OTHER	-	(.2)	-	-
RETAINED EARNINGS	-	27.3	19.7	5.7

Source: COFIEC.

APPENDIX G

GDP DEFLATOR AND EXCHANGE RATES

GDP Deflator and Exchange Rates

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GDP Multiplier*			Exchange Rates Official		Free Market
1982 = 1.00			S/	:	$
[illegible]	[illegible]		15.00		N.A.
[illegible]	[illegible]		15.00		N.A.
[illegible]	[illegible]		18.00		N.A.
1963	6.85		18.00		N.A.
1964	6.63		18.00		18.7
1965	6.39		18.00		18.7
1966	6.00		18.00		20.7
1967	5.54		18.00		20.4
1968	5.50		18.00		22.2
1969	5.12		18.00		21.2
1970	4.69		18.00		19.9
1971	4.36		25.00		25.4
1972	4.26		25.00		26.0
1973	4.02		25.00		25.2
1974	2.87		25.00		24.6
1975	2.61		25.00		25.3
1976	2.31		25.00		27.4
1977	1.97		25.00		27.1
1978	1.82		25.00		26.4
1979	1.55		25.00		27.5
1980	1.35		25.00		27.7
1981	1.19		25.00		30.5
1982	1.00		33.00		50.1
April '83			42.00 + 0.05/day		
Sept. '83		Approx.	50.	Approx.	90.

*Inverse of GDP Deflator

Source: BCE

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APPENDIX H

SUMMARIES OF INTERVIEWS WITH SAMPLE BORROWERS

1. CASE NO. 1

This manufacturer of Kraft paper, paper sacks, and filler for cardboard boxes began operations in 1968 with an AID subloan from CFN. The company is associated with one of Ecuador's larger sugar mills. The project was initiated with the production of pulp from surplus bagasse (plant residue). As a consequence, the company was considered an agroindustry and, because of its rural location, was placed in the "special" category, receiving most favored treatment with respect to tariff and tax exemptions. The company's major markets are the sugar and cement industries, which use paper sacks. The company began with 120 direct employees and has grown to about 280. Because the company also purchases and [illegible] cardboard containers, a certain amount of indirect [illegible] also generated in their collection and transportation. Current capacity is about 18,000 metric tons is expected to rise to about 30,000 through an expansion now underway.

As stated above, the company began operations with surplus bagasse as the principal raw material for pulp production. Because paper made from bagasse, which produces a short fiber pulp, is relatively weak in single layers, the company produced five-ply bags to provide the necessary strength.

During the mid-1970s, the company began to lose sales to competing firms producing polypropylene bags, which are made entirely from imported raw materials. Investment in polypropylene was favored by an overvalued exchange rate and tariff exemptions granted by the Industrial Promotion Law.

In response to this competition, the company invested in new technology enabling the production of Kraft papers with a higher degree of elasticity and strength using the so-called CLUPAK process. This permitted the production of 3-ply bags with strength superior to that of the existing product, but requiring a long-fiber pulp. Because there was no domestic production of long-fiber wood pulp, production was switched entirely to the use of imported raw materials.

With the recent currency devaluations, polypropylene bags are no longer competitive (indeed, their manufacturer may face bankruptcy), and the paper company's sales prospects have brightened. However, for the foreseeable future, the company is committed to the import of long-fiber pulp and, attributable at least in part to its investment in the CLUPAK technology, it is faced with interest and commission costs that reached 22 percent of gross sales revenues in 1982. The harmful long-run effects of an overvalued exchange rate, excessive tariff protection, and interest rate subsidies, all of which favor capital intensity, are clearly evident in the history of this sub-borrower.

2. CASE NO. 2

This producer of household appliances began operations in 1964 with an AID subloan from CFN. The company began as a joint venture between Colombian and Ecuadorean investors and was oriented from the beginning toward both the Ecuadorean market and some exports within the Andean region. Since 1964, employment has grown to 1,000 full-time workers and a gross capacity of approximately 150,000 units, including stoves, refrigerators, freezers, and washing machines.

With sales of S/912 million in 1982, the company was spending approximately S/160 million on components and supplies, thus generating significant indirect employment and income.

When the company was producing for export, it was obliged under the conditions of the Andean Pact to import compressors from Colombia for all refrigeration units sold in the Andean region. Compressors sold domestically are imported from outside the region, because the cost of Colombian compressors exceeds the cost of extraregional imports by a margin substantially greater than the 30-percent import tariff currently in force. In total, the company imports about 60 percent of the raw materials it uses.

For a variety of reasons, the company is currently undergoing severe financial difficulties. One important reason is the recent closure of the Venezuelan and Colombian markets for their products. In 1979, when the company reached maximum production of 112,000 units, 30,000 were exported into the Andean Market, which today is shut down entirely.

3. CASE NO. 3

This producer of business forms and specialized inks and dyes for plastics received an AID subloan from CFN in 1966 for the construction of a plant and importation of additional equipment. Company sales have expanded in real terms by only about 2 percent annually since 1970, but this is largely due to an ill-fated venture into distribution of computer hardware, which was abandoned following sizable losses. The company's financial stability has since been restored, and management is considering approaching CFN for financing of a further expansion of the existing product lines.

All of the raw materials used in the production of business forms are imported, as are 90 percent of raw materials for inks and dyes. The key domestic raw material used is industrial alcohol, produced from sugar cane by a Government monopoly enterprise. Management complained of serious difficulties in the regularity of supply of industrial alcohol from this source. Also, they claimed that tariffs on the raw materials needed for the manufacture of certain specialized inks were higher than on the importation of the ink products themselves, thus discouraging the company's diversification into these lines.

4. CASE NO. 4

This company was funded in 1964 to produce compound fertilizers for the agricultural sector of Ecuador. It received a startup loan of almost US$1 million in an AID subloan from CFN. It used these funds to construct the first buildings and import the first mixing machinery and equipment from the United States. In 1969, the company received a US$300,000 AID subloan from COFIEC for purchases of additional equipment. It is interesting to note that this company was the recipient of 22 percent of all subloans under the AID loan to CFN (518-L-014) and 10 percent of all subloans under the AID loan to COFIEC (518-L-026).

This company is, and has been since its inception, the only national-level domestic fertilizer manufacturer in the country. It currently provides 96 percent of all compound fertilizers and 50 percent of all simple fertilizers used in Ecuador. Its sales reached S/608 million (about US$17 million) in 1982. In June 1983, the Government began fixing the sales prices of fertilizer. Until that time, the company had priced its own goods, using a combination of world price and cost and profit calculations.

A limiting factor on profits, besides the fixing of sales prices, is that all raw material inputs to fertilizer processing are imported from the United States. With prices controlled at both ends of the manufacturing process and the only variable over which they have any influence being the cost of operations, the company will be facing some difficult times.

In 1971, ownership of the company changed from 100-percent private ownership to mixed ownership, with the Government of Ecuador (through CFN and Banco Nacional de Fomento) and private stockholders each having a 50-percent share. In 1976, Government ownership increased to 84 percent (CFN, 28 percent; Banco de Fomento, 49 percent; and Ministry of Agriculture, 7 percent). The Government took control of the company because the provision of fertilizer was considered to be a basic industry for the agricultural sector and a priority in the socioeconomic development of Ecuador.

5. CASE NO. 5

This company began operations in 1966 with starting capital of S/10 million; S/4 million came from COFIEC (AID funds) and S/6 million from individual shareholders.

The company is the largest domestic manufacturer of ceramic dish sets. Its product line includes dinner plates, bowls, cups, saucers, coffee pots, serving dishes, ashtrays, and flower vases and has expanded from 2 styles in 1966 to 25 in 1983.

The policy of the company from the start was to maximize use of domestic raw materials to maximize penetration of the domestic sales market for its products. Currently, 99 percent of its raw materials and 100 percent of its sales are domestic. It is a classic example of the import-substitution model.

The company owns a number of mines that produce the raw materials used in its manufacturing processes, but it uses the output from these mines only as emergency supply. It uses a cadre of traveling buyers and quality inspectors to purchase the raw materials from small private mineowners.

This company has undergone two major plant expansions since its inception. Their output growth over the years is as follows:

Year	Units	Sales
1969	40,000	S/438,000
1972	3,400,000	S/15,000,000
1982	12,700,000	S/194,000,000

The company is financially and managerially solid; other than a small balance on its last COFIEC expansion loan, it has no loans outstanding. Its plant currently operates at 80-percent capacity, an increase from 40 percent in 1972. The company employs 278 persons in the following capacities: 20 percent administrative, 50 percent skilled, and 30 percent unskilled.

6. CASE NO. 6

This shrimp packing company was formed with entirely private capital in 1958. In addition to the packing, freezing, and exporting of shrimp, the company operates a fleet of 12 shrimp boats and a number of shrimp farms. Yet its main source of supply of fresh shrimp is from a fleet of individually owned shrimpers operating in the Guayaquil area. The shrimp farms are used mainly for emergency supplies when the catch falls below plant capacity level. There have been times when the farms have supplied up to 90 percent of the shrimp packed; 1983, however, was a good year for natural shrimp and the farms supplied only 10 percent of production.

The original COFIEC/AID loan in 1967 was used to purchase the first grading and sizing machine. The company now owns two such machines and a number of sophisticated freezing machines. Of the total 200 employees of the company, approximately 100 work in the factory itself, shelling and packing the shrimp.

Exports to the United States, through New York and Los Angeles, make up 95 percent of sales. The balance of 5 percent is sold on the domestic market. Sales in 1982 reached a level of US$7.3 million, ranking the company number two in total sales among similar companies in Ecuador.

The company is financially sound, having shown a loss in only 1 year of its 24 years of existence. Officials of the company indicated that the company had little need for credit except for expansion, and that when credit is needed, they have no trouble obtaining loans.

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