

**PRIVATIZATION SURVEY AND PROGRAM DESIGN**

**ECUADOR**

**REPORT BY**

**Kenneth M. Crosby & Steven M. Rubin**

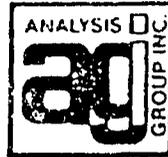
**CENTER FOR PRIVATIZATION**

1750 New York Avenue, N.W.  
Washington, D.C. 20006

Center Project No. 12

June 15, 1986

Prepared for the  
BUREAU OF PRIVATE ENTERPRISE  
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



## CENTER FOR PRIVATIZATION

The Center For Privatization was established in 1985 to provide expert advisory services to developing countries and their indigenous private sectors in planning and implementing programs to divest and privatize their state-owned or controlled enterprises and activities. The Center is fully funded under a major contract between Analysis Group Inc. and the Agency for International Development. Participating sub-contractor companies include:

Arthur Young & Co.  
Equity Expansion International  
Ferris & Company, Inc.  
International Phoenix Corporation  
Public Administration Service

The Center draws upon its consortium of six companies, and others when appropriate, to provide a wide range of qualified specialists in fields from agriculture, industry, financial and other services, transportation, and utilities with experience in areas related to privatization. such as:

Corporate Restructuring  
Employee Stock Ownership  
Equity Placement  
Financial Analysis and Valuation  
Labor Relations  
Legal and Regulatory Studies  
Macro/Micro Economic Analyses  
Marketing and Market Research  
Project Design and Evaluation  
Strategic Planning  
Taxation

This report was prepared under  
AID Contract No. DPE-0008-C-00-5808-00  
between the Agency for International Development  
and Analysis Group Inc.

The authors, Kenneth Crosby and Steven Rubin are  
consultants to Analysis Group Inc.

## TABLE OF CONTENTS

### PRIVATIZATION IN ECUADOR

Executive Summary. . . . .	.iv
I. Introduction. . . . .	1
II. Findings and Recommendations. . . . .	4
A. Findings. . . . .	4
B. Recommendations. . . . .	8
III. Critical Issues. . . . .	9
IV. Accomplishments. . . . .	13
V. Follow-Up. . . . .	14
VI. Privatization Design. . . . .	16
A. Phase One Privatization. . . . .	16
Task 1.0: Accelerated Divestiture. . . . .	16
Activities. . . . .	16
USAID/Ecuador. . . . .	16
Team Liason with GOE. . . . .	16
Workplans. . . . .	17
Report to GOE. . . . .	17
Task 2.0: Further Privatization Planning. .17	
Objective. . . . .	17
Activities. . . . .	18
Goals. . . . .	18
Identification . . . . .	18
Preliminary Profiles. . . . .	19
Privatization Techniques. . . . .	19
Criteria for Prioritization. . . . .	20
Financing. . . . .	20
Socio-Economic Impact Analysis. . . . .	20
Public Awareness. . . . .	21
Privatization Proceeds. . . . .	21

B.	Phase Two Privatization: Implementation. . . . .	22
	Task 3.0: Divestiture of State Owned Enterprises . . . . .	.22
	Activities. . . . .	22
	Full Enterprise Profiles. . . . .	.23
	Enterprise Strategy. . . . .	.25
	Prospectus and Marketing. . . . .	29
	Task 4.0: Contracting Out Private Management. . . . .	.31
	Objective. . . . .	.31
	Activities. . . . .	32
	Identification of Contracting Opportunities. . . . .	.32
	Formulation of Enterprise Contracting Plan. . . . .	.32
	Implementation of Contracting Plan. . . . .	.33
	Task 5.0: Liquidation. . . . .	34
	Enterprise Valuation. . . . .	.34
	Liquidation Plan and Implementation. . . . .	.35
VIII.	Project Schedule. . . . .	.35
	A. The Program. . . . .	35
	B. Getting Started. . . . .	37
	Proposed Project Schedule. . . . .	40

## LIST OF APPENDICES

- Appendix I Country Privatization Checklist
- Appendix II List of Interviewees
- Appendix III Report to the Presidency: Privatization in Ecuador (English and Spanish)
- Appendix IV CFN Companies
- Appendix V Selected State Owned Enterprises
- Appendix VI Selected State Owned Enterprises (Superintendencia de Companias)
- Appendix VII Profiles of Selected State Owned Enterprises (Superintendencia de Companias)

## EXECUTIVE SUMMARY

A project team visited Ecuador during the period May 5 through May 19, in order to assess prospects for privatization. Among its findings the team noted that the Government of Ecuador (GOE) has expanded into commercial business activity less as a matter of policy than of happenstance and is now operating or attempting to operate businesses of all types, including everything from airlines to sugar mills and cement plants. Ecuador's President and cabinet-level officials wish to turn back this trend. They are committed to privatization as a means to encourage the operation of competitive market forces and to reduce the role of the government in Ecuador's economy. Obstacles remain, however, including the absence of a mechanism to translate a philosophical commitment to privatization into a results-oriented program, opposition from vested interests (particularly mid-level government bureaucracy), difficulties in preparing a reliable financial profile for the proper valuation of targeted firms, reluctance to sell at real market value (when below book), difficulties in coordinating divestiture of separately held government interests in a single company, and the fact that the present GOE is already in mid-term.

Critical issues under consideration include the ability of the GOE to designate an appropriate implementing body to actually create a results-oriented privatization program, whether the GOE will authoritatively select a limited number of companies (e.g.,

6-8) for an "accelerated divestiture" program (within next several months), the divestment techniques utilized for the companies, whether incentives are sufficiently high to attract foreign investment, and whether a mechanism can be developed to coordinate divestiture of separate government interests in a single enterprise.

The May 1986 Mission accomplished several purposes. It raised the topic of privatization among the highest levels of the GOE, and included meetings with, among other government and private sector leaders, the Vice President, the Minister of Foreign Relations and the Minister of Industry. It provided an opportunity to review the steps necessary to achieve privatization goals. It also laid a foundation for USAID assistance in this area. In addition, the mission helped to identify constraints (above) to privatization and to recommend solutions.

The team's recommendations form the basis of the Privatization Design in the report that follows. This consists of two phases. PHASE ONE involves the further design and implementation of the GOE's accelerated divestiture program under which six to eight enterprises will be divested within a few months. It also entails design of a more gradual but far-reaching program of divestiture, liquidation, and contracting private management for other enterprises. Employee ownership will also be studied. PHASE TWO involves the implementation of this longer-range design. The

whole program should be executed in about two years. Ideally, broad bipartisan support mobilized in part by a public awareness campaign would carry the program through any changes in the GOE.

## I. INTRODUCTION

A project team from the Center for Privatization consisting of Kenneth Crosby and Steven M. Rubin (Arthur Young & Co. and American Transnational Trade Consultants, Ltd., Washington, D.C.) visited Ecuador during the period May 5 through May 19 at the invitation of the Government of Ecuador (GOE), and the USAID Mission in Ecuador. The purpose of the mission was to review the GOE's emerging privatization activities in the industrial sector while taking into account on-going USAID supported privatization activities in agriculture.

Since the GOE's privatization activities outside of agriculture had only recently begun, USAID/Ecuador was in the initial stages of considering what role, if any, it might assume in support of GOE efforts. The team was invited to Ecuador with a view toward helping to discern the depth of the GOE's commitment to privatization and prospects for success. Through consultations with the GOE, leaders in Ecuador's private sector, and USAID, the team was to help identify constraints to GOE privatization and develop a plan to facilitate the process.

The team's preparation began in Washington, D.C. prior to departure. Meetings were held with Ecuador's Ambassador to the

United States and commercial attache. In addition, the team met with the Director of Ecuador's Monetary Board Authority and the President of Ecuador's Corporacion Financiera Nacional (CFN) (both in Washington for other meetings with international financial institutions). The team also met with World Bank, International Finance Corporation and Inter-American Development Bank officials. In New York the team held discussions with investment bankers (representatives from Bankers Trust and Citicorp) who were working with authorities in Ecuador to develop a satisfactory mechanism to convert foreign debt to equity in local companies. The Center also arranged for the team to meet with other (Center) consultants involved in privatization efforts in Panama and Honduras. By way of background the team also reviewed the analyses referenced in the attached bibliography.

In Ecuador the team was received by the highest levels of government. Together with the USAID Mission Director and Private Sector Chief, the team was received early in its visit by the Vice President of Ecuador. A follow-up meeting was requested by the Vice President for the team to present its preliminary findings to him. (See Appendix III). The subsequent meeting was attended by the U.S. Ambassador to Ecuador as well as the USAID Mission Director and Private Sector Chief. Together with these officials, the team also met with Ecuador's Minister of Industry and Minister of Foreign Relations.

Apart from these Cabinet level contacts, the team also met with numerous government and private sector experts in investment and finance. The team is deeply appreciative of the valuable comments and insights contributed by all those contacted.

The report that follows is based upon our analysis of the above referenced sources as well as other materials. A complete listing of our interviewees is attached as Appendix II to this report. Appendix I consists of a "Country Privatization Checklist." A bibliography is also attached.

Without the efforts of Fernando Rondon, the U.S. Ambassador to Ecuador, Orlando Llenza, the USAID Mission Director, and Mr. James Finucane, the Private Sector Division Chief, this type of visit would have been impossible. The team gratefully acknowledges their efforts on our behalf. The team also thanks Paul Haire, Project Manager, USAID, Washington, D.C., and Alex Tomlinson, Gordon Johnson and Andrea Love of the Center for Privatization. This report follows a format and structure developed by the Center.

The team accepts full responsibility for the content of this report, however. The views and opinions expressed are those of

the authors, and do not necessarily reflect the views, policies, or positions of any part of the U.S. Government.

## II. FINDINGS AND RECOMMENDATIONS

### A. Findings

1. The GOE has grown into many areas of economic activity less as a matter of policy than of happenstance. The Social Security Institute, the Ministry of Agriculture, the Air Force, the Navy, the Banco Nacional de Fomento, CFN, and a variety of other government organisms are operating or attempting to operate businesses of all types, including everything from commercial air lines and hotels to sugar mills, cement plants and industrial parks.

Symptomatic of the problem this represents for public administration is the apparent lack of information available to government officials on the nature, extent, and fiscal impact of government-wide holdings. The officials we interviewed noted that at present no single data base reflects the total role of the public sector in the national economy. Appendices IV-VII set forth such information as is available at this time.

The World Bank has found that, "the whole public sector grew rapidly-- its real value added tripled during 1973-1982" and that

"one of the major growth elements came from state enterprises." <sup>1</sup>  
The state oil company (CEPE) and the electricity institute (INECEL) were major contributors to the accelerated public sector growth. <sup>2</sup> All of this was fueled by the oil boom in the 1970s (In 1973 world oil prices quadrupled and Ecuador became a member of OPEC). After 1980, as oil prices stagnated, "Ecuador's public outlays--now dependent on oil receipts--would have dropped if the authorities had not rapidly increased their external borrowings."<sup>3</sup>

Ecuador's public external debt more than doubled just in the period end-1979 to end-1983. <sup>4</sup> In short, the demands of Ecuador's burgeoning public sector can no longer be met through oil export receipts and have led the country into external dependence and debt.

2. GOE officials are committed to privatization. Ecuador's Vice President, Minister of Industry, Minister of Foreign Relations and others interviewed all signified a deep commitment to privatization in principle. Indeed, it is noteworthy that the Vice President and the President of the Corporacion Financiera Nacional specifically identified a role for independent auditors

---

<sup>1</sup> Ecuador: An Agenda for Recovery and Sustained Growth, World Bank, pp. ii-vii, (October 5, 1984).

<sup>2</sup> Id.

<sup>3</sup> Id.

<sup>4</sup> Id.

of international reputation to profile firms held by CFN and to prepare a prospectus for their sale. In addition to this support by the present GOE, it appears that the principal opposition political party may also favor a privatization program.

Notwithstanding the GOE enthusiastic support, obstacles still remain. After two years of planning for privatization in the agricultural sector, a commodities exchange has been established, and a list of target enterprises selected. Further progress, however, has not yet occurred. In industry, CFN has announced a program to divest its holdings. Yet few sales of any significance have been recorded and there appear to be significant constraints (below) to any real progress.

3. Constraints. Principal among these are:

- a. The late stage of the present GOE (two years remain until new Presidential elections);.
- b. Absence of a GOE body or mechanism to translate GOE philosophical commitment to privatization into a policy capable of systematic execution;

- c. Opposition from vested interests, particularly mid-level bureaucracy. For example, employees of CFN also hold high-paying managerial positions in the companies CFN owns;
- d. Difficulties in obtaining a complete and accurate financial and business profile of candidates selected for divestiture (such information is essential to prepare a reliable sales prospectus and to attract private investors);
- e. Apparent reluctance among such institutions as CFN to divest at less than book value even those firms in their portfolio that are experiencing severe financial difficulties and that could not possibly attract private buyers except at a realistic offering price below present book value; and a similar reluctance to divest profitable companies (in part because of the need to sustain the unprofitable ones); and

- f. Difficulties in coordinating the divestiture of certain companies where several institutions participate separately in the ownership of such companies.

## B. Recommendations

We recommend that the GOE implement the two-phase privatization program set forth in section V of this report: (Phase One) an accelerated divestiture effort designed to produce immediate benefits; (Phase Two) implementation of a more gradual but far-reaching approach designed to have a significant and lasting impact on Ecuador's economy.

Under Phase One, a high-level GOE implementing body would be established to require such institutions as CFN, Social Security, BNF, and so forth to divest a limited number of companies (e.g., totalling 6-8) within the next few months.

Under Phase Two, the implementing body would continue and extend the divestiture process already initiated and undertake additional privatization efforts described below.

### III. CRITICAL ISSUES

1. GOE implementing body. The GOE must determine how to transform its philosophical commitment to privatization into a practical and results oriented program or policy capable of systematic implementation. Several suggestions have been put forward:

- a. Establishment of a privatization task force (or Ombudsman) within the Office of the Vice Presidency;
- b. Reliance on a standing Inter-Ministerial Committee (already operating); and
- c. Establishment of a private sector advisory committee.

We feel that it is imperative that the GOE act quickly to designate a responsible body. The GOE itself is probably best situated to determine which mechanism is most appropriate. We hope that the privatization plan put forward in part IV. below will assist the GOE in reaching an appropriate determination as to the best executing body. We have provided for a technical assistance team to make such a recommendation as part of its

initial work if the matter is not resolved by the scheduled time of the first team's arrival.

2. Identification of accelerated divestiture candidates. It is also critically important that the GOE initiate the accelerated divestiture process (Phase One, below) by instructing the relevant agencies to divest a limited number of companies (e.g. 6-8) within the next few months. This will demonstrate genuine commitment and create momentum for further action. Identification of accelerated divestiture candidates can, however, form part of the above referenced team's recommendations if not already attended to by date of arrival.

3. Divestment procedures. Recent attempts at government divestments have come under scrutiny in Ecuador due to questioned procedures. It is therefore advisable that every effort be made to assure that sales are conducted publicly and that sales are made on a fair and even-handed basis. The participation of independent auditors in the preparation of publicly available prospectuses should aid in this process. The President has already instructed that CFN should make public share offerings through the stock exchanges as feasible. We agree with this approach. Public share offerings have the advantage of encouraging the public to participate in the capital markets and of widening distribution of ownership. Innovative techniques

might be used to achieve these ends. For example, it has been suggested that a sale of a minority of shares by public offering can be combined with the sale of the remainder to a control group, while requiring the group to make public offering of part of the majority shares at a later date. The technical assistance team will work with local counterparts to study the possibilities further.

4. Public awareness. We received Cabinet-level comments on the value of a public awareness campaign in Ecuador in support of privatization. No matter how fairly and skillfully conducted, a privatization program is likely to give rise to charges that the government is favoring private interests at the expense of the public good. To head off this type of opposition, the GOE should undertake a public awareness program that would demonstrate: (1) the extent to which a bloated government strains the national budget and injures the interests of the average citizen; (2) the benefits resulting from privatization (e.g. additional investment flows, lower prices for consumers, improved services, enhanced opportunities for economic growth, broadened and diversified capital ownership). USAID may wish to consider helping to fund such an activity.

5. Foreign investment. While the GOE has certainly taken steps to bring foreign investment to Ecuador (including, notably, the signing of an agreement with the U.S. Overseas Private Investment Corporation), in many cases a perception still exists abroad that returns are not sufficiently high to justify investment risks. Restrictive labor legislation and high corporate income and withholding tax rates can reduce effective return on investment. Perceived political and commercial instability create a climate of uncertainty further reducing investment returns. An innovative mechanism under discussion that would increase effective return on investment is the debt-equity swap. Ecuadoran debt purchased at a discount would be accorded full face value for local currency equity purchases. The GOE is still weighing the benefits of such a policy. USAID might consider making technical assistance available to the GOE to help craft an appropriate program that would minimize dangers of inflation or other unfavorable impacts while increasing incentives for new investment flows.

6. Coordinating divestiture among diverse state agencies. Where various state agencies separately participate in the ownership of a company, a mechanism needs to be developed to coordinate and facilitate sale of total aggregated GOE participation. For example, the executing privatization body might designate one participant (e.g., CFN) as the purchaser of the others' shares

(e.g., IESS and Ministry of Agriculture). The intervention of the executing agency would be key to swiftly and authoritatively coordinating the process and avoiding inter-agency turf battles and delay.

#### IV. ACCOMPLISHMENTS

The May mission to Ecuador served to:

- (1) raise the topic of privatization among the highest levels of the GOE;
- (2) help forge a consensus among GOE officials concerning the need to take practical steps to accomplish its privatization goals; and
- (3) lay a foundation for USAID assistance to the GOE in furtherance of the GOE's privatization program.

In addition, the mission also helped to:

- (1) identify constraints to privatization in Ecuador; and

- (2) recommend solutions to overcome these constraints. Perhaps the most useful solution is the systematic approach to privatization put forward in the next section.

#### V. FOLLOW-UP

We anticipate that following the May 1986 mission (and our written report to the Vice President) USAID/Ecuador has been working with the GOE to establish an executing body to direct a privatization effort (see Issues above). The GOE may already have selected several companies for "accelerated divestiture." We envision remaining activities forming a two-phase process. PHASE ONE will consist of two parallel "tasks." The first task will entail the further design and implementation of the GOE's accelerated divestiture program. This is a pilot program under which some six to eight enterprises will be divested immediately within the next few months. To build momentum into the program it is imperative that initial companies selected show high prospects for success (i.e., that divestiture will produce perceived benefits to the public-at-large, the buyers, and the GOE). The second task will entail planning for a more far-reaching privatization program. Planning will involve further identification and prioritization of enterprises. It will also extend to consideration of liquidation, contracting out private

management, and employee ownership schemes. This is a more gradual effort, intended to garner broad bipartisan support. Ideally, the program will enjoy sufficient popularity so that a new GOE will wish to extend it.

PHASE TWO consists of three parallel tasks. After the planning that occurs in the first phase, and the experience derived through the pilot divestiture program, the larger program will be subject to implementation. Thus, additional and perhaps increasingly complex enterprises will be divested (perhaps in some cases according to employee ownership schemes). At the same time, in instances where divestiture is not feasible, the management of selected enterprises will be contracted out to qualified private firms. Likewise, financially troubled enterprises that are no longer viable will be liquidated.

In the following section (VI. Privatization Design), the whole program is described in detail. Performance of PHASE ONE should occur within one year. The entire program may be completed within two years. A performance schedule below includes specific terms of reference for a technical assistance team to initiate the program by beginning tasks one and two of PHASE ONE as described earlier.

## VI. PRIVATIZATION DESIGN

### A. Phase One Privatization

#### Task 1.0 Accelerated Divestiture

Objective: Rapid divestiture of companies targeted by selected GOE institutions pursuant to advice from GOE implementing body.

#### Activities:

1.1 USAID/Ecuador. Pursuant to May mission, USAID follow-through with GOE, laying groundwork for arrival of short-term technical assistance teams ("Team"). USAID assists with establishment of GOE implementing body and issuance of GOE directive to selected agencies on divestiture of limited number of companies within few months time. To build momentum into the program, it is imperative that initial companies selected show high prospects for success, (i.e., that their divestiture will produce perceived benefits to the GOE, buyers, and the public-at-large).

1.2 Team liaison with GOE. Team liaison with members of the GOE implementing body to develop specific workplans. If GOE body not yet established and/or GOE directive on accelerated divestiture

not yet issued, then direct meetings with chiefs of CFN, IESS, BNF and other selected agencies to establish workplans to implement immediate divestiture of limited number of enterprises held by each agency.

1.3 Workplans. The workplans are based on the outline of activities set forth in Task 3 below, "Divestiture of State Owned Enterprises". Workplans include provision for interim progress evaluations (and criteria). Workplans specifically address scheduling, extent and type of AID-funded expatriate assistance and GOE support required to implement divestitures. Workplans finalized for divestiture of companies owned by CFN, IESS, etc.

1.4 Report to GOE. On basis of specific institutional level workplan experience, report made to Vice Presidency (or indicated GOE agency) on how to further facilitate/expedite privatization process.

### Task 2.0 Further Privatization Planning

Objective: To extend privatization beyond initial "accelerated divestiture" pilot program; to formalize GOE privatization goals; systematically identify all feasible GOE candidates for privatization, including parts or subparts of such enormous state enterprises as CEPE, INECEL, Ecuatoriana de Aviacion and TAME;

determine the appropriate privatization approach to each; and prioritize target enterprises (ranking best candidates first).

#### Activities:

2.1 Goals. Obtain agreement among key GOE officials, USAID/Ecuador, and expatriate consultants on formal statement of goals of program (e.g., broad bipartisan support for measures intended to reduce fiscal and credit pressures, raise government revenues, provide more innovative management, increase public participation in national assets, provide higher quality public services). This process will serve as a convenient mechanism to draw any further needed high-level GOE support to following activities.

2.2 Identification. In the limited two-week, May 6 mission, it was impossible to systematically cover all sectors of Ecuador's economy. Much work still remains to be done in identifying and prioritizing candidates for divestiture, contracting out and liquidation. Note that the approach may be piecemeal, meaning that the process can begin with some relatively small and ancillary parts of such major enterprises as INECCEL or CEPE or

Ecuatoriana de Aviacion. Useful sources of information (detailed in Appendices IV-VII to this report) include the following:

- \* Superintendencia de Companias
- \* CONADE
- \* Central Bank
- \* IESS
- \* CFN
- \* BNF
- \* CEPE
- \* INECEL
- \* Ecuatoriana/ Tame
- \* Others to be identified

2.3 Preliminary profiles. Prepare brief preliminary profile for each enterprise showing: lines of business, financial condition and value, labor situation (number of employees, legal status, presence of union, etc.).

2.4 Privatization techniques. In cases where divestiture is not feasible, liquidation or contracting out management may be indicated. In some instances an employee ownership scheme may be desirable. The companies that have been profiled should be categorized according to these techniques (i.e., Divestiture, Contracting Out, Liquidation, Employee Ownership). It will be necessary to enlist the services of an employee ownership specialist to identify any potential for such schemes in Ecuador. Creativity and imagination will be required to specifically adapt such a plan to Ecuador's legal and institutional framework.

2.5 Criteria for prioritization. Criteria should be developed for each category indicated above to determine the priority order for privatization. Criteria appropriate for divestiture candidates appear in the annex to Appendix III (Report to the Vice President).

2.6 Prioritization. Candidates should be ranked within each category in accordance with the criteria established. At that point candidates can be selected from the several categories and ranked based on overall program criteria (to assure right mix of enterprises).

2.7 Financing. Extensive work is already being done on developing capital markets in Ecuador and on relevant international sources of investment capital. As a practical matter, it remains necessary to review any investment mechanisms inside and outside Ecuador to raise debt and equity capital; and to prepare profiles of each that describe terms and conditions and advantages and disadvantages of their use.

2.8 Socio-economic impact analysis. A brief, practical analysis of socio-economic consequences of the program should be undertaken with a view toward safeguarding against any unanticipated or unfavorable results. Selection criteria at the level of the firm will already have taken similar considerations

into account. This should be conducted by an experienced local economist and political analyst (banker/investment consultant).

2.9 Public Awareness. Vested interests may be expected to oppose privatization. A sophisticated plan should be worked out to demonstrate to the public at large the many benefits arising from such an effort. Ecuadorans express a desire for improved public services, less costly government, and a greater participation in ownership of capital. The privatization program developed should be susceptible of broad bipartisan support on these grounds. A privatization program might also be used to generate broader activity in participating in the two stock exchanges in Ecuador.

To forestall criticism, it may be useful to prepare the public for the possibility of sale at a loss. In this event, the medium- and longer-term benefits should be strongly emphasized. Further, openness in the process, particularly in Ecuador at this time, will serve to allay suspicions of unfair procedures. Audit and other independent expert findings showing assets, liabilities, net worth and good-will value (see 3.1.2) made public before or at sale time will likely further this objective.

2.10 Privatization proceeds. A plan should be developed to utilize in the process some of the funds received as a consequence of privatization. The plan should take into account

legal requirements, and also provide for payment of labor indemnities and contributions toward costs of the privatization program, with an important portion applied to retirement of the official debt of Ecuador.

#### B. Phase Two Privatization: Implementation

The planning in Phase One will have laid the groundwork for subsequent implementation. Experience gained in the "accelerated divestiture" pilot-effort will provide deeper insight into the process. Below are step-by-step guides for each type of privatization studied: divestiture, contracting out, and liquidation.

These techniques will be applied to individual enterprises based on the determinations made in task 2.4, above.

#### TASK 3.0 Divestiture of State Owned Enterprises

Objective: Sale of government interest in enterprises to private buyers.

#### Activities:

For those enterprises for which divestiture was determined appropriate and feasible, a 5-step process will be followed, as summarized below:

- 3.1 Full Enterprise Profile
- 3.2 Enterprise Strategy
- 3.3 Investor Survey
- 3.4 Prospectus and Marketing
- 3.5 Proposal Review

3.1 Full enterprise profiles. Detailed business and financial analysis of enterprise including:

3.1.1 Business audit. Description of current business activities. Analysis of historical trend of production and sales as well as market trends for products manufactured. Evaluation of the efficiency of production and the quality of management. Such an analysis would normally include a market survey, domestic and (as appropriate) overseas, present and future, for the company's products, and a sound and professionally prepared business plan.

3.1.2 Financial audit and valuation. Audit of financial statements and supporting documentation for the last three years. In addition, valuation of the enterprise on a going-concern basis, taking into consideration the accounting conventions that apply to

private sector firms in Ecuador. Also, a valuation of the enterprise on the basis of the actual value of the assets. Further, a comparative analysis of revenues and operating costs as measured against those that are characteristic of the involved industry.

The analysis should identify all long and short term debt, including the holders of the debt and the balance owed as well as interest rates and maturities. The analysis should include estimates of the value of hidden liabilities, such as labor indemnities, collective agreements, contingent liabilities, judicial actions and so forth. The analysis should also identify hidden assets, such as trade names. As appropriate, the analysis should also include estimates of any new investments needed to bring an enterprise to a viable level and quality of operations.

Moreover, in some instances the audit may show that the company must undergo financial reorganization before being put on the market. This reorganization might entail establishing proper accounting and management information systems, budget priorities, debt restructuring and recapitalization for modernization of equipment.

3.1.3 Operating business versus liquidation and asset sale. In some cases the audit process may disclose insurmountable obstacles to sale, or even reorganization and sale. These would include: inflated employment levels, unusually high labor indemnities, difficult labor unions, high debt and unpaid taxes and threatening contingent liabilities. These conditions can sometimes prevail in cases where otherwise reasonable business opportunities potentially exist. Further, these may be precisely the type of costly enterprises that the GOE most needs to be rid of. In this event it may be possible to liquidate the business and sell its assets to investors which could then incorporate them into a newly established enterprise. In indicated cases the feasibility of this option should be studied under Ecuadoran law (particularly labor) and from a standpoint of political acceptability.

3.2 Enterprise strategy. Consideration of GOE interests in divestiture, possibilities for facilitating divestiture, ways to maximize socio-economic benefits to the country (e.g., fostering competitive market forces), as follows:

3.2.1 Specification of GOE needs in particular divestiture. For example, GOE may require any or all of the following: complete relief from budgetary or credit obligations for an enterprise; regulatory presence to ensure government monopoly not replaced by private one or to assure social overhead obligations of an enterprise are not abandoned; particular payment structure (one large payment or alternatively a stream of smaller payments over a period of years); recovery of original investment; assurance of employment levels; restrictions on ownership eligibility (e.g. limited to Ecuadorans or alternatively an expressed preference for new infusions of foreign technology and capital).

3.2.2 Plans to head-off opposition from vested interests. Potential sources of opposition should be identified in advance along with plans to minimize cause for conflict. If, for example, reduction of labor force is foreseen, or new management required, or resistance from existing shareholders anticipated, appropriate steps should be taken to mollify the respective interest groups to the extent possible so as to facilitate the divestiture process.

3.2.3 Divestment techniques. Spreading corporate ownership more broadly than in the past is a paramount consideration and one reason why well-designed public share offerings are recommended. Consideration may have to be given to restricting the percentage of shares that may be acquired by individuals or groups at the time of the public offering. Or, alternatively, incentives may have to be developed to broaden interest. For example, foreign investment accompanied by foreign technology may widen the domestic market for shares by signaling the faith of foreign investors in the company's future (foreign investment can also inspire xenophobic opposition, however, and this must be weighed in the balance). Further, transparency and openness in the process allays suspicions of undue private advantage ("sweetheart" deals), an important consideration in the current climate in Ecuador. The stock exchanges allow for public and open sales, and the President of Ecuador has already endorsed their use for this purpose in connection with CFN's divestment program. Perhaps the strongest possibility is a combination public share offering and private placement to a majority owner, who would promise to make a public offering of part of the shares at a later date. In this way strong private management could be exerted

initially, a good price would be received by the GOE for an attractive business, the public could be involved in the process, and the business would subsequently receive needed capital for operations. Other options include a sale to or a merger with a single Ecuadoran or foreign enterprise, or more remotely, sale of stock in overseas markets (e.g., insurance companies or pension funds) together with private placements in Ecuador.

A promising possibility in Ecuador would be to structure a sale around conversion of GOE debt to investor equity in the target enterprise. This is under serious consideration by the GOE. The concept is being advanced by several investment banking groups. Other creative possibilities exist, depending on the nature of the enterprise, including capital asset leasing and royalty and licensing arrangements.

3.2.4 Investor identification. Without actually offering the companies for sale (which could trigger legal requirements), an initial list of potential investors, domestic and foreign, could be developed, along with a description of their level of interest and the conditions that would attract them. This process

would involve: (1) identifying potential investors (domestic and foreign) whose technology, operations and market access complement current or potential lines of business of the state enterprise (foreign investors already in the country are promising candidates as are expatriate national investor groups); (2) initiating contact with the potential investors to establish their interest as well as to identify the factors that would enhance their interest; and (3) deriving a short list of serious investors from whom proposals could be requested.

3.3 Prospectus and marketing. This is necessary to provide sufficient disclosure of information to attract serious investors and to enable such investors to prepare an informed proposal for the acquisition of the enterprise. It also allows for sale in an open environment and heads off any charges of irregularities, since the facts are publicly available. This process involves two steps.

3.3.1 Prospectus preparation. Should contain full and complete information and meet legal requirements in markets where offer made. Information should include (but is not limited to) the following:

Technical information. Description of the company, its assets, and physical condition; products produced and sold; markets served, including prior and current performance; labor (number of employees, skill levels, union representation etc.); current problems and potential solutions.

Financial information. Audited financial statements; cost accounting data related to cost of production (fixed and variable); accounting valuation of assets; actual valuation of assets; profile of all debt owed by the company; estimated labor indemnities; estimated value of hidden assets and liabilities (including contingencies); estimated value of any new investments required.

Conditions of divestiture. GOE objectives, including any limitations on type of investor, financing structure or mechanism, disposition of enterprise assets, or future operations.

3.3.2 Marketing. Prospectus distributed to identified investors and made available to other interested investors and the public. Meetings with seriously interested parties; on-site inspections arranged as

appropriate. Public share offerings made through underwriters and stock exchanges as appropriate. Setting price of shares is critically important and should not be attempted without expert advice. Combined private placement and public offering described 3.2.3 above should be studied carefully.

3.4 Review of proposals. This is a critically important process in private placements that should be characterized by fairness and openness. It involves three parts.

3.4.1 Uniform criteria should be developed against which all the proposals can be judged and ranked.

3.4.2 A formal negotiating process should be undertaken by the GOE.

3.4.3 Evaluation of final proposals should be conducted on the basis of the referenced criteria.

#### Task 4.0 Contracting Out Private Management

Objective: Where divestiture is not feasible, it may be useful to contract out private management as a first step. Increased efficiency and lower consumer prices are often highly visible

results (where sufficient latitude is given to private management) leading to broad public embrace of a continued and expanded privatization program. Contracting out will be followed for enterprises selected in accordance with determinations made in Tasks 2.4-2.6 above. It involves three activities: opportunity identification, plan formulation, and plan implementation, as follows:

**Activities:**

4.1 Identification of contracting opportunities. In essence, contracting management is equivalent to privatizing management. In some cases it may be possible to contract out the entire operation of an enterprise, even one of the relatively large public utility companies. In other cases, it may be possible to contract out only some portion of operations (i.e., specific activities). Typical activities include: computer operations, meter reading, maintenance, printing, others. One caveat: where enterprise control remains in the hands of government authorities, the anticipated rewards of contracting may not result.

4.2 Formulation of enterprise contracting plan. This entails identifying constraints and methods for overcoming them, as well as means to implement the approach selected. In considering

constraints, it is useful to focus on the impact of contracting out management on employees currently performing that function. For dismissal of employees, it would be necessary to estimate the value of labor indemnities to be paid. For transfer of employees, it would be necessary to record the skills possessed and their possible application elsewhere. As preparation for implementation, it is necessary to develop a plan for contracting with private sector groups for the provision of specific management services. This involves formulating a clear and comprehensive description of the services required, including standards for performance measurement and evaluation. This would ultimately be embodied in an enterprise Request for Proposal (RFP) to provide such services.

4.3 Implementation of contracting plan. This process entails identifying potential contractors, soliciting their proposals for provision of needed services, and finalizing a contractual agreement. More specifically, a short list of qualified contractors would have to be prepared. The referenced RFP would have to be circulated to them. Resulting proposals would be evaluated on the basis of such factors as the experience and reliability of the contractor, and cost. A final step would be negotiation of the contracting agreement with the selected firm.

## Task 5.0 Liquidation

This process will be followed for each identified enterprise (under procedures described in paragraphs 2.4-2.6) that is found to have no commercial viability. Liquidation is strongly indicated in circumstances where informal closure has occurred -- that is, where state enterprises starved for cash have released staff, cannibalized equipment to keep machinery running and generally sold off inventories in an attempt to live from hand to mouth. These financially troubled enterprises usually continue to accrue labor indemnity liabilities since their workers retain employee status (though laid off). The firm also continues to incur interest on outstanding indebtedness. In other cases, operating enterprises may survive financially, but only because they are showered with special and unwarranted privileges (subsidies) in the form of tariff protection, duty exemption and tax exoneration. Liquidation basically involves a two-step process of valuation and sale.

5.1 Enterprise valuation. Assets must be identified, inventoried and their value estimated. Liabilities must be identified and profiled with information on debt holders, the balance owed and interest rates. Labor indemnities must be calculated and paid to all dismissed employees. If appropriate candidates are identified, then the next step should apply.

5.2 Liquidation plan and implementation. This entails preparation of a plan for formal dismissal of all personnel and payment of applicable labor indemnities. Plans must be made to sell all assets of the enterprise either through public auction, public tender or private sale. A plan to liquidate debt and tax liabilities must be made. Finally, the plan must be implemented.

## VII. PERFORMANCE SCHEDULE

### A. The Program

For planning purposes, the duration of the privatization program is estimated to be two years. As a practical matter, however, the entire program could require more time depending upon the decision as to the number and type of enterprises that will actually be privatized (either by divestiture, contracting or liquidation).

The program will be implemented by USAID/Ecuador staff, the GOE, and technical assistance teams regularly visiting the country.

During the first two years of the program, activities will occur in two phases. The first phase includes the following activities:

- . Accelerated divestiture of approximately six to eight companies.
- . Identification of additional privatization candidates, paying particular attention to peripheral parts of large government enterprises/conglomerates, (e.g., CEPE, INECEL, Ecuatoriana de Aviacion, etc.).
- . Profiles of these enterprises (parts thereof), criteria, and ranking.
- . Workplans for privatization of priority entities.

It is anticipated that these initial activities will take place over a 12-month period.

During the second stage, divestiture, contracting, and liquidation will take place at specific enterprises in accordance with the pre-established privatization strategies and priorities.

It can be estimated that complete divestiture of a single (simple) enterprise will require some four to five months to perform and that contracting and liquidation will each require somewhat less time.

Attached is a simplified performance schedule for the first two years of the program.

#### B. Getting Started

The first step in implementing the program is for USAID/Ecuador to request a short-term technical assistance team to complete Tasks 1 and 2 of Phase One.

With regard to Task 1, if a short list of six to eight enterprises has not been previously prepared by the GOE, then the team will perform that function (with GOE mandate). The team will also prepare detailed privatization workplans for each enterprise selected for accelerated divestiture and full enterprise profiles as per 3.0 above. We conservatively estimate that on average each enterprise will require about 24 person-days of work with the actual level of work dependent on the particular enterprise involved and the condition of its financial statements and management systems. We would recommend that a two-person team cover each enterprise, (e.g., two persons, two full-six-day

weeks). If six to eight enterprises were involved, some 12 to 16 weeks or more of analysis would be scheduled. The CFP can provide highly skilled auditors, evaluators and other experts from many different countries.

Task 2 will be performed by a separate pair of analysts working closely with the others. These should be consultants knowledgeable in business, law and finance who possess experience in privatization and a background in Latin America (preferably Ecuador). These analysts will: further identify possible privatization candidates (divestiture, contracting out and liquidization) in Ecuador, focusing especially on peripheral companies in major conglomerates, (e.g., CEPE, INECEL, Ecuatoriana de Aviacion, etc.). The team will prepare preliminary profiles of these enterprises, draft criteria for each privatization category, and rank profiled companies according to the criteria.

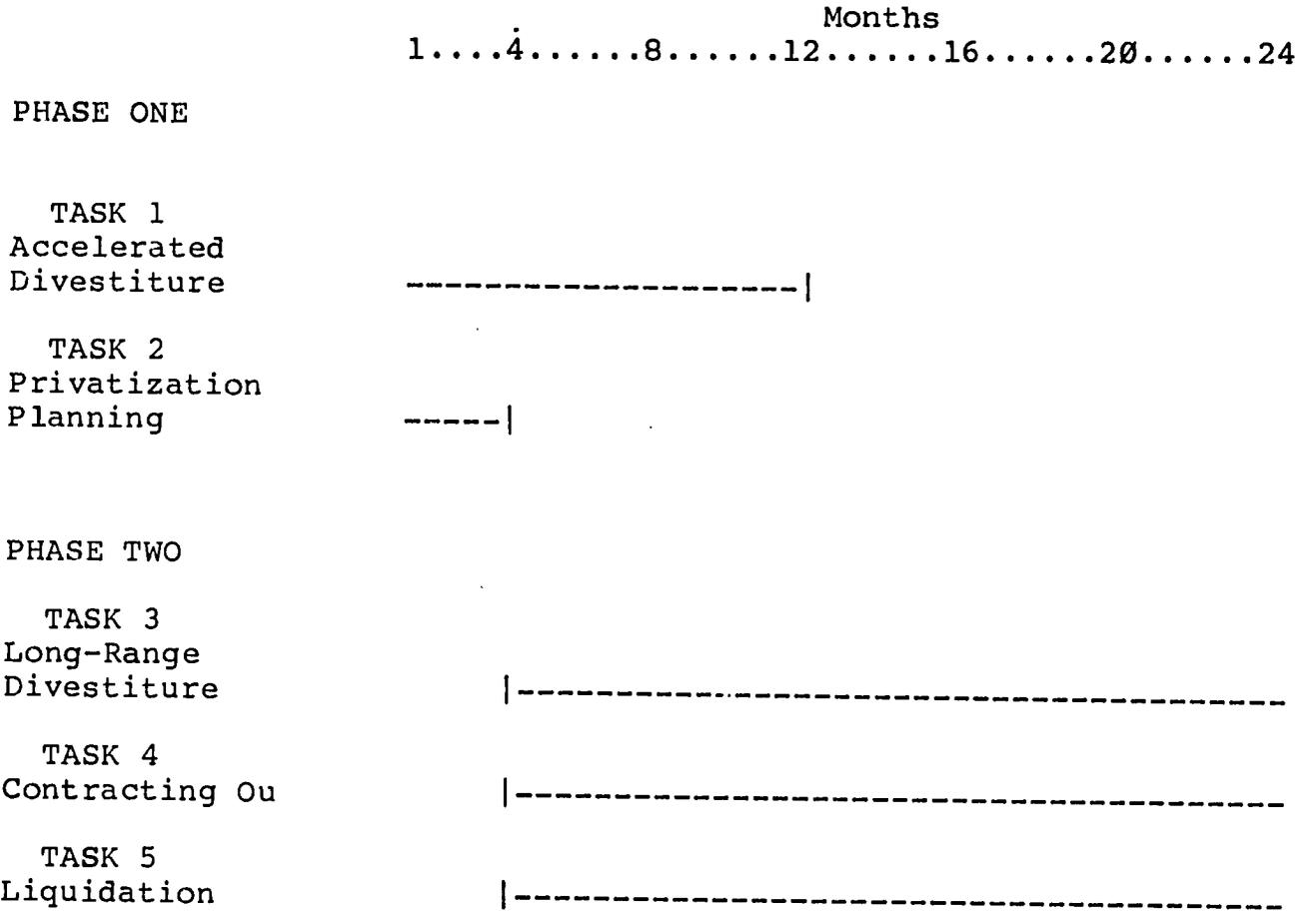
The team will draft initial workplans for the highest ranked companies. In this effort, the team will draw on the experience of the auditors performing Task One.

A principal responsibility of the team will be to begin design of a public awareness campaign. Among other things, this will involve identifying local advertising/public relations firms. In

general, the team will lay the groundwork for an extended privatization effort. Their work should involve 18 to 24 in-country work days per person. In addition, an employee ownership specialist should spend eight working days in Ecuador identifying potential opportunities. Once the above-described activities are underway, USAID/Ecuador might consider hiring a full-time staff person to assist the Private Sector Officer in privatization and other matters.

ECUADOR

Privatization Design Proposed Schedule



## BIBLIOGRAPHY

Financial Markets Assessment Report, Ecuador  
Arthur Young & Co. John T. Vanderveen  
February 14, 1986

Some Practical Issues of Divestment and Privatization Facing LDC Governments, L. Gray Cowan, Economic Development Division, Bureau of Planning and Program Coordination, Agency for International Development, June 1985

USAID Country Development Strategy Statement (Ecuador)

Ecuador: An Agenda for Recovery and Sustained Growth, World Bank, October 1984

Divestiture of State-Owned Enterprises in Developing Countries, Elliot Berg, World Bank, 1985

Ecuador: Social and Institutional Profile,  
James R. Finucane, USAID, (March 1984)

Informe de la Mision Presidencial Agropecuario de los Estados Unidos de America al Ecuador, A.D.I., (Enero 1985).

Ecuador Industrial Development Finance, USAID, (June 1985).

La Inversion Extranjera en el Ecuador,  
Stern Naranjo & Co., (Touche Ross International, March 1986), Quito, Ecuador

Divestment and Privatization of the Public Sector: Case Studies of Five Countries, L. Gray Cowan, A.I.D., (December 1983).

APPENDIX I

Country Privatization Checklist

APPENDIX I

COUNTRY PRIVATIZATION CHECKLIST

COUNTRY: ECUADOR

FACTORS

CURRENT STATUS AND TRENDS

A. Host Government

- |   |  |
|---|--|
| 1. Top Level Commitment:                    | Favorable, Sec. II.A.2                   |
| 2. Enunciated Policy:                       | Favorable, Sec. II.A.2                   |
| 3. Power to Implement:                      | Yes, if GOE gives a sufficient priority. |
| 4. Mid/Lower Level of Commitment:           | Vested interest resistance.              |
| 5. Accessibility for Dialogue:              | Excellent. See Introduction and II.A.2.  |
| 6. Awareness/Availability of SOE Costs      | Limited. See II.A.I.                     |
| 7. Private Sector Influence on Policy:      | Strong.                                  |
| 8. Officials' Dependence on Outside Income: | Yes. Obstacle. See II.A.3.c              |
| 9. Open Economy vs. Managed Economy:        | Mixed.                                   |

B. Political/Economic Environment

- |                                     |   |
|-------------------------------------|---|
| 1. Legal Barriers to Privatization: | Labor.  |
| 2. Economic Stability:              | In accordance with norms of region.                   |
| 3. Political Stability:             | Favorable relative to other Latin American countries. |
| 4. Unemployment Level:              | Comparable to other Latin American countries.         |

5. Physical Infrastructure (Communications, transportation, power, water, etc.): Better than average.
6. Regulatory Climate: Improving.
7. Parastatal Share of Economy: Limited information available. See II.A.2.
8. Reasons for Parastatal: Various. See II.A.2.

C. Business Climate

1. Role of Informal Sector: N/A
2. Management Entrepreneur Pool: Sufficient.
3. Ethnic Minorities: N/A
4. Permits to Start/Expand Business: Not identified.
5. Freedom to Hire/Fire Personnel: Limited.
6. Parastatal Preferences/Obstacles to Competitors: Not identified.
7. Tax Climate: Not favorable.
8. Accounting/Audit Skills: Yes.
9. Other Donor Presence/Support: Yes, World Bank, IDB, OPIC.

D. Financial Markets \*

\* USAID/Ecuador directed capital markets study underway by SRI, Inc.

1. Long Term Financing Types/ Activity Level:
2. Financial Markets Types/ Activity Level:
3. Significance of Non-Bank Financial Institutions:
4. Availability of Local Entrepreneurial Capital:

5. Foreign Investment Interest/  
Restrictions:
6. Capital Flow In/Out Trends,  
(e.g., flight of capital):

E. US Influence

1. Conditionality Opportunities  
for Leverage: Not identified.
2. AID Mission Support: Funding for privatization  
activities needed.
3. Embassy/Commercial Officer  
Support: Excellent

APPENDIX II

List of Interviewees

APPENDIX II

List of Interviewees

Washington and New York

Mario Ribadeneira Ambassador of Ecuador	Sebastian Pérez-Arteta Counselor, Embassy of Ecuador
David Mulford U.S. Treasury Department	James A. Hanson The World Bank
Mario Reyes-Vidal The World Bank	Charlotte Jones-Carroll The World Bank
Loren Weisenfeld O.P.I.C.	Sherman Katz Coudert Brothers
Bruce Mazzei Presidential Task Force	Edward Marasciulo Pan American Development Foundation
Ralph J. Llop, Jr. Morgan Guaranty International Bank	Michel A. Amsalem Citicorp
Carlos Penny B. Citicorp	Mary Forbes Singer Bankers Trust Company
Stephen M. Cunningham Bear Stearns	Joseph W. Recinos Equity Expansion International, Inc.
Kenneth L. Johnson A.I.D.	Stephen C. Ryner U.S. Department of State
Cesare Calari International Finance Corp.	Joseph J. Borgatti Consultant
Richard Wheeler Consultant	

List of Interviewees

Ecuador

Dr: Blasco Penaherrera Vice President of the Republic	Dr. Teran Minister of Foreign Relations
Econ. Xavier Neira Minister of Industries and Commerce	Alberto Dahig The Monetary Board
Teresa Minuche Superindencia de Companias	Eduardo Villaquiran Lebed Corporacion Financiera Nacional
Alfonso Cordovez Davalos Corporacion Financiera Nacional	Eco.Agr. Jorge Muñoz T. Ministerio de Agricultura Y Ganaderia
Josè R. Varea Terán Director Nacional Médico Social	Dr. Oswaldo Dávila Andrade Ministry of Planning
Ing. Gustavo Pinto Albornoz Camara de Industriales de Pichincha	Dr. Alfredo Gallegos B. Camara de Comercio de Quito
Ernesto Chiriboga Blondet Asociacion de Bacos Privados	Jose Ortega Del Castillo I.D.S.
Jorge Bejarano Orrantia Camara de Comercio de Guayaquil	Jacinto Cordero COFIEC
Maria Reyes COFIEC	Dr. Rodolfo Kronfle Camara de Industriales de Guayaquil
Nicolas Landes CEVAL	Antoine M. Habis Hacres Cia, Ltda.
Dr. Rodrigo Crespo Fabara	Ramiro E. Crespo, M.A. Attorney
Dr. Luis Hidalgo Lopez I.D.S.	James V. Deane Citibank
Andres Vallejo Banco Popular	

Stephen M. Hotchkiss  
Bank of America

Ing. Luis A. Roman Lazo  
Compañía Ecuatoriana del Té

Donald S. Green  
SRI International

Orlando Llenza  
Mission Director - A.I.D.

John O'Donnell  
Rural Development - A.I.D.

Kathleen Heffernan  
Consultant - A.I.D.

Rolf Stern S.  
Touche Ross & Co.

D. Chadwick Braggiotti  
International Executive  
Service Corps

H.E. Fernando Rondon  
U.S. Ambassador

Gerald R. Wein  
Asst. Director - A.I.D.

James Finucane  
Private Sector Chief - A.I.D.

APPENDIX III

Report to the Presidency: Privatization in  
Ecuador (English and Spanish)

## APPENDIX III

### REPORT TO THE PRESIDENCY: PRIVATIZATION IN ECUADOR

We are pleased to have this opportunity to meet with you again, Mr. Vice President, to discuss our preliminary impressions respecting privatization in Ecuador. We will deeply appreciate any comments and observations you may have regarding these impressions.

We share your belief that a privatization effort in your country will contribute to the national welfare by helping to reduce fiscal and credit pressures, raise government revenues, provide more innovative and efficient management, and broaden and diversify ownership of capital.

Public and private sector leaders with whom we spoke have commented favorably on the strong support your government has lent to the concept of privatization, but have expressed disappointment in the slow movement toward results. They have stressed the need to move quickly to take advantage of the government's favorable attitude.

Below is a two track plan to facilitate privatization. Both components may be pursued concurrently or either one separately.

I- Track one ( accelerate divestiture ).

The Presidency requests CFN, the IESS and any other indicated institutions to divest a limited number of companies (e.g., 4-5) within the next few months. Criteria for the selection of the companies appear in the annex to this document.

II- Track two ( gradual privatization ).

1- Divestiture: The Presidency requests CFN, IESS, and other indicated institutions to make a(n) ( additional ) prioritized list of candidates for divestiture along with a performance schedule. In effectuating this divestiture process, the Presidency takes into account the following considerations:

- Improvement of CFN Divestiture Process: The Presidency could encourage such institutions as CFN to divest companies at realistic market values which in cases of poor performers may well be below book value. This process will in turn permit CFN to divest the profitable companies presently needed to subsidize the unprofitable ones. This reform will generate sufficient liquidity for CFN to accomplish its principal objective of providing seed-capital to new companies.
- Coordination of Divestiture Process among State Agencies: The Presidency could take measures to coordinate divestitures of shares held by separate government agencies in a single enterprise ( e.g., through transfer to one designated agency such as CFN ).
- Debt - Equity Conversions: The Presidency could study the possibility of linking debt-equity conversions to divestiture as a means of raising return on investment and facilitating sale.
- Prospectus: Systematic financial and business profiles of prioritized companies by independent auditors for preparation of a reliable sales prospectus for each company.

52

2- Contracting Out Private Management: In cases where immediate-divestiture is not feasible, the Presidency could request indicated agencies to study the possibility of contracting out-professional management. This could lead to higher efficiency, lower costs to government, and pave the way for subsequent divestiture.

3- Employee Stock Ownership Plans: In some instances such innovative approaches to divestiture may be feasible. The concept - has been supported because it tends to broaden capital ownership and democratize economic power. The government may wish-to select an appropriate company for a test case.

With the help of your comments and observations, we anticipate recommending to A.I.D. the preparation of a more detailed privatization plan,- as you referred to in our first meeting. This plan would set forth more specifically the steps involved in the design and execution of the-privatization initiative contemplated here.

We thank you once again for allowing us to discuss our preliminary observations with you. We hope that our efforts will be of assistance to the Government of Ecuador in realizing its objectives in this area.

Respectfully submitted,

Kenneth Crosby  
Steven M. Rubin  
Consultants to U.S.A.I.D.

## A N E X O

### ILLUSTRATIVE CRITERIA FOR SELECTION OF CANDIDATES FOR DIVESTITURE

- Companies in which total participation by state agencies is substantial ( i.e., at least 51% ).
  
- Companies whose divestiture provides immediate fiscal benefits - to the Government ( direct revenues from sales, related earnings from export/tourism industries, and relief from subsidies to unprofitable enterprises).
  
- Companies where privatization will exert a beneficial social impact ( increased distribution of ownership; increased efficiency in services; lower prices to consumers etc. ).
  
- Companies where there will be minimal adverse reaction from vested interests to privatization.
  
- Companies with characteristics that will simplify the process of privatization:
  - Clear financial structure;
  - Commercially attractive;
  - Acceptable management / labor relations.
  
- Companies where auditing procedures have already been established to a point that independent auditors can readily and speedily prepare complete, accurate, and objective financial and business profiles to form the basis of a reliable prospectus.
  
- Companies where the return on investment can be made sufficiently attractive to compete favorably with other national or international investment opportunities.

## APPENDIX III

### INFORME A LA PRESIDENCIA:

#### LA PRIVATIZACION EN EL ECUADOR

Nos es grato contar con esta oportunidad de reunirnos nuevamente con usted, señor Vice-Presidente, para tratar sobre nuestras primeras impresiones respecto a la privatización en el Ecuador. Nos gustaría sobremanera escuchar cualesquier comentario u observación que usted pueda tener sobre el particular.

Compartimos su opinión de que el esfuerzo de privatización en su país contribuiría al bienestar nacional mediante la reducción de presiones fiscales y crediticias, la elevación de recaudaciones fiscales, la introducción de una administración más innovativa y eficiente, y la ampliación y diversificación de la propiedad del capital.

Los dirigentes del sector público y privado con quienes nos hemos reunido han emitido comentarios favorables sobre el firme apoyo que su gobierno ha prestado al concepto de privatización, pero también han expresado su desaliento en cuanto a la lentitud que se experimenta para alcanzar resultados. Hemos puesto de relieve la necesidad de seguir adelante con agilidad para poder aprovechar la actitud favorable del gobierno.

55

A continuación le presentaremos un plan de dos componentes que podría facilitar el proceso de la privatización. Ambos elementos pueden combinarse simultáneamente u optarse por cualquiera de ellos independientemente.

I. Componente I (Desinversión Acelerada)

Se pide a la CFN, el IESS y cualquier otra institución propicia que siga un proceso de desinversión con un número limitado de compañías (como cuatro o cinco), por ejemplo dentro de los próximos meses. Los criterios que rijan la selección de compañías se sugieren en el Anexo 1 a este documento.

II. Componente II (Privatización Gradual)

1. Desinversión. Se solicita que la CFN, el IESS y otras instituciones idóneas para el efecto formulen una lista (adicional) por orden de prioridad, de candidatos a la desinversión, junto con una programación de desempeño. Se podría desear considerar lo siguiente:

- Incentivar a la CFN para desinvertir compañías a valores del mercado real.

56

- Coordinar el proceso de desinversión entre las agencias del estado.
  
- Vincular conversiones que guarden relación de equidad con la desinversión de manera que las empresas constituyan una atracción para posibles inversionistas.
  
- Preparar perspectivas confiables de venta para cada compañía.

2. Contratación de la Gestión Gerencial Privada

En casos donde la desinversión inmediata no sea factible, se podría pedir que se estudie la posibilidad de contratar los servicios profesionales gerenciales.

3. Planes para la Participación de Empleados en el Capital de Propiedad.

En algunas instancias tales innovaciones en materia de desinversión podrían resultar factibles. El concepto ha encontrado apoyo debido a la tendencia de ampliar el capital en propiedad y a democratizar el poder económico.

51

Con el aporte de sus comentarios y observaciones, esperamos presentar recomendaciones más detalladas ante A.I.D. Este esquema (como lo mencionara usted) plantearía medidas más específicas que incluir en el diseño y ejecución de la iniciativa de privatización que aquí se contempla.

Le agradecemos nuevamente el permitirnos compartir con usted nuestras observaciones iniciales. Esperamos que nuestra gestión le sea de utilidad al Gobierno del Ecuador para cumplir las metas que se ha fijado en esta materia.

Nuestros respetos,

Kenneth Crosby  
Steven M. Rubin

Consultores de USAID

ANEXO

CRITERIOS ILUSTRATIVOS PARA LA SELECCION DE  
CANDIDATOS A LA DESINVERSION

- Compañías en las que la participación total de las agencias estatales sea substancial (es decir, de por lo menos el 51%).
- Compañías cuya desinversión provoca beneficios fiscales inmediatos al Gobierno (ingresos directos provenientes de las ventas, ganancias derivadas de las industrias de la exportación y el turismo, y alivio mediante el cese de subsidios para empresas no rentables).
- Compañías donde la privatización tendrá un impacto social beneficioso (mayor distribución de la propiedad; mayor eficiencia de los servicios prestados; precios más bajos al consumidor, etc.).
- Compañías donde la reacción adversa a la privatización sería mínima a causa de los intereses creados.
- Compañías que posean características que ampliarían el proceso de privatización, tales como:

- o una clara estructura financiera;
  - o atractivo comercial
  - o administración aceptable y buenas relaciones laborales
- Compañías que cuenten con procedimientos de auditoría ya establecidos hasta el punto en que auditores independientes puedan fácil y rápidamente preparar un perfil financiero y comercial que sea exacto y constituya la base de un prospecto confiable.
- Compañías donde los réditos sean lo suficientemente atractivos como para que les permitan competir con otras oportunidades de inversión a nivel nacional e internacional.



APPENDIX IV  
CFN Companies

IL 101 Q. 70

EMPRESA	ACTIVIDAD	LOCALIZACION	FECHA CONSTITUCION
① ADAMAS ANDINA S.A.	Producción de papeles y cartones especiales para el mercado subregional y el nacional	Cuenca, Provincia del Azuay	1ro. junio de 1977
② ARLABANK INTERNACIONAL	Participar en actividades de la banca internacional y promover el desarrollo entre países árabes y latinoamericanos	Manama, en el Estado Arabe de Bahrain. Subsidiario localizado en Lima	Arlabank Internacional 22 febrero de 1983 Arlabank Subsidiario octubre de 1977 Julio 26 de 1962
③ ARTEPRACTICO S.A. <i>BANK of America</i>	Primaria: producción y comercialización de muebles de madera. Secundaria: producción y comercialización de tablero crudo, melamínico y enchapado	Cuenca	Enero de 1964
④ AZTRA S.A.	Cultivo, Explotación e industrialización de caña de azúcar	Cañar	Diciembre de 1970
⑤ BANHARINA C.E.M. (En liquidación)	Elaboración de harina de banano para alimentación animal	Quevedo, Provincia de los Ríos	2 de febrero de 1969
⑥ BOLSA DE VALORES GUAYAQUIL S.A.	Transacción de valores fiduciarios y regular el mercado bursátil	Guayaquil	Mayo de 1969
⑦ BOLSA DE VALORES QUITO S.A.	Transacciones de valores fiduciarios del sector público y sector privado; bonos, cédulas, acciones, etc.	Quito	Agosto 4 de 1973
⑧ CEMENTOS COTOPAXI C.A.	Producirá Cemento Portland Tipo I	Cotopaxi	Diciembre 17 de 1975
⑨ CEMENTOS MANABITAS C.E.M.	Investigaciones que permitan la elaboración de estudios de factibilidad, que demuestren la posibilidad de instalar o no una fábrica de cemento en Manabí.	Portoviejo	Septiembre 28 de 1984
⑩ CEMENTOS SELVA ALEGRE C.E.M.	Producción de cemento portland, tipo I, con capacidad instalada de 1.100 TPD	Planta Industrial en Perugachi a 7 Km. de Otavalo y las minas de caliza en "Cerro Quinde" a 65 Km. de la planta.	Septiembre 18 de 1975
⑪ CITRICOS BOLIVAR C.E.M.	Procesamiento de naranja y elaboración de jugo concentrado	Plantas de tratamiento en Caluma y Echeandía (Prov. Bolívar) Provincia de Pichincha	Noviembre de 1965
⑫ COFIEC S.A.	Promover el desarrollo industrial del país por medio de concesión de créditos avales y fianzas; participar en la fundación o ampliación de empresas y el movimiento de valores.	Caracas y oficinas de representa-	Febrero 7 de 1968
⑬ CAF	Contribuir en el financiamiento de estudios y proyectos para el desarrollo de los países		

EMPRESA	ACTIVIDAD	LOCALIZACION	FECHA CONSTITUCION
CAF	miembros.	ción en Bolivia, Colombia, Ecuador y Perú	
14 CORDINAUTO C.E.M.	Planificar, promover, realizar y desarrollar estudios, proyectos e inversiones en la rama automotriz	Quito	20 de mayo de 1977
15 CHAPASA S.A.	Fabricación de contrachapados y chapa de madera	San Lorenzo, Esmeraldas	Junio 6 de 1969
16 DACA C.A.	Destilación y envase de licores (ron), fabricar productos alimenticios (salsa, pasta de tomate, aji).	Cuenca	Agosto de 1978
17 ECASA S.A.	Fabricación de Artefactos de la línea blanca (aparatos y equipos de refrigeración y congelación, cocinas y lavadoras).	Quito	Octubre 17 de 1962
18 ECUFINSA S.A.	Promover el desarrollo industrial, participar fundación o ampliación de empresas y en el movimiento de valores, asesoramiento técnico económico financiero de la industria.	Guayaquil	Julio 31 de 1975
19 ECUASIDER S.A.	Instalar y explotar plantas para la obtención de hierro, acero y sus productos terminados	Quito	Agosto 27 de 1976
20 CEMENTOS CHIMBORAZO	Producción de cemento gris, portland, tipo I, capacidad 850 TPD.	Proyecto en Machala Chimborazo	Febrero 15 de 1957
21 EMPRESA TURISTICA MANABI	Promoción y construcción de Hotel en Portoviejo	Manabí	Noviembre 23 de 1978
22 FERTISA C.E.M.	Elaborar y comercializar fertilizantes y abonos químicos para la agricultura	Guayaquil	20 de octubre de 1971
23 FINANCIERA DE GUAYAQUIL S.A.	Otorgamiento de préstamos para financiar activos fijos y capital de operación, otorgar avales, participar en el capital social de las compañías y prestar servicios de asesoramiento financiero, técnico, económico, administrativo y legal.	Guayaquil	15 de marzo de 1976
24 FIDASA S.A.	Concesión de préstamos a mediano y largo plazo para financiar capital de operación e inversiones que promuevan el desarrollo de la zona del austro	Cuenca	marzo 18 de 1977
25 FIMASA S.A.	Efectuar operaciones de crédito a los sectores productivos y participar en inversiones mediante aportes de capital	Manta	Enero de 1980

EMPRESA	ACTIVIDAD	LOCALIZACION	FECHA CONSTITUCION
26 GANESA S.A.	Proyecto en estudio, cuyo objeto sería la crianza, engorde de ganado y comercialización de los animales en pie, carne, leche y los demás derivados	Aún no definida	1 de agosto de 1974
27 HOTEL COLON INTERNACIONAL C.A. HOTEL HUAYNACAPAC S.A.	Prestación de servicios de hotelería Explotación de la actividad hotelera y la promoción del turismo	Quito Cuenca	21 de mayo de 1965 5 de julio de 1978
28 IDEAL ALAMBREC S.A.	Fabricación de alambre galvanizado, mallas, clavos y otros afines	Quito	15 de septiembre de
29 INDUSTRIAL FORESTAL CAYAPAS C.E.M.	Empresa en gestión para planta de pulpa y papel	San Lorenzo, Esmeraldas	29 de noviembre de 1971
30 ISKRAEMEC S.A.	Elaboración de herramientas electromecánicas con motor incorporado.	Quito	3 de abril de 1975
31 LA CEMENTO NACIONAL C.A.	Fabricación de cemento gris, tipo Portland I y la explotación de canteras de piedra, arcilla y yeso	Guayaquil	Agosto de 1934
32 LIPCEM C.E.M.	Gestionar, promocionar, establecer y administrar una lotización con fines industriales en Pascuales, Provincia del Guayas.	Guayaquil	27 de diciembre de 1974
33 PALMORIENTE PARQUE INDUSTRIAL CUENCA	Cultivo y explotación de palma africana Estudio, planificación y desarrollo de un parque industrial en Cuenca	Napo Cuenca	27 de julio de 1979 3 de noviembre de 1973
34 PARQUE INDUSTRIAL RIOBAMBA	Establecimiento, promoción, construcción y administración de un parque industrial en Riobamba	Chimborazo	16 de julio de 1976
35 POLIECSA S.A. PROCAESA	Producir sorbitol, glucosa y dextrosa Siembra, mantenimiento y explotación de plantaciones de caucho, así como su industrialización y comercialización	Guayaquil Santo Domingo de los Colorados	17 de diciembre de 1975 29 de abril de 1976
36 PROINDUSTRIALCE	Estudiar, difundir y promover proyectos industriales de carácter multinacional en la zona de integración Colombo-Ecuatoriano	Pasto Colombia	31 de octubre de 1975
37 PROMOCIONES TURISTICAS BOLIVAR	Construcción y administración de un hotel en la ciudad de Guaranda, para desarrollo turístico de la zona	Guaranda	1 noviembre de 1976
38 SEMILLAS CERTIFICADAS C.E.M.	Adquirir y procesar semillas para la certificación de su calidad y luego distribución a los agricultores para fomentar el cultivo de variedades mejoradas	Quito	18 de abril de 1973

42  
47  
44

EMPRESA

ACTIVIDAD

LOCALIZACION

FECHA CONSTITUCION

• TABLA REY S.A.

Fabricación de tableros aglomerados a partir de bagazo de caña  
Producción y comercialización de t<sup>o</sup>

La Tota, Loja

1 de febrero de 1973

• TE ZULAY S.A.C.

Fabricación de aparatos a gas para soldar y cortar metales, sus partes y piezas, para el mercado nacional y el del sector andino.

Pastaza

13 de octubre de 1968

• UNIWELD ANDINA S.A.

Quito

16 de mayo de 1975

APPENDIX V

Selected State Owned Enterprises  
(Superintendencia de Companias)

COMPAÑIAS ACTIVAS DE ECONOMIA MIXTA

# ORDEN	NOMBRE DE LA COMPAÑIA	CAPITAL SOCIAL	PARTICIPACION PUBLICO %	PARTICIPACION PRIVADO %
1	CAMAL FRIGORIDICO LOJA S.A.	19'026.000	76.45	23.55
2	EMPRESA ELECTRICA AMBATO S.A.	460.890.000	100.00	- o -
3	ELABORADOS DE CARNE CEM	7'100.000	28.62	71.38
4	INDUSTRIA FORESTAL CAYAPAS COMPAÑIA DE ECONOMIA MIXTA	90'000.000	90.99	9.01
5	YAGUARCOCHA COMAÑIA DE ECONOMIA MIXTA	36'000.000	77.78	22.22
6	EXTRACTORA Y PROCESADORA DE ACEITES COMPAÑIA DE ECONOMIA MIXTA.	10'000.000	- o -	100.00
7	COMPAÑIA DE ECONOMIA MIXTA MANTA IMPERIAL	7'760.000	44.78	55.22
8	IMACO COMPAÑIA DE ECONOMIA MIXTA	19.500.000	65.81	34.19
9	COMPAÑIA DE ECONOMIA MIXTA ALFARINA SALINAS	3'500.000	51.43	48.57
10	ECUATORIANA DE COBRE COMPAÑIA DE ECONOMIA MIXTA	84'800.000	- o -	100.00
11	FABRICA DE EQUIPO MILITAR COMPAÑIA DE ECONOMIA MIXTA	16'220.000	- o -	100.00
12	LA CEMENTO NACIONAL CEM	1.615'801.700	46.98	53.01
13	FERTILIZANTES ECUATORIANOS S.A. FERTISA	235'253.000	79.59	20.41
14	LOTIZACION INDUSTRIAL PASCUALES COMPAÑIA DE ECONOMIA MIXTA	10'000.000	50.00	50.00
15	DERIVADOS DEL CLORO DECLOSEM COMPAÑIA DE ECONOMIA MIXTA	101'000.000	29.70	70.30
16	PRODUCTOS LACTEOS CUENCA SOCIEDAD DE ECONOMIA MIXTA	22'118.000	54.28	45.72
17	COMPAÑIA DE ECONOMIA MIXTA PRODUCTOS LACTEOS DEL SUR	12'122.000	91.15	8.85
18	LOJANA DE TURISMO COMPAÑIA DE ECONOMIA MIXTA	8.568.000	51.35	48.65
19	COMPAÑIA DE EXONOMIA MIXTA AUSTROGAS	6'000.000	51.000	49.00
20	PARQUE INDUSTRIAL RIOBAMBA	21'100.000		
21	PROMOCIONES TURISTICAS BOLIVAR CIA DE ECONOMIA MIXTA	12'691.000	94.21	5.79
22	CORDINAUTO CORPORACION DE LA INDUSTRIA AUTOMOTRIZ CIA. DE ECON.	18'500.000	86.49	13.51
23	EXCLOSEM COMPAÑIA DE ECONOMIA MIXTA	750.000	- o -	100.00
24	CEMANCEM CEMENTOS MANABITAS COMP' DE ECONOMIA MIXTA	949.000	33.72	66.28
25	EMPRESA TURISTICA MANABI CEM	15'665.000	79.80	20.20
26	C. E. M. HOTELERA Y TURISTICA AMBATO	36'736.000	92.11	7.89
27	EMPRESA DE DESARROLLO FORESTAL EMDEFOR CIA. DE ECON. MIXTA	75.400.000	99.87	.13
28	MERCADO MAYORISTA DE QUITO M.M.Q. CIA DE ECON. MIXTA	10'000.000	60.00	40.00
29	PARQUE INDUSTRIAL AMBATO C.E.M.	33'000.000	79.27	20.73

EMPRESAS ACTIVAS CON PARTICIPACION ESTATAL

# ORDEN	NOMBRE DE LA COMPAÑIA	CAPITAL SOCIAL	PARTICIPACION PUBLICO %	PARTICIPACION PRIVADA %
1	EMBOTELLADORA AZUAYA S.A.	64'357.600	0.06	99.94
2	EMPRESA ELECTRICA REGIONAL CENTRO SUR C.A.	68'632.000	93,91	6,09
3	HOTEL HUAYNACAPAC S.A.	120.000	74,81	25.19
4	EMPRESA ELECTRICA BOLIVAR S.A.	46'033.000	100,00	- o -
5	INDUSTRIAS GUAPAN S.A.	179'333.000	100.00	- o -
6	EMPRESA ELECTRICA RIOBAMBA S.A.	253.570.000	100.00	- o -
7	EMPRESA ELECTRICA EL ORO S.A.	267.200.000	100.00	- o -
8	EMPACADORA ECUATORIANO DANESA ECUADESA S.A.	.25'000.000	10.00	90.00
9	COMPAÑIA AZUCARERA VALDEZ S.A.	306'000.000	1.22	98,78
10	POLIQUIMICOS DEL ECUADOR S.A. POLIECSA	37'500.000	10.00	90.00
11	EMPRESA ELECTRICA MILAGRO C.A.	272'580.000	100.00	- o -
12	EMPRESA ELECTRICA PENINSULAR STA. ELENA C.A.	305'000.000	100.00	- o -
13	ALMACENES EL NACIONAL S.A.	500.000	50.00	50.00
14	HOTELERA GUAYAQUIL S.A.	208.100.000	18.40	81.60
15	FLOTA MERCANTE GRAN COLOMBIANA S.A.	56.106,163	100.00	- o -
16	BOLSA DE VALORES DE GUAYAQUIL C.A.	12'000.000	79.17	20.83
17	NUCLEO DE EJECUTIVOS C.A.	840.000	2.28	97.72
18	PARQUE INDUSTRIAL SAN MIGUEL SE IBARRA S.A.	9'044.000	97.91	2.09
19	TABLA REY C.A.	60'000.000	16'47	83.50
20	EMPRESA ELECTRICA REGIONAL DEL SUR C.A.	524'926.000	99.94	0.06
21	SISTEMA ELECTRICO REGIONAL MANABI S.A.	491'500.000	97.97	2.03
22	PROCESADORA DEL CAUCHO ECUATORIANO S.A.	22'463.000	75.46	25.54
23	TE ZULAY SOCIEDAD ANONIMA CIVIL EN PREDIOS RUSTICOS	37'000.000	87.83	2.17
24	EMPRESA PASTEURIZADORA QUITO S.A.	45'000.000	35.11	64.89
25	CITRICOS BOLIVAR	27'771.000	100.00	- o -
26	PALMORIENTE S.A.	182'500.000	25.00	75.00
27	CERVECERIA ANDINA S.A.	607.404,700	5.32	94.68
28	LA INTERNACIONAL S.A.	349.827,070	3.40	96.60
29	TEXTILES INTERNACIONALES S.A.	191.396.600	1.67	98.33
30	COMPAÑIA ANONIMA EL COMERCIO	176.410.000	.03	99.97
31	ENKADOR S.A.	160'000.000	1.26	98,74
32	LABORATORIOS INDUSTRIALES FARMACEUTICOS ECUATORIANOS	100'000.000	34.86	65.14
33	EDESA S.A.	80'000.000	30.00	70.00
34	IDEAL ALAMBREC S.A.	236'000.000	20.00	80.00
35	ECUASIDER CIA. ECUATORIANA DE SIDERURGICA S.A.	96'250.000	100.00	- o -
36	WNIWELD ANDINA S.A.	10'000.000	10.00	90.00
37	PRODUCTOS METALICOS ARMCO S.A.	117'000.000	10.40	79.60
38	ISKRA HERRAMIENTAS ELECTROMECHANICAS DEL ECUADOR S.A.	30'000.000	51.00	49.00

39	ECUATORIANA DE ARTEFACTOS S.A.	299'422.000	10.14	89.86
40	CABLES ELECTRICOS ECUATORIANOS C.A.	146'722.100	.04	99.96
41	EMPRESA ELECTRICA QUITO S.A.	788'000.000	97.72	2.28
42	MAQUINAS DE COMERCIO S.A.	42'500.000	.11	99.89
43	DISTRIBUCIONES INTERANDINAS C.A.	17'013.900	5.07	94.93
45	BOLSA DE VALORES DE QUITO C.A.	30'000.000	34.49	65.51
46	COMPANIA DE SERVICIOS AGROINDUS_			
	TRIALES COSAI S.A.	33'000.000	73.44	26.56
47	EL CLUB DE EJECUTIVOS DE QUITO S.A.	24'000.000	2.33	97.67
48	SOCIEDAD ANONIMA ARTESANAL DE DESA_			
	RROLLO ECONOMICO	517.000	19.34	90.66