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INVESTMENT PROPOSAL

FINANCIERA IBERO-AMERICANA S.A. -- FINIBER

and

FINANCIERA DE GUAYAQUIL S.A. -- FINANQUIL

ECUADOR

US\$3,000,000 (US\$1,500,000 Each)  
Loan/Guarantee Facility

Office of Investment  
Bureau for Private Enterprise

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## TABLE OF CONTENTS

	Page
FACE SHEET .....	i
ABBREVIATIONS .....	ii
ANNEXES .....	iii
I. EXECUTIVE SUMMARY .....	1
1.1 Background .....	1
1.2 The Project .....	4
1.3 Development Aspects .....	6
1.4 Other Conditions .....	6
II. THE ECONOMY .....	7
2.1 Background .....	7
2.2 Current Outlook .....	8
2.3 Public/Private Sector Balance .....	10
2.4 Prospects and Needs .....	11
III. ANALYSIS OF BORROWERS .....	12
3.1 Introduction .....	12
3.2 Financiera Ibero-Americana - "FINIBER" .....	12
3.3 Finiber - Financial Analysis .....	13
3.4 Financiera de Guayaquil, S.A., "FINANQUIL" .....	15
3.5 Finanquil - Financial Analysis .....	16
3.6 Selection of Participants .....	19
3.7 Financial Risks .....	19
IV. TRANSACTION SUMMARY .....	21
4.1 Summary of Terms and Conditions .....	21
V. CONTRIBUTION TO DEVELOPMENT .....	24
5.1 Development Needs .....	24
5.2 USAID Strategy .....	25
5.3 Program Composition and Emphasis .....	26
5.4 Impact of PRE Facility on USAID Policy Areas .....	27
VI. PROPOSED TIMETABLE .....	29
VII. DISBURSEMENT .....	29
VIII. MONITORING AND EVALUATION .....	30

ABBREVIATIONS

BNF	-	Banco Nacional de Fomento (National Development Bank)
CFN	-	Corporacion Financiera Nacional (National Finance Corporation)
CDSS	-	Country Development Strategy Statement
FINANQUIL	-	Financiera de Guayaquil, S.A.
FINIBER	-	Financiera Iberoamericana, S.A.
GDP	-	Gross Domestic Product
GOE	-	Government of Ecuador
IBRD	-	International Bank for Reconstruction and Development (World Bank)
IFI	-	International Monetary Fund
IOP	-	Investment Opportunity Proposal
IP	-	Investment Proposal
LAC	-	Latin American and Caribbean Region - USAID
PRE/I	-	Bureau for Private Enterprise, Office of Investment
RF	-	Revolving Fund
SMSE	-	Small and Medium-Scale Enterprise
USAID	-	U.S. Agency for International Development
USG	-	United States Government

ANNEXES

- A. FINIBER . - Financial Statements as of December 31, 1984 and 1985.
- B. FINANQUIL - Financial Statements as of December 31, 1984 and 1985.
- C. Comparative Balance Sheets as of March 21, 1986 with ratios for 11 largest Ecuadorean Financieras.
- D. FINIBER - Analysis Utilization L/C Confirmation Facility
- E. FINANQUIL - Analysis Utilization L/C Confirmation Facility
- F. Placements of Commercial Banks CDs and Special Financial Certificates since Special Registration 214 of December 1984.
- G. Mission Cable Correspondence and Approval.

## I. EXECUTIVE SUMMARY

### 1.1 Background

Early in 1984, PRE was asked to visit Ecuador and to assist the Mission in redesigning the Agroindustrial and Non-traditional Export Project so that the funding would be channeled through the private financial institutions rather than through the National Financial Corporation (CFN), the Government-owned finance company. In consulting with the private financial sector, it became obvious that the system was in dire need of external trade credit lines, inasmuch as all the existing traditional correspondent banking relationships were frozen pending the renegotiation of the foreign debt.

Furthermore, it was determined that the local financial markets were almost paralyzed by interest rate ceilings that effectively precluded placements in an environment of the rate of inflation exceeding substantially those ceilings. It was consequently decided that, apart from assisting the Mission in restructuring its own agro-industrial program, PRE would offer from its own Revolving Fund a guarantee facility to one financiera from Quito and Guayaquil each, thus covering both distinct markets of Ecuador, to be used initially for confirmations of Letter of Credit for imports, and eventually to guarantee Financial Certificates and, preferably, medium-term development bonds to be issued by the two institutions in the Quito and Guayaquil capital markets after the needed legislation has been passed to correct the existing distortions in the financial marketplace.

The PRE intervention proposed in July 1984 and implemented in the course of FY 1985 has had significant ongoing policy dialogue implications. Two actions stand out: the channelling of the USAID Mission's agro-industrial lending program, designed to encourage non-traditional exports, through the Ecuadorean private financial institutions rather than the state-owned National Finance Corporation (CFN); and Resolution 214 of the Monetary Board of December 1984, almost totally freeing up the interest rate ceiling to conform to market conditions. On the fiscal side, a step in the right direction was taken by taxing interest on certain special financial instruments at a flat rate of 8%. Considerable work remains to be done, particularly in the field of capital markets and privatization, as well as on removing the remaining advantages of government financial instruments over those of the private financial institutions.

The design of the original PRE intervention was predicated upon two basic assumptions: that small and medium agro-industrial businesses located in rural areas of Ecuador, with less than US\$300,000 equivalent in fixed assets, excluding land and buildings, neither (1) have had access to foreign exchange with which to finance needed production inputs on short-term basis; nor (2) were they going to have access over the foreseeable future to medium- and long-term credit denominated in local currency to finance startup or expansion activities.

The above assumptions are still substantially valid, although progress has been made on both counts, particularly on accessibility to trade credits. First, Ecuador has only recently begun to recapture its creditworthiness with the international banking community, following the agreement with IMF and the subsequent successful renegotiation and rescheduling of the Paris Club debt with respect to the past due 1984 and the 1985-87 principal repayments. Thus, access to hard currency credit has been gradually restored to the local financial institutions, albeit confined almost exclusively to the slow resumption of the trade-related lines of credit within their correspondent banking network. The small- and medium-sized agro-industrial businesses targeted by the original PRE facility are not partaking of this slow restoration of external trade credit in relation to their potential demand. As a result, what scarce foreign exchange is available continues to be rationed through (a) the official markets to meet mostly public sector priorities, including the servicing of the interest on its external debt following the "sucretization" process by which the Central Bank assumed the foreign exchange risk of the private sector debt; and/or (b) through the parallel market to service the priorities of the larger, more creditworthy private sector firms. Second, the maintenance of the unrealistically low domestic interest rates -- both for savers and borrowers -- has been substantially corrected, although what domestic credit is available will continue to be rationed to the most creditworthy borrowers to the virtual exclusion of small businesses.

One of the unfortunate aspects of the above circumstances is that credit was never adequately delivered to those small businesses are frequently that more efficient employers per unit of capitalization than larger firms; and when located in rural areas, provide virtually the only check to the unfortunate pattern, evident in Ecuador as well as elsewhere in the developing world, of migration from rural to commercial centers by people in search of jobs.

USAID has continued the policy dialogue with the new administration of President Febres Cordero on liberalization of interest rates on special financial certificates and other instruments issued by the private financial institutions in general, and finance companies (financieras) in particular. This was substantially accomplished, as indicated previously, with respect to interest rates and taxation. In practical terms, however, finance companies have lagged substantially behind the commercial banks in placement of special certificates in the market: as shown in Annex F, as at May 31, 1986, the finance companies have placed a total of 808 million Sucres (\$5 million equivalent) vis-a-vis a total of 44 billion Sucres (\$275 million equivalent) placed by the commercial banks. Clearly, the

investors opt for commercial banks' paper because of the larger institutional and asset backing for the paper, apart from fundamental perceptions of liquidity favoring the banks over financieras due to the very nature of their respective asset and liability sides: commercial credit vis-a-vis project finance, demand deposits and current accounts versus neither. Both the banks' and the financieras' special certificates, issued under Resolution 214, are thus far the only two instruments that the Monetary Board and the Superintendency of Banks have allowed to be placed at market rates without prior approval. The return on other, "ordinary" certificates and bonds allowed under the basic legislation governing financial institutions, continue to be subject to previous approval by the Monetary Board, although the intent of the revised law is that interest rates on deposits should follow market conditions, while the lending margin is fixed at 400 basis points. As a consequence, financieras have been unable to place "ordinary" certificates as freely as they may issue "special" certificates on discount basis, while, like in the case of bonds described below, "ordinary" certificates would have to be issued at the only currently legal "maximum" rate of 23% regardless of the term.

Despite the increase in the nominal "legal" interest from 16% to 23%, due to the fixed rate interest coupon and uncertainties about determining the appropriate discount in terms of perceived yields sought by the investors, financieras have been unable to place significant amounts of fixed-rate paper in the 5 to 10-year range. Apart from the term and fixed rate features, an additional handicap facing private financieras in the placement of fixed rate bonds is that the only substantial takers are the Social Security Fund and private pension funds while, for example, the insurance companies are expressly prohibited from investing in private sector financial instruments, a market reserved for Government paper. This market must be opened to private debt instruments, particularly developments bonds of this type, and strong recommendation to that effect is included in a series of findings that the Mission is about to submit to the Government.

As a matter of fact, one of the rationales for the original PRE facility was that the new Administration of President Febres Cordero was to prepare a bill, for consideration by the opposition controlled Congress, to approve (1) the issuance by the private financial institutions of tax exempt bonds, an activity reserved then and now for the public sector issuers gathering local currency resources for longer term; and (2) a program to provide the necessary economic incentives for private financial institutions to lend to small and medium-size businesses, as defined previously, at rates that are at least 500 basis points above decreed interest rate ceilings in effect throughout the life of the program.

Upon approval of these measures by the Congress, PRE was to convert its Escrow Guarantee Account into a capital market guarantee and market support facility, providing bond holders with either a 50% guarantee on all paper outstanding during the life of the program, or guaranteeing specific separate issues to be placed alongside matching issues of direct short- or medium-term instruments by the institution in question.

## 1.2 The Project

The Office of Investment, Bureau for Private Enterprise (PRE/I) recommends as outlined below a \$3,000,000 facility to be divided equally between Financiera Iberoamericana, S.A. (FINIBER), and Financiera de Guayaquil, S.A. (FINANQUIL), the "Borrowers", two privately owned Ecuadorean financial institutions engaged in investment and development banking business.

The loan will be disbursed for the account of the Borrowers but deposited in an account with a U.S. bank (the "Collateral Account") and invested in high-quality USG securities. The Collateral Account will be utilized to guarantee:

Two (2) Standby Letters of Credit for the Sucre equivalent of \$1.5MM each, issued by the U.S. bank in favor of the Borrowers, guaranteeing the principal amount of General Guarantee Bonds (Bonos de Garantia General) and/or Financial Certificates (Certificados Financieros Ordinarios) with a minimum final maturity of five years. The Borrowers would be placing these securities in the Ecuadorean capital markets pursuant to (a) the issuance of necessary authorizations by the Superintendency of Banks and the Monetary Board, specifically providing for variable interest rate to be readjusted semiannually based upon a market-oriented reference rate (the base rate) set for each subsequent semester by the Central Bank of Ecuador, say, five days prior to the beginning of the semester; and (b) mandatory registration of any issues under the guarantee facility with the Quito and Guayaquil Stock Exchange for listing and subsequent trading.

There is a matching requirement for the facility in that each issue of securities guaranteed by the Collateral Account will have to be matched by the same amount of borrowers' own funds available through existing sources of funding, internally or through the markets.

As was stated in the IOP, the design of the facility meets the second of the two fundamental assumptions as regards small agro-industrial businesses located in rural areas of Ecuador, made in 1984 when the first assumption was dealt with regarding import finance: (a) they had no access to foreign exchange credit with which to finance imports of needed production inputs on a short-term basis, and (b) they did not have access to medium- and long-term credit in local currency to finance start-up or expansion.

Back in 1984, virtually the only source of domestic institutional credit for SMSEs was provided by the National Development Bank (BNF); and it was limited due to BNF's inability to mobilize domestic resources in the open markets. Since then, the USAID 518-0019 Agroindustrial and Nontraditional Agricultural Exports program has been implemented, of which the Sucre equivalent of \$4MM was earmarked for local credit to be channelled through private financial institutions (financieras). As of this writing, over \$3MM of this line is being utilized, and an additional \$5MM is said to be planned for FY 87.

At the time that 518-0019 PID was presented in Washington in 1984; USAID/Ecuador stated as follows:

Access to credit, particularly long term, is a general problem for the Ecuadorean private sector. An in-depth analysis undertaken by USAID for this PID indicates that the agribusiness sector is no exception. The large majority of agribusiness surveyed by USAID indicated that credit was their main constraint, whether for production, export, or expansion. The major source of long-term lending to the agricultural and industrial sector has been the Central Bank's rediscount mechanism (Fondos Financieros). Yet, in 1983, this lending increased by only 12% in nominal terms (real terms-substantial decline) due to the restriction on external borrowing and the Bank's reluctance to lend its own resources long term with inflation racing ahead of recent interest rate increases. Officials at the Central Bank, private sector financieras which use this rediscount mechanism, and the IBRD confirmed that there is a substantial demand for longer term loans to undertake investments in agribusiness activities to produce nontraditional exports, but that no funds are readily available.

A major constraint to the development of a domestic financial market had been the interest rate controls which provided for negative real returns for savers, and subsidized rates for borrowers. As a consequence, virtually all liquidity in the financial sector was made available only through Central Bank rediscount mechanisms, and there has existed a continued stimulus for capital flight. The GOE has been making an effort to allow domestic rates to keep pace with inflation, but progress has been slow, except for Resolution 214 of the Monetary Board (December 1984) which allowed for free market rates on commercial banks' CDs over one million Sucres, and Special Financial Certificates limited to capital and reserves of the issuer. Also, tax on interest on these special instruments was fixed at 8%, with the first 7.5% of interest on financieras' paper tax-free. It is hoped that further tax concessions would be forthcoming on the five-year securities to be issued under this facility.

### 1.3 Development Aspects

PRE has been in touch with top officials of the public sector who are directly involved in background preparation and briefings on needed regulation reforms. Following this background work, conversations were held with the heads of both the Superintendency of Banks and the Monetary Board, as well as the monetary policy people at the Central Bank, regarding the key issue of establishing a base rate that the market would accept for the purposes of the readjustable rate mechanism. A unique window exists for PRE and USAID/Ecuador to conduct a policy dialogue, which ultimately may lead to a total liberalization of interest rates and the first-phase creation of a limited domestic financial market that could provide the kind of debt instruments that are needed to maximize the mobilization of existing liquidity in the local economy for productive investment, as well as attract gradual repatriation of flight capital.

Within the context of Revolving Fund (RF), the proposed facility satisfies the stated guidelines including financial viability, innovation, demonstration, and direction to small business.

With regard to Ecuador's development strategies, the PRE loan/guarantee gives priority to the support of agribusiness which is intensive in its use of labor and local materials and geared to producing for export.

And finally, the USAID strategy, as outlined in its CDSS, calls for special attention for three areas of the private sector: agribusiness, nontraditional exports, and small-scale enterprise. This facility is highly complementary to the Nontraditional Agricultural Exports program currently being implemented by USAID/Ecuador.

For a more in-depth discussion of the Development Aspects, refer to Chapter V.

### 1.4 Other Conditions

An important corollary to the establishing of this facility is that the originally facility, i.e. the Collateral Account guaranteeing confirmations of Letters of Credit for essential imports and pre-export finance, will remain in force for the original full term of seven years, rather than be simply rolled into this facility. It was decided, instead, to establish a new facility for Sucre denominated bonds and certificates as the Letter of Credit facility has not only operated very well, but it continues to be needed in view of the setback to Ecuador's foreign exchange and international debt situation due to the recent severe drop in oil revenues.

## II. THE ECONOMY

### 2.1 Background

The downturn that began in the first half of 1982, was initially arrested in mid-1983 when a stand-by agreement was reached with IMF, and the succe-  
tization program completed that provided for a new basis from which to deal with both the foreign debt service and the recapitalization of the productive sectors in the economy without increases in inflation. Central in this scenario was the inability of private financial institutions to mobilize credit, while the public sector institutions appeared to have decided advantage through (1) their ability to issue tax-exempt securities and (2) tap the Central Bank's rediscount windows channeling external multilateral funds, including AID.

With the election of the new administration of President Febres Cordero, and despite the initial opposition control of the legislature, further progress was made in correcting the imbalance in favor of the public sector in the financial markets during 1984, culminating in Resolution 214 of the Monetary Board freeing up substantially the interplay of interest rates, although total tax exemption for private sector instruments was not achieved completely.

The economic adjustment program launched by the new Government at the beginning of 1985 succeeded in slowing down internal demand while, on the other hand, stimulating exports and reducing imports. The rate of increase in the GNP was slowed down as well, reducing inflation to almost tolerable levels, while reduced consumption actually allowed capital formation to keep up the upward trend started in 1984.

On the finance side, the combination of the elimination of the preferential exchange rate and the renegotiation of the external debt resulted in a significant reduction of the current account deficit in the balance of payments. Despite increases both in oil-related fiscal income and disbursements of long term credits, public sector accounts could not come any closer to balance as they did in 1983-1984. On the other hand, the rate of inflation was significantly reduced as a result of austere monetary policies, despite the liberalization of agricultural prices and elimination of subsidies. Also, after four years of sustained erosion in minimum wage, the trend was reversed and an actual increase in real terms was registered, albeit at the expense of slight increase in unemployment.

While oil production received top priority in resource utilization, there was disappointing reduction in total agricultural output despite considerable increase in the total output of exportable crops such as bananas, coffee and cocoa; this was partially brought about by the drought in the high country. Shortage of larvae also affected negatively production of shrimp. On the positive side, manufacturing activity reversed the downward trend of the two previous years, which also occurred in the construction sector. However, the over-all public sector deficit is believed to have increased substantially from below 0.5 percent in 1983 and 1984 to perhaps 2 percent in 1985, despite substantial increases in fiscal income from both the oil derivatives and other more traditional sectors; it is still far below the 6.5 and 7.2 percent deficits in 1982 and 1981, but the trend must be broken again.

In financial markets, interest on deposits in excess of one million Sucres was freed up, which was immediately reflected in substantial placements of commercial banking certificates which reached a full estimated 25% of the money supply, before they tapered off towards the end of the year due to bank-induced lowering in rates offered. This combined increase in private savings and public sector balances with the Central Bank helped in maintaining antiinflationary credit policies.

On the external accounts side, the substantial decrease in the current account deficit was accompanied by a likewise impressive surplus in the trade account, the highest in ten years. On the other hand, the moderate current account deficit was easily financed with the reduced capital account surplus and new IMF advances, so that the end result was an actual increase in international reserves.

## 2.2 Current Outlook

The authorities continued to pursue free market economy policies in the implementation of the IMF-approved one-year program launched on March 11, 1985. The financial program was designed to consolidate the accomplishments of the 1983-1984 measures, with the main targets being to bring the balance of payments into equilibrium, achieve a surplus in the non-financial public sector budget, and reduce inflation to 20 percent. The foreign exchange market was to be consolidated into one free market following the unification of the three-tiered system at the beginning of 1985. Foreign investment received encouragement through the partial revision of the Decision 24 of the Andean Pact that henceforth allows full or majority foreign ownership of any business that exports more than 80% of its production, including removal of any restrictions on profit repatriation. Agreements were concluded with six foreign companies for new petroleum exploration, calling for investments ranging from \$50 to \$60 million over five years. A new mining law was passed in August that provides for further stimuli in the mining and hydrocarbon sector.

An agreement was reached with the Paris Club countries, restructuring the entire official sector foreign debt guaranteed by the Ecuadorean Government falling due between 1985 and 1987, including the past due principal payments through the end of 1984, on condition that the IMF accords are observed by Ecuador until December 31, 1987. At the same time, the previously concluded agreement with foreign private banks on the refinancing of \$4.6 billion owed them was ratified, representing a full 60% of the total foreign debt.

The above achievements, however, were severely jolted by the sudden steep fall in the price of oil close to the end of 1985 that resulted in growing pressure upon the free dollar exchange rate on the parallel market, eventually reflected in an official devaluation of 14%, raising the "intervention" rate from 95 to 108.50 Sucres. The parallel rate stood around 125 to 135 early in 1986, raising to the current 165-170 just following the mid-term elections. This was accompanied by the increase in the legal reserve on deposits of two percent each in February and March; substantial shelving of new investments with heavy import content; shifting resources to job creating projects, expanding exports, and accelerating drawdowns of precommitted foreign exchange credits primarily from multilateral and other lenders and/or donors. Certain macroeconomic targets were revised to reflect the intervening setback: 1985 GNP will increase by three percent; public expenditure will be reduced 14% and inflation will stand between 22 and 25 percent. This will be made possible through a 14 percent increase in oil production -- up to 325,000 BPD, and an unspecified increase in the export of cocoa, coffee, and shrimp. The dollar cash-flow reduction due to the fall in the price of oil would be also partially compensated for by accelerated drawdowns of multinational project finance credits already approved.

It is the considered consensus, however, that the forthcoming negotiation with IMF for the 1986 renewal of the annual accord will require the adoption of even more stringent reductions in public expenditure in order to keep inflation within the target zone, all of which, in turn, translates into a GNP growth of under 3 percent net. Although the Left has gained ground in the recent mid-term elections, President Febres Cordero is expected to weather the storm by virtue of having assumed the posture of an "independent" President backed by a professional Cabinet. In this he will be helped by the political and economic support he will continue to enjoy from the United States, as well as from a vigorous and imaginative private sector that is diversifying into non-traditional export production and that should be given all possible incentives to continue to do so.

MAIN INDICATORS (1980 - 1985)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985<sup>a</sup></u>
GDP per capita real growth	1.4	1.0	(-2.0)	(5.6)	1.0	0.8
Inflation (CPI)	12.8	14.7	16.3	48.4	31.2	28.0
National savings as % of GDP	19.2	18.4	21.2	18.9	16.5	18.5
Gross Investment as % of GDP	26.1	21.6	20.2	16.6	16.4	17.0
Savings/Investment gap (as % of GDP)	( 4.9)	( 5.7)	( 3.7)	(1.9)	(2.8)	(1.4)
Public sector deficit as % of GDP	( 6.2)	( 7.2)	( 6.5)	(0.4)	(0.4)	(1.5)
Public external debt as % of GDP	30.3	31.8	40.6	48.4	53.4	45.9
Net monetary reserves (US\$ millions)	906	563	210	151.5	170.7	195.9

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<sup>a</sup> estimated

### 2.3 Public/Private Sector Balance

Private enterprise based production is dominant in the Ecuador economy; 77% of gross value added, 60% of the wages and salaries paid, and 56% of the gross fixed capital formation in 1982 were of private sector origin. Public ownership in the major non-petroleum productive sectors of agriculture and industry is of small aggregate value and most commonly has resulted from an intention to prevent a unit's closure, not from any ideological predilection for public ownership. Recent trends, however, indicate a relatively declining role for the private sector in the Ecuador economy and structurally the sector exhibits critical weaknesses. The decreasing line of private investment, both in absolute terms and relative to public investment, has already been shown. A similar relative decline in the private sector's contribution to gross value added was visible over the 10-year period 1972-1982.

The explanations for the trend of declining private investment are partly external: petroleum price trends; deteriorating terms of trade for traditional agricultural exports; climatic conditions. No less important, however, have been the official strategies to deal with these external trends (increased public sector internal and external borrowing, increased attempts to manage the economy both to control inflation and to promote development) combined with the hesitancy and lack of maturity of the private productive sectors in responding to the crisis (for much of the industrial sector, which developed in the 1970s, the 1982-83 period was its first sustained crisis.) It has improved somewhat.

Second, in May 1984 Ecuador elected to the presidency a businessman who promised to strengthen the market orientation of the economy. His initiatives in this direction were somewhat limited by a highly fragmented legislature and by strong pressures for populist measures. The private sector itself is fragmented by partisan affiliations, closely linked to regional differences. Thus, to an important degree, the resolve of the new administration to carry through in its support for the private sector depends on the ability of the private sector itself to achieve a more unified, articulate, and active position in defending its interests.

#### 2.4 Prospects and Needs

Prior to the inauguration of the new Administration two years ago, the Ecuador macroeconomic context has been one of the declining growth of output, rising inflation, rising external debt, falling investment, poor domestic resources mobilization, and increasing public sector competition for domestic savings. The performance for the second half of 1983, however, subsequent to the IMF Stand-by Agreement, produced significant indications, (e.g., reduced public deficit, rescheduled commercial external debt, higher interest rates for domestic savings) of the GOE's commitment to move toward a more market-based, external-oriented economy.

The medium-term macroeconomic perspective for the Ecuador economy continues to be for low growth of output and, if structural adjustment intentions can continue to be successfully implemented, for somewhat reduced inflation, reduced public and external sector deficits, increased domestic savings, and gradually rising investment levels. The major challenges for the public sector are the sustaining of the political will to carry out the adjustment and the elaboration of correct policies and the management of their implementation during a period in which high external debt service requirements will severely restrict the government's economic and financial maneuverability. The major challenges for the private sector continue in finding ways to respond productively and efficiently under this more market-based policy framework.

### III. ANALYSIS OF THE BORROWERS

#### 3.1. Introduction

"Financiera" is a combination of an investment bank, as defined in the U.S., or merchant bank as defined in the U.K.; and a development bank, as defined internationally. Much the same as in the U.S., Ecuadorean commercial banks cannot engage in equity investments, underwriting of securities and long-term credit operations that are not self-liquidating. These are precisely the activities in which financieras do engage, funding themselves not in the demand deposit and current account market, which are closed to them, but through special re-discount facilities with the Central Bank and other official windows including those replenished by international credit institutions and donor agencies.

In Ecuador, for all practical purposes, the local financial instruments market has been available almost exclusively to GOE agencies inasmuch as their instruments are the only ones issued on a tax-free basis. One of the purposes of the original PRE facility was to induce a policy dialogue with the new GOE to allow private financieras to issue their own Certificates and bonds on similar tax-free basis.

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

As of March 31, 1986, FINIBER had total assets of \$48.5 million, stockholders equity of \$2.7 million, converted from Sucres at the rounded-off free rate of 170 Sucres per one dollar. It should be noted that in free dollars, total assets have remained unchanged since December 31, 1983, while the stockholders equity went from \$3.8 million to \$2.7 million. During the same period, the free dollar rate went from 90 to 170 Sucres. Stockholders equity was reduced not due to operating losses, but due to the non-earning portion of assets created by the "sucretization" program.

FINIBER was founded in 1974 and is wholly owned by private institutions and investors, including one commercial bank, Banco Popular. It is quite customary that the "nonbank" finance and development institutions have links to one commercial bank in the area, so as to complement each other's financial services to their traditional clientele. The Banco Popular group is believed to control effectively 60% of FINIBER's capital. In fact, as of this writing, the application is being processed at the Superintendency of Banks for the merger of Banco Popular and FINIBER, pursuant to new legislation encouraging consolidation of financial institutions. Under the scheme, although fully merged into the larger institution, FINIBER will continue to operate as an independent department of Banco Popular. FINIBER's CEO, Raul Daza Martinez, has been already designated General Manager of Banco Popular.

Out of the 10 leading private financieras in Ecuador, FINIBER occupies the sixth place in both total assets and stockholders equity. It is considered to be well managed by a highly professional staff headed by Raul Daza Martinez, whose experience ranges from World Bank Task Force working within the Central Bank of Ecuador to Chief Operational Officer of another large finance company FINANSA prior to his position of Chief Executive Officer at FINIBER. The Chairman of FINIBER is Germanico Pinto Davila, who is also Chairman of Banco Popular. The external auditors of FINIBER are Price Waterhouse.

### 3.3 FINIBER - Financial Analysis

Figures for 1982, 1983, 1984 and 1985 are taken from statements audited by Price Waterhouse. Results for June 1986 are from unaudited internal sources. Exchange rates are 60 Sucres/dollar at December 1982, 90 Sucres/dollar at December 31, 1983, 96 Sucres at December 31, 1984, 120 and 160 Sucres at December 31, 1985 and June 30, 1986 respectively.

TABLE III-A INCOME STATEMENT  
(S000)

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u> (6 months)
<u>Income:</u>					
Interest	1,885	2,047	5,281	6,104	2,912
Commissions	908	309	458	696	341
Other	54	19	177	40	38
Total	<u>2,847</u>	<u>2,375</u>	<u>5,916</u>	<u>6,840</u>	<u>3,291</u>
<u>Expenses:</u>					
Interest and Commissions	(1,281)	(1,420)	(4,542)	(5,184)	(2,505)
Provision for Loan Losses	(186)	(224)	(313)	(648)	(282)
Administrative	(649)	(590)	(646)	(736)	(327)
Operating Income	<u>731</u>	<u>141</u>	<u>415</u>	<u>272</u>	<u>177</u>
Net Income	483	94	250	168	122
<u>Net Income To:</u>					
Earning Assets	2.33	.23	.52	.38	.70*
Total Assets	1.57	.19	.50	.35	.62*
Equity	8.59	2.58	6.45	4.80	8.56*

\* Annualized

FINIBER had a very difficult year in 1983, with net income falling to \$94M from \$483M in the previous year. The decline was related almost exclusively to the fall-off in fee income on foreign trade transactions. However, relative to the over-all performance of the financieras system, FINIBER's results have continued quire satisfactory, particularly when translated to free dollars given the relatively rapid depreciation of the Sucre and the increased assets side inflated by non-earning "sucretized" additions to the porfolio.

In their independent opinion issued in relation to the 1985 financial statement of FINIBER, Price Waterhouse takes exception to the management's level of reserves for doubtful accounts to the tune of 250MM Suces, or approximately \$1.5MM. In the same exception, however, the auditors confirm that the management adopted a program of monthly adjustments in the reserves resulting in an annualized increase of 70MM Suces through year 1990, which is the final maturity of the doubtful portfolio. PW also point out that in their evaluation of FINIBER's portfolio they did not take into account 438MM Suces of deferred commissions resulting from the sucretization program which effectively provided forward coverage for seven years to the erstwhile private sector dollar debtors on FINIBER's books.

On the leverage side, one of the results of the sucretization program was the substantial increase in the balance sheet totals of the financial institutions from 1982 to 1984. This necessitated revisions in existing regulations, so the hitherto 10:1 ratio was increased to 15:1. FINIBER remains well within the limit at 13:1 on June 30, 1986.

TABLE III-B ASSESTS  
( \$000)

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u> (6 months)
Earning Assets:					
Loan	8,285	9,976	13,979	13,888	11,013
Central Bank Facilities	<u>12,440</u>	<u>30,012</u>	<u>33,385</u>	<u>26,496</u>	<u>23,651</u>
TOTAL	<u>20,725</u>	<u>39,988</u>	<u>47,364</u>	<u>40,384</u>	<u>34,664</u>
Cash					
Premises and Equipment	1,221	1,044	1,260	1,056	872
Other	<u>7,217</u>	<u>4,694</u>	<u>2,834</u>	<u>2,752</u>	<u>3,827</u>
Total Assets	<u>30,795</u>	<u>48,528</u>	<u>52,541</u>	<u>45,632</u>	<u>39,827</u>
Past-Due Loans	2,225	1,723	2,479	1,016	998
Loan Loss Reserve	-	359	906	552	552

A breakdown of the disposition of the Borrower's assets at June 30, 1986 is as follows:

Manufacturing	42.00%
Construction	17.00
Agriculture, fisheries	26.00
Machine Tool	6.00
Other	<u>9.00</u>
	100.00%

TABLE III-C LIABILITIES AND EQUITY  
( \$000 )

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u> ( 5 months )
Short-term	6,241	7,753	2,917	2,096	2,992
Long-term,	1,845	5,225	10,229	10,960	6,954
Central Bank					
Facilities	12,440	30,012	33,385	25,496	23,651
Other Liabilities	<u>4,649</u>	<u>1,900</u>	<u>1,927</u>	<u>2,584</u>	<u>3,379</u>
TOTAL LIABILITIES	25,175	44,890	48,458	42,136	36,976
Equity	<u>5,620</u>	<u>3,638</u>	<u>4,083</u>	<u>3,496</u>	<u>2,851</u>
Total Liabilities and Equity	<u>30,795</u>	<u>48,528</u>	<u>52,541</u>	<u>45,632</u>	<u>39,827</u>
Total Liabilities to Equity	4.48	12.34	11.87	12.05	12.97

#### 3.4 Financiera de Guayaquil, S.A. - FINANQUIL

With total assets of \$73.6 million and stockholder's equity of \$5.1 million as of March 31, 1986, FINANQUIL ranks fourth in assets and second in equity among the Ecuadorean financieras. FINANQUIL is by far the most important finance company in the Guayaquil area. The province of Guayas, which includes Guayaquil, has been traditionally more important economically than the high plateau of Ecuador in which the capital of Quito is found. Although this relationship is slowly changing in favor of the "Sierra", the coastal region still remains ahead today.

The company was founded in 1976 and originally was identified with the Banco de Guayaquil group which at one time controlled over 11% of the equity. The Banco de Guayaquil group has sold their last share in FINANQUIL and only the following individuals have more than 5% of the shares of the company:

Bahjat Nader	9.0%
Elsa Barros	7.5
Julio Hidalgo	5.0
Others	<u>78.5</u>
Total	100.0%

Barros and Hidalgo are prominent building contractors and Nader is a chemical and cosmetics manufacturer. The balance of the shares are held by over 300 individuals and corporations.

### 3.5 FINANQUIL - Financial Analysis

Figures for 1982, 1983, 1984 and 1985 are taken from the annual reports and financial statements audited by Price Waterhouse. Figures for June 1986 are internal and unaudited. Exchange rates are 60 Sucres/dollar for December 31, 1982, 90 Sucres/dollar for year-end 1983, 96 Sucres for year-end 1984, 125 and 160 Sucres for December 31, 1985 and June 30, 1986 respectively.

TABLE III-D INCOME STATEMENT  
( \$000 )

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u> (6 months)
<u>Income:</u>					
Interest	2,549	2,968	7,858	8,980	
Commissions	1,229	728	1,410	1,032	
Other	975	1,018	657	271	
Total	<u>4,753</u>	<u>5,018</u>	<u>9,925</u>	<u>10,283</u>	
<u>Expenses:</u>					
Interest and					
Commissions	(1,304)	(2,153)	(5,825)	(5,795)	
Provision for					
Loan Losses	(667)	(488)	(898)	(680)	
Administrative	<u>(969)</u>	<u>(1,123)</u>	<u>(1,113)</u>	<u>(1,218)</u>	
Operating Income	1,813	1,254	2,089	2,590	
Net Income	1,186	791	1,344	1,673	
<u>Net Income To:</u>					
Earning Assets	4.24	2.02	2.09	3.10	
Total Assets	2.78	1.41	1.73	2.48	
Equity	16.10	13.70	20.45	25.53	

In their independent opinion, Price Waterhouse, after making reference to the 7-year "sucretization" refinance program carried out by the Government, state that notwithstanding official measures of support:

"... certain companies and economic sectors are still undergoing critical situations of lack of liquidity, vulnerability, market difficulties or uncertainty as to their future. The company has obtained reasonable guarantees consisting of mortgages, pledges, third-party commitments and portfolio in most cases but their immediate realization in conditions similar to those of normal times might be jeopardized under present economic circumstances. In view of the foregoing, the recovery of troubled loans will involve close follow-up and, eventually, support action in order to preserve the value and realizability of the guarantees received.

Based on a study of the portfolio it has been determined that a percentage of the total outstanding credit portfolio relates to balances with customers which are experiencing problems that have resulted in their inability to meet their obligations on a regular basis. It is estimated that the existing risks in connection with these or other balances outstanding, are adequately provided for."

TABLE III-E ASSETS  
(S000)

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u> (5 months)
<u>Earning Assets:</u>					
Loans	15,577	14,420	24,635	20,840	
Central Bank Facilities	<u>12,395</u>	<u>24,760</u>	<u>39,573</u>	<u>33,104</u>	
Total	27,972	39,180	64,208	53,944	
Cash	3,100	4,273	2,271	3,152	
Premises and Equipment	633	508	528	725	
Other (principally L/C & Acceptances)	<u>11,011</u>	<u>11,978</u>	<u>10,623</u>	<u>9,576</u>	
Total Assets	42,716	55,939	77,630	67,397	
Past Due Loans	1,994	4,104	4,006	3,051	
Loan Loss Reserves	1,083	1,111	1,875	1,840	
Percent of Earning Assets	3.87	2.84	2.92	3.41	
Percent of Total Assets	2.54	1.99	2.41	2.73	

The company maintains a high degree of liquid assets to support its activities and the loan loss experience has been satisfactory owing to a great deal of selectivity in client leading. Additionally, we are informed that all outstandings are substantially collateralized. The loan loss reserve of 3.41 of earning assets is very conservative and sufficient to cover any projected losses.

FINANQUIL has not become involved with the financing of public works and its traditional distribution of assets is along the following general lines:

Agriculture, Fisheries	40%
Manufacturing, Industry	40%
Construction	10%
Other	10%

TABLE III-F LIABILITIES AND EQUITY  
(S000)

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u> (6 months)
Short-term	9,208	9,210	9,495	9,320	
Long-term	263	137	422	769	
Deferred Income	2,177	2,424	4,014	3,472	
Central Bank					
Facilities	13,757	28,903	49,057	39,520	
Other Liabilities	<u>9,952</u>	<u>9,501</u>	<u>8,073</u>	<u>7,761</u>	
Total Liabilities	35,357	50,175	71,061	60,842	
Equity	<u>7,359</u>	<u>5,764</u>	<u>6,571</u>	<u>6,552</u>	
Total Liabilities and Equity	<u>42,716</u>	<u>55,939</u>	<u>77,632</u>	<u>67,394</u>	
Total Liabilities to Equity	4.80	8.70	10.81	9.29	

FINANQUIL is the most conservatively leveraged of all the Ecuadorean financieras. They were less affected by the devaluations since they had previously utilized dollar liquid assets to repay dollar liabilities rather than "sucrétize" them. Additionally, the company's shareholders came forward with additional capital and all earnings have been reinvested.

The category of "Deferred Income" is indicative of management policies. While the bulk of Ecuador's financieras continue to accrue and capitalize interest on doubtful accounts, FINANQUIL suspends accruals and treats all cash income as deferred. Only when the loan is fully recovered, or the borrower indicates strong renewed payment possibilities is the income allowed to pass through the profit and loss accounts. This in fact may be considered an additional reserve to the normal loan loss reserves.

FINANQUIL is considered one of the most conservative and best managed financieras in Ecuador. The General Manager since inception has been Dr. Miguel Babra Lyon, an economist, graduate of the Sorbonne, former head of CDFIEC (one of the largest financieras), and a highly respected banker in international circles.

### 3.6 Selection of Participants

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

1. In early April of 1984, the Mission requested assistance in restructuring its Agro-industrial Fund program for implementation through the private financial sector rather than through the parastatal financiera, Corporacion Financiera Nacional.
2. In order to sound out the private financial sector, there were consulted two prominent bankers, one each from Guayaquil and Quito, who also served respectively as the first and second Finance Minister in the first elected Administration following the military era. Neither of the two has any formal direct or indirect interest or connection with either of the participants, other than a small personal shareholding in FINIBER by the Guayaquil banker.
3. It was found that both participants are well managed, headed by professionals well known and respected internationally. Also, both are quite active in and knowledgeable of the agribusiness sector.
4. The Mission also found the managers of the two quite helpful in its Agro-industrial Fund project, so that this facility which is really quite complementary to the Mission's program has fitted very well into the same, particularly with respect to the continued policy dialogue that is needed to secure the GOE cooperation in the legislative area.
5. Although all private financieras were formally invited to participate in the implementation of the Agro-industrial Fund set up by the Mission, it is noteworthy that FINIBER and FINANQUIL are by far the most active users of the Fund in an open competitive situation. This would justify PRE's continued support of these two institutions under the program proposed here.

### 3.7 Financial Risks

- a. Liquidity - both financieras maintain adequate levels of short-term net assets in support of their operations. The fact, however, that the institutions do not take in deposits from the public and that the greatest proportion of funding comes from rediscount mechanisms at the Central Bank, makes insolvency through illiquidity highly unlikely.

- b. Foreign Exchange. In Ecuador, a strong parallel exchange market has emerged through which passes, with GOE encouragement, almost all export income and more than half of import payments.

The facility will be utilized to collateralize the issuing of sucre denominated guarantees and we would consider minimal the risk of a sucre revaluation against the dollar.

- c. Credit. The selection of the ultimate borrower is entirely up to each financiera, following the guidelines stipulated in the documentation. Our credit risk is entirely that of the financiera.

For reasons previously stated, we do not consider insolvency to be a major risk and the GOE has shown great support for the financiera system in Ecuador. Given that FINIBER, in particular, is in the process of merging into the much larger Banco Popular, we would accept the treatment of the possibly inadequate loan/loss reserves as satisfactory.

IV. TRANSACTION SUMMARY

4.1 Summary of Terms and Conditions

LOAN AMOUNT : US \$3,000,000

BORROWERS : Financiera Ibero-Americana S.A.  
FINIBER, Quito, Ecuador

Financiera de Guayaquil S.A.  
FINANQUIL, Guayaquil, Ecuador

Each of the Borrowers will be allocated up to a maximum of US \$1,500,000.

LENDER : PRE, Bureau for Private Enterprise

FACILITY : The Loan proceeds will be deposited with a U.S. bank and invested in high quality USG securities that will be placed in a Collateral Account in the same U.S. bank. The Collateral Account will be utilized to guarantee:

Two (2) Standby Letters of Credit, for the Sucre equivalent of US \$1.5MM each, issued by the U.S. bank in favor of FINIBER and FINANQUIL respectively, guaranteeing the principal amount of either:

a) Guarantee Bonds (Bonos de Garantia) with a minimum final maturity of 5 years: and/or

b) Financial Certificates (Certificados Financieros Ordinarios) with a minimum maturity of 360 days,

that FINIBER and FINANQUIL would be placing in the Ecuadorean capital market through and pursuant to registration with the Quito and Guayaquil Stock Exchanges, and pursuant to a specific authorization by the Monetary Board and the Superintendency of Banks allowing for a freely established interest rate in accordance with market conditions, and readjustable semiannually based upon a base rate of reference officially established by the Monetary Authorities of Ecuador. Both the Bonds and the Certificates would be subject to the currently existing flat tax rate of 3% on interest income to the holders.

TERM : Five (5) years, 2 years grace.

REPAYMENT

- : Subject to sinking fund or redemption schedule of the Certificates and/or Bonds, the Collateral Account will be reduced between the third and the fifth year in equal yearly repayments.

FEES

- : a) One-half of a 1% flat, or US \$15,000, as general onetime facility fee, payable at closing.
- b) Two percent per annum, quarterly in arrears on amounts blocked by the US bank backstopping their outstandings under the Borrowers' bond and/or certificates issues. The U.S. bank charges for the Collateral Account will be covered from this fee.

The cost of the Standby Guarantee issued by the U.S. bank on Sucre-denominated Bonds and/or Certificates, including any fees payable to correspondent banks in Ecuador with respect to payment confirmations thereof, will be paid by the Borrowers.

CONDITIONS  
PRECEDENT TO THE  
ESTABLISHMENT OF  
FACILITY

- : a) Prior to the issuance of any tranches of Sucre-denominated Bonds and/or Certificates, a certified copy of the resolution of the Board of Directors of the issuing Borrower approving such issue; this resolution will also certify that any other required approvals have been obtained from any Governmental and/or Stock Exchange authorities.
- b) Evidence that each Borrower will be able to issue Bonds and/or Certificates for twice the face amount of the PRE Facility on terms and conditions acceptable to PRE.
- c) Evidence that the competent Ecuadorean authority has approved the issuance by the Borrowers of bonds and/or certificates subject to the current flat rate of 8% on the interest earned by the holders.
- d) Evidence that the competent Ecuadorean authority has adopted policies which enable interest rates to vary freely on line with market forces, and that interest on Bonds and/or Certificates may be re-adjusted semiannually in accordance with such market forces.

SECURITY

Beneficial interest in perfected lien and/or any other collateral pledges to the Borrowers under any underlying credit operation involving use of this Standby Guarantee facility to the full extent of such use.

FINANCIAL  
COVENANTS/  
NEGATIVE PLEDGES

: To be negotiated and/or determined in the light of, among other:

- a) Existing and future regulations as to leverage, financial ratios, etc.;
- b) Should the Superintendency of Banks and the Monetary Board, by September 1, 1986, fail to issue the necessary approvals for the Bonds and Ordinary Certificates for administrative reasons alone, and would state in writing that all the required policy decisions were made to approve the Borrowers' applications, then the Borrowers' would be permitted to issue six-month Special Financial Certificates in the market under the Collateral Account guarantee. The Special Certificates would be retired with the proceeds of the Bonds and Ordinary Certificates as contemplated under this facility.

OTHER

Interest on securities held in the Collateral Account would be returned to PRE as earned.

## V. CONTRIBUTION TO DEVELOPMENT

### 5.1 Development Needs

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

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

- Policy. The principal constraints are those related to exchange rates and prices; trade (quantitative restrictions, tariffs and foreign exchange allocations); subsidies (e.g., fuel prices are now at less than 50% of international prices); negative real interest rates; and legal and administrative requirements for productive, particularly export oriented, firms.
- Institutional. Ecuadorean organization - both public and private - lack the capacity to convey and implement the policies and programs which support socioeconomic development goals; to coordinate development activities; and to mobilize effectively domestic resources. Human resource deficiencies at management and technical levels are principal cause of weak organizations. Finally, deeply rooted socioeconomic structures and attitudes limit the opportunities for women and minorities to participate in and share the benefits of development.
- Technology. In manufacturing, undervalued capital and import replacement marketing strategies have led to excessive capital utilization and high import intensities in production units not in line with relative factor proportions. Conversely, in agriculture and related fields technology levels are generally very low. The technology within the most dynamic private sector area (shrimp) has been based on extending production over wide areas and is incompatible in the long run with public and private sectors to access and develop technology, including technologies related to improved management.

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

## 5.2 USAID Strategy

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

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

USAID's strategy will:

- Stimulate the private productive sector and assist it to expand and diversify into more competitive activities, thereby strengthening Ecuador's base for long-term growth.
- Improve the efficiency and cost effectiveness of development programs directed at the poor, and simultaneously increase the mobilization of domestic resources.

### 5.3 Program Composition and Emphasis

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

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

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

The formation of a \$4MM Agribusiness Finance Facility has been successfully implemented and an additional program is planned for FY 1987. The Mission considers that assured access to credit (in a sector that faces severe shortages) is critical to the support of program objectives.

#### 5.4 Impact of PRE Facility on USAID Policy Areas

Three areas of the private sector were identified by USAID for special program attention:

- a) Agribusiness - Ecuador has a number of comparative advantages in climate, location and products that could cause this sector of the economy to grow at rates well in excess of GNP experience. Additionally, a stimulus to agribusiness development can assist in decreasing the rate of unemployment. The PRE facility can help provide this stimulus.
- b) Nontraditional Exports - by financing the importation of production inputs and now providing access to domestic medium-term credit for start-up and expansion to the agribusiness sector, it is expected that increased output and productivity will bring about exportable surplus and creation of new products for export markets.
- c) Small- and Medium-scale Enterprise (SSME) - The PRE facility specifically limits access to those agribusiness firms located in rural Ecuador and whose assets, not including land and buildings, amount to less than \$300M equivalent. Interventions in SSMEs, offer the possible benefit of widening the distributive base of the market economy while, at the same time achieving goals of employment (cost of creating a job in a SSME is less than 20% that of the cost in larger scale industry) and capital formation.

In addition, the PRE intervention offers positive results in the following major USAID policy areas:

- i) Private Sector Development - the project provides stimulus to private sector growth in several ways. First, the availability of imported production inputs will result in improvement of existing plant utilization. Second, the credits are administered by private sector institutions in support of a program targeting the productive participation of SSMEs. Third, the leveraging of PRE guarantees could assist in the eventual return of private international commercial lenders to the Ecuadorean marketplace; and finally, the Bond facility can provide much needed term domestic credit for private sector start-up and expansion.
- ii) Institution Building - the facility has the potential to move two financieras permanently down-market to SSMEs. At a time when fund sources are limited to Central Bank rediscount lines, the project can promote growth in areas that are encouraged by GOE initiatives but have not had access to the necessary funding.

- iii) Policy Dialogue - the project responds to the USAID program objective of developing the capacity of Ecuadorean Private Sector institutions to participate effectively in policy dialogue. Specifically, the PRE facility may be seen as offering a small but important incentive to the first-phase creation of a domestic capital market.
- iv) Capital Market Policies - the project responds also directly and timely to one of the key recommendations submitted to the Minister of Finance within the USAID-sponsored Report prepared in July 1986 by SRI International. Specifically, the Report calls for marketable debt instruments issued through and subsequently traded at the Stock Exchanges, as one of the principals means of reducing dependency on Central Bank rediscount windows.

#### 5.5 Relation to PRE/RF Objectives and Criteria

Section 407 of House Bill 2992 establishes the pertinent guidelines for the RF activity. The project essentially meets the following criteria.

- i) since the financing deals with the agricultural sector, the facility would be funded with Section 103 appropriation;
- ii) the demonstration effect is evidenced by introducing private sector institutions to a new market, by mobilizing other than public sector subsidized credit and by creating the conditions for policy dialogue;
- iii) the project is innovative in its joint-venture aspect with the private sector and by its possible creation of a new capital markets tool;
- iv) the financial viability is borne out under analysis of market demand, conservative management and concentration of credit in the agribusiness sector where the financieras have proven expertise;
- v) the project maximizes development impact by targeting the small agribusiness producer and providing an assist to rural employment.

VI. PROPOSED TIMETABLE

i) Loan Review	August
ii) IP	August
iii) Authorization	August
iv) Initialed Loan Agreement	September
v) Loan Execution	September

VII. DISBURSEMENT

The 3,000,000 PRE facility will be disbursed in one lump sum to a U.S. Agent Bank for the purpose of establishing a blocked account collateralizing standby guarantees.

In order to minimize bankings fees and simplify implementation, it is anticipated that the agent bank for the collateral account and the confirming bank will be one and the same. However, while PRE will insist that the collateral account be concentrated in one institution, some flexibility will be allowed the borrower to select his confirming bank in accordance with his access to credit lines and subject to documentary requirements for collateral "assignment."

As stated previously, funds in the collateral account will be invested in shortterm USG securities and all income will be returned to the RF as earned.

### VIII. MONITORING AND EVALUATION

Project monitoring and evaluation will include certain reporting requirements together with a review of loan and financial performance.

- i) Reporting: The requirements will include the submission of Borrowers financial statements on a semi-annual internal and annual audited basis together with a quarterly report providing a full summary of sub-borrower utilizations. An in-depth annual report will include specific details as to sub-borrowers' size, increased sales/exports and employment.
- ii) Review: to coincide with the production of the above-mentioned annual report, an on-site visit is planned before March 1987, which would include visits to a representative sample of sub-borrowers and individual financial reviews. This would be coordinated with AID/Ecuador.
- iii) Evaluation: An evaluation of the project is planned before June 1988 in order to measure the impact on (a) small-scale enterprise; (b) employment; (c) export generation.

An important part of the evaluation process will be to determine the success of the legislative and policy initiatives critical to the implementation of the facility. A question to be addressed will deal with the effectiveness or probability of success for Policy Dialogue given the relatively small size of the facility.

Other factors to be evaluated will be (1) whether or not the original facility served as an incentive for the return of international commercial lenders to the Ecuador short-term trade finance market and (2) structural considerations relating to problems/opportunities encountered during the initial implementation phase (i.e., lessons to be learned from the process and needed corrections).

## ECUADOR

## Comparative Analysis of Finance Companies Balance Sheets as of March 21, 1986

Millions of Sucres (\$1 = 170 Sucres)

	FINIBER	COFIEC	FINANSUR	FINANC. GUAYAQUIL	FINANSA	ECUFINSA	FINRC	AMERAFIN	FINANDES	FIMASA	FIRESA
<b>ASSETS</b>											
Cash & Equivalent Investments	88.0	94.7	175.8	370.3	1,041.1	537.0	32.8	29.7	49.8	99.1	79.4
Loans	4,966.6	8,045.5	7,405.3	6,618.0	8,180.5	6,413.4	3,467.8	864.5	1,063.1	1,361.7	1,597.5
Loans Overdue	166.7	1,260.0	534.5	450.2	774.9	526.9	34.9	207.2	425.0	609.8	41.8
Loan/Loss Reserve	(68.5)	(391.6)	(380.0)	(230.0)	(338.0)	(236.0)	(0.0)	(95.5)	(151.6)	(81.2)	(16.0)
Receivables Under Acceptances	194.7	224.5	318.0	650.6	117.0	103.2	8.0	32.9	44.7	13.7	10.7
Deferred Expenses	119.1	747.5	485.9	303.4	840.9	653.4	129.4	91.7	100.2	340.7	172.7
Foreclosed Assets	133.0	887.7	325.4	75.2	49.5	41.9	2.5	18.6	19.1	3.6	0.0
Fixed Assets	64.2	229.9	74.4	97.1	201.6	49.4	0.0	7.5	32.9	38.9	39.0
Other Assets	347.1	1,258.0	574.2	444.8	1,097.2	252.7	143.7	16.3	240.0	99.3	34.6
<b>TOTAL</b>	<b>6,010.9</b>	<b>12,644.2</b>	<b>9,513.5</b>	<b>8,812.6</b>	<b>11,964.7</b>	<b>8,346.8</b>	<b>3,933.0</b>	<b>1,392.8</b>	<b>1,823.4</b>	<b>2,485.6</b>	<b>1,960.1</b>
<b>LIABILITIES</b>											
Due on Demand	90.7	94.0	53.6	36.8	61.2	314.0	0.0	17.4	7.9	66.8	1.0
Acceptances Outstanding	194.7	224.5	318.0	650.6	117.0	103.2	8.0	32.9	44.7	13.7	10.7
Payables	11.1	341.8	888.1	168.6	50.1	597.2	33.7	10.6	70.2	115.1	4.8
Due to Banks	4,143.4	7,067.7	6,705.2	5,623.4	8,958.8	6,015.5	3,326.8	804.5	1,187.4	1,798.3	1,503.7
Bonds	648.5	2,349.6	625.6	567.0	885.0	500.0	35.8	220.7	88.6	64.0	51.0
Other Liabilities	465.9	1,445.9	201.8	946.1	1,099.7	257.8	204.4	73.9	163.3	161.9	240.9
<b>TOTAL</b>	<b>5,554.3</b>	<b>11,623.5</b>	<b>8,792.3</b>	<b>7,992.6</b>	<b>11,161.8</b>	<b>7,787.7</b>	<b>3,608.7</b>	<b>1,160.0</b>	<b>1,562.1</b>	<b>2,219.8</b>	<b>1,812.1</b>
<b>SHAREHOLDERS EQUITY</b>											
Paid in Capital	327.4	300.0	614.0	626.0	666.0	464.8	300.0	176.8	240.0	240.0	129.4
Reserves	86.7	146.4	39.7	113.2	103.6	51.5	20.0	22.9	13.3	34.1	15.9
Surplus	22.6	19.6	42.7	60.0	27.8	13.4	0.8	2.2	4.8	2.4	4.0
Capital Authorized Not Paid In	0.0	0.0	0.0	0.0	0.0	0.0	0.0	23.2	0.0	0.0	0.0
Profit (Loss) (01/01/03/21/86)	19.9	54.7	24.8	21.9	5.5	29.4	3.5	7.7	3.2	(10.7)	(1.3)
<b>TOTAL</b>	<b>456.6</b>	<b>1,020.7</b>	<b>721.2</b>	<b>820.1</b>	<b>802.9</b>	<b>659.1</b>	<b>324.3</b>	<b>232.8</b>	<b>261.3</b>	<b>265.8</b>	<b>148.0</b>
Liabilities and Shareholders Equity	6,010.9	12,644.2	9,513.5	8,812.6	11,964.7	8,346.8	3,933.0	1,392.8	1,823.4	2,485.6	1,960.1
Contra Accounts	2,268.3	3,942.1	5,260.7	3,697.8	3,965.8	1,372.5	3,651.3	888.9	559.6	936.4	1,027.4
<b>GRAND TOTAL</b>	<b>8,279.2</b>	<b>16,486.3</b>	<b>14,774.2</b>	<b>12,610.4</b>	<b>16,930.6</b>	<b>9,719.3</b>	<b>7,684.3</b>	<b>2,201.7</b>	<b>2,281.7</b>	<b>3,422.0</b>	<b>2,987.5</b>

## Comparative Analysis of Finance Companies Balance Sheets as of March 21, 1986

Millions of Sucres (\$1 = 170 Sucres)

	FINIBER	COFIEC	FINANSUR	FINANC. GUAYAQUIL	FINANSA	ECUFINSA	FINEC	AMERAFIN	FINANDES	FINASA	FINESA
<b>FINANCIAL RATIOS</b>											
Post Due Index	2.20%	9.36%	3.96%	3.96%	5.95%	6.26%	0.49%	10.72%	20.32%	20.88%	1.57%
Loan/Loss Reserve To Post Due Loans	41.16%	31.08%	71.10%	51.09%	43.62%	44.79%	0.00%	46.09%	35.67%	13.32%	38.28%
Total Debt to Total Assets (incl. contra account)	17.1:1.0	15.2:1.0	19.5:1.0	14.3:1.0	18.9:1.0	16.4:1.0	22.4:1.0	8.8:1.0	8.1:1.0	11.9:1.0	19.2:1.0
Total Debt to Total Assets (excl. contra account)	12.2:1.0	11.3:1.0	12.2:1.0	9.8:1.0	13.9:1.0	13.9:1.0	11.1:1.0	5.0:1.0	6.0:1.0	8.4:1.0	12.3:1.0
Total Loans to Total Assets	91.76%	81.72%	91.50%	91.26%	81.85%	86.59%	94.44%	87.37%	87.81%	85.38%	89.62%
Return on Capital	24.32%	27.36%	16.16%	14.04%	3.32%	25.32%	4.68%	17.44%	0.08%	0.00%	0.00%
Total Loans	7,596.3	13,472.1	13,518.5	11,416.6	13,038.2	8,416.0	7,162.0	1,933.5	2,092.3	2,921.6	2,677.4
Total Assets (incl. contra accounts)	8,279.2	16,486.3	14,774.2	12,510.4	15,930.5	9,719.3	7,584.3	2,281.7	2,382.9	3,422.0	2,987.5

U.S. \$1,400,000

Analysis Utilization L/C Confirmation Facility  
Tripartite Agreement of AID/PRE-First Pennsylvania Bank-FINIBER

1. STATUS

Signing of Agreement : September 27, 1984  
 Disbursement Date : November 28, 1985  
 Amount Utilized in May 23, 1986: U.S. \$1,362,844.89  
 Maximum Amount Allowed : U.S. \$ 250,000.00

2. UTILIZATION BREAKDOWN

a) Average Amount L/C confirmed: U.S. \$ 57,000.00  
 b) Minimum Amount : U.S. \$ 10,000.00  
 c) Maximum Amount : U.S. \$250,000.00  
 d) Number Letters of Credit : 24

e) <u>End User</u>	<u>Amount (000)</u>	<u>%</u>
Agriculture	257	18.76
Agroindustries	96	7.01
Textile Industries	155	11.31
Chemical Industries	96	7.01
Shoe Manufacturing	8	0.58
Metal Mechanical	328	23.94
Electric Products	149	10.88
Food Products	23	1.68
Services	<u>258</u>	<u>18.83</u>
Total	1,370	100.00

f) Geographic Distribution:

Azuay	195	14.23
Cotopaxi	195	14.23
Pichincha	541	39.49
Guayas	<u>439</u>	<u>32.05</u>
Total	1,370	100.00

SPECIAL CERTIFICATES  
(millions Sucres)

Commercial Banks

	Total	Days					
		90-119	120-149	150-179	180-269	270-359	360-up
1955							
Apr	7,924	3,727	469	70	2,545	286	825
May	12,193	6,106	680	183	3,848	299	1,066
June	17,670	6,984	1,017	542	7,330	353	1,442
July	21,879	8,528	1,177	841	8,559	587	2,184
Aug	26,981	10,222	1,559	1,191	10,231	643	3,132
Sep	29,285	10,428	1,668	1,203	11,486	650	3,848
Oct	30,834	10,252	2,049	1,455	11,676	611	4,739
Nov	32,208	10,408	2,296	1,410	12,175	672	5,244
Dec	33,756	10,486	2,355	1,076	13,081	582	6,174
1956							
Jan	36,474	11,333	2,566	1,024	13,636	683	7,230
Feb	37,555	11,088	2,438	1,281	13,888	639	8,218
Mar	38,559	11,028	2,496	1,254	13,959	863	8,957
Apr	40,858	12,324	2,340	1,236	14,710	884	9,362
May	44,159	13,576	2,437	1,075	15,463	914	10,694

Annual Yield

April 1956	25.30	25.70	26.10	26.70	27.10	27.70
May 1956	26.00	26.40	26.80	27.50	28.20	29.00

2. Financieras

	Total	Days		
		90-269	270-359	360-up
1955				
Oct	134	124	-	10
Nov	194	177	-	17
Dec	287	260	-	27
1956				
Jan	316	283	-	33
Feb	372	338	-	34
Mar	434	398	2	34
Apr	641	478	126	38
May	808	753	3	52
<u>Annual Yield</u>				
April 1956	25.30	26.70	27.30	
May 1956	26.40	27.60	28.20	

AUG 18 1986

MEMORANDUM FOR AA/PRE, MS. NEAL PEDEN  
SDAA/PRE, MR. CHARLES GLADSON (Designate)  
AA/PRE, MR. DOUGLAS TRUSSELL  
MS. AILEEN KISHABA  
PRE/PR, MR. ROBERT BECKMAN  
PRE/H, MR. MARIO PITA  
PRE/PD, MR. RUSSELL ANDERSON  
GC/PRE, MR. ROBERT SONENTHAL  
PPC/PDPR/IP, MR. NEAL ZANK  
LAC/SA, MR. KENNETH JOHNSON  
LAC/DR, MR. AARON WILLIAMS

FROM : PRE/I, Mr. Sean Walsh *sw/w*

SUBJECT: IP Review - Bond Guarantee Facility - Ecuador

An IP Review for a US\$3MM Bond Guarantee facility for PRE's Revolving Fund for two investment banks in Ecuador is scheduled for Friday, August 22, 1986, in Ms. Peden's office, Room 6212, from 3:00 p.m. to 4:00 p.m. Attached is the IP document.

Attachment:

IP - Bond Guarantee Facility



FINANCIERA IBEROAMERICANA S. A. (FINIBER)

ESTADOS FINANCIEROS

31 DE DICIEMBRE DE 1985

CONTENIDO

Dictamen de los auditores independientes

Balance general

Estado de ganancias y pérdidas

Estado de evolución del patrimonio

Estado de cambios en la posición  
financiera

Notas a los estados financieros

Abreviaturas usadas:

S/. - Suces

US\$ - Dólares estadounidenses

M.N. - Moneda Nacional

M.E. - Moneda Extranjera

BIRF - Banco Internacional de Reconstrucción y Fomento

# Price Waterhouse



## DICTAMEN DE LOS AUDITORES INDEPENDIENTES

29 de abril de 1986

A los señores accionistas y miembros  
del Directorio de

Financiera Iberoamericana S. A. (FINIBER)

Hemos examinado el balance general de Financiera Iberoamericana S. A. (FINIBER) al 31 de diciembre de 1985 y los correspondientes estados de ganancias y pérdidas, de evolución del patrimonio y de cambios en la posición financiera por el año terminado en esa fecha. Nuestro examen fue practicado de acuerdo con normas de auditoría generalmente aceptadas y, por consiguiente, comprendió las pruebas de los registros de contabilidad y los demás procedimientos de auditoría que consideramos necesarios en las circunstancias.

Como se explica en la Nota 1 a los estados financieros existe un monto aproximado de \$/.250,000,000 correspondiente a créditos de dudosa recuperación no cubiertos por la provisión.

La administración de la compañía explica en la referida nota que ha iniciado un programa de provisiones para cubrir las pérdidas mencionadas hasta el año 1990, fecha de vencimiento final de las operaciones de crédito en cuestión.

Asimismo, según se explica en la Nota 1, la evaluación de cartera reveló que existen créditos otorgados a empresas que experimentan dificultades que les impiden cumplir regularmente con sus pagos y cuya recuperación a la fecha, no es susceptible de estimación objetiva. La administración de la financiera, en base a las garantías con que cuenta, a los resultados de las gestiones de apoyo y consolidación efectuadas y a los restantes elementos de juicio disponibles, considera que no deberían producirse pérdidas significativas en dichos casos.



- 4 En nuestra opinión, excepto por el déficit de provisión para cuentas incobrables mencionado en el párrafo 2, y dependiendo del efecto de las eventuales pérdidas en la realización de las operaciones de cartera mencionadas en el párrafo 3, los estados financieros examinados por nosotros presentan razonablemente la posición financiera de Financiera Iberoamericana S. A. (FINIBER) al 31 de diciembre de 1985 y los resultados de sus operaciones y los cambios en su posición financiera por el año terminado en esa fecha de conformidad con principios contables generalmente aceptados en el Ecuador y con prácticas prescritas o permitidas por la Superintendencia de Bancos del Ecuador. Dichos principios y prácticas han sido aplicados uniformemente con los del año anterior.

*Pricewaterhouse*

16

FINANCIERA IBEROAMERICANA S. A. (FINIBER)

BALANCE GENERAL  
31 DE DICIEMBRE DE 1985

Activo -----	S/.	Pasivo y patrimonio -----	S/.
ACTIVO CORRIENTE		PASIVO CORRIENTE	
Fondos disponibles	154,035,086	Obligaciones inmediatas	73,033,703
Depósitos a plazo comprometidos para garantizar cartas de crédito	48,913,270	Obligaciones con el Banco Central del Ecuador	1,157,258,673
Deudores por aceptaciones	166,953,022	Aceptaciones en circulación	166,953,022
Cartera de créditos y otras cuentas por cobrar	-1,924,425,093	Otras obligaciones	241,215,362
Intereses y comisiones por cobrar	138,775,864	Intereses y comisiones por pagar	171,002,849
Provisión para créditos incobrables	( 83,382,433)	Otros pasivos	174,079,563
	-----		-----
Total del activo corriente	2,349,719,902	Total del pasivo corriente	1,983,543,172
		PASIVO A LARGO PLAZO	
CARTERA DE CREDITOS Y OTRAS CUENTAS POR COBRAR A LARGO PLAZO	3,101,357,000	Obligaciones con el Banco Central del Ecuador	2,553,171,149
		Otras obligaciones	730,840,080
			-----
INVERSIONES EN ACCIONES	35,113,710	Total pasivo a largo plazo	3,284,011,229
			-----
ACTIVO FIJO NETO	64,576,354		
		PATRIMONIO	436,696,288
BIENES ADJUDICADOS EN PAGO	132,169,076		
OTROS ACTIVOS	21,314,647		
	-----		
	5,704,250,689		
	=====		
			-----
			5,704,250,689
			=====
		CONTINGENTES	1,842,468,376
			=====

Las notas explicativas anexas son parte integrante de los estados financieros.

FINANCIERA IBEROAMERICANA S. A. (FINIBER)

ESTADO DE GANANCIAS Y PERDIDAS  
AÑO TERMINADO EL 31 DE DICIEMBRE DE 1985

	S/.
	---
Ingresos	
Intereses	762,985,679
Comisiones	86,710,200
Varios	5,717,466
	-----
	855,413,345
	-----
Gastos	
Intereses	586,120,774
Comisiones	62,034,810
En el personal	45,946,581
En operación	39,184,153
Depreciaciones y amortizaciones	7,446,022
Provisión para cuentas incobrables	80,653,443
Egresos extraordinarios	263,895
	-----
	821,649,678
	-----
Utilidad en operaciones	33,763,667
Participación de los trabajadores en las utilidades	( 5,064,550)
	-----
Utilidad antes de impuesto a la renta	28,699,117
Provisión para impuesto a la renta	( 6,363,243)
	-----
Utilidad neta del año	22,335,874
	=====

Las notas explicativas anexas son parte integrante de los estados financieros.

FINANCIERA IBEROAMERICANA S. A. (FINIBER)

ESTADO DE EVOLUCION DEL PATRIMONIO  
AÑO TERMINADO EL 31 DE DICIEMBRE DE 1985

	Capital pagado	Reserva legal	Superávit de capital por revalorización de activos	Utilidades no distribuidas	Total
	S/.	S/.	S/.	S/.	S/.
Saldos al 31 de diciembre de 1984	327,400,000	55,169,426		9,217,929	391,787,355
Superávit por revalorización de activos fijos por los años 1983 y 1984			9,727,297		9,727,297
Resolución de la Junta General de Accionistas del 25 de febrero de 1985 Apropiación para reservas		9,217,929		(9,217,929)	
Superávit por revalorización de activos fijos por 1985			12,845,762		12,845,762
Utilidad neta del año				22,335,874	22,335,874
Apropiación para reserva legal del 10% de las utilidades del año		2,233,587		( 2,233,587)	
Saldos al 31 de diciembre de 1985	327,400,000	66,620,942	22,573,059	20,102,287	436,696,288

Las notas explicativas anexas son parte integrante de los estados financieros

FINANCIERA IBEROAMERICANA S. A. (FINIBER)

ESTADO DE CAMBIOS EN LA POSICION FINANCIERA  
AÑO TERMINADO EL 31 DE DICIEMBRE DE 1985

	S/.
	---
Los recursos financieros fueron originados por	
Utilidad neta del año	22,335,874
Más - Cargos que no requieren recursos financieros	
Depreciaciones y amortizaciones	7,446,022
	-----
Capital de trabajo proveniente de operaciones	29,781,896
Incremento en pasivo a largo plazo	746,713,624
Activos fijos vendidos o retirados - neto de depreciación	2,366,456
Valor según libros de bienes adjudicados en pago vendidos	24,008,640
	-----
	802,870,616
	-----
Los recursos financieros fueron utilizados en	
Incremento en documentos y cuentas por cobrar a largo plazo	566,102,637
Adquisición de activo fijo	13,009,964
Incremento en bienes adjudicados en pago	34,898,894
Incremento en inversiones	16,389,875
Incremento en otros activos	13,496,252
	-----
	643,897,622
	-----
Aumento del capital de trabajo	158,972,994
	=====

*4.000.000  
Res. a largo plazo*

Las notas explicativas anexas son parte integrante de los estados financieros

FINANCIERA IBEROAMERICANA S. A. (FINIBER)

ESTADO DE CAMBIOS EN LA POSICION FINANCIERA  
AÑO TERMINADO EL 31 DE DICIEMBRE DE 1985  
(Continuación)

	S/.
	---
Análisis de cambios en el capital trabajo	
Aumento (disminución) en activos corrientes	
Fondos disponibles	56,780,800
Depósitos a plazo	42,116,383
Deudores por aceptaciones	37,232,672
Cartera de créditos y otras cuentas por cobrar	(183,588,181)
Intereses y comisiones	126,765,722
Pagos anticipados	( 15,910,469)
Provisión para cuentas incobrables	3,496,750
	-----
	66,893,677
	-----
[Aumento] disminución en pasivos corrientes	
Sobregiro bancario	154,612,384
Obligaciones a corto plazo	( 73,033,703)
Obligaciones con el Banco Central del Ecuador	220,076,396
Aceptaciones en circulación	( 37,232,672)
Otras obligaciones	( 99,397,620)
Intereses y comisiones por pagar	( 81,898,789)
Otros pasivos	8,953,321
	-----
	92,079,317
	-----
Aumento del capital de trabajo	158,972,994
Capital de trabajo al inicio del año	207,203,736
	-----
Capital de trabajo al fin del año	366,176,730
	=====

Las notas explicativas anexas son parte integrante de los estados financieros

FINANCIERA IBEROAMERICANA S. A. (FINIBER)

NOTAS A LOS ESTADOS FINANCIEROS  
31 DE DICIEMBRE DE 1985

NOTA 1 - OPERACIONES DE CREDITO

Los problemas que han afectado la economía del país en los últimos años, han creado problemas a un buen número de empresas que no han podido cancelar sus obligaciones con las entidades del sistema financiero dentro de los plazos originalmente previstos.

La conversión a suces de las operaciones en moneda extranjera y su refinanciación hasta siete años en 1985 han tenido el propósito de aliviar la situación financiera de las empresas dándoles un plazo para generar los recursos necesarios para cancelar sus obligaciones.

Pese a las medidas mencionadas y a otras de rehabilitación o apoyo para casos específicos, algunas empresas en particular y determinados sectores de la economía en general mantienen una situación crítica de iliquidez, vulnerabilidad, problemas de mercado o incertidumbre en cuanto a sus expectativas futuras.

La administración de la Financiera ha trabajado en fortalecimiento de garantías, recuperación de cartera vencida y disminución del riesgo de algunos créditos problemáticos. Existen garantías razonables en la mayoría de los casos, sin embargo, para algunos de ellos, la realización de las mismas podría llegar a ser lenta dadas las condiciones económicas descritas precedentemente.

Por todo lo expuesto, la cobranza de los créditos de clientes que están atravesando dificultades requerirá un seguimiento continuo de la situación de cada uno de ellos en base a cuyos resultados se deberán tomar acciones de apoyo, así como aquellas otras necesarias para preservar el valor y la posibilidad de realización de las garantías.

El siguiente es un resumen de la evaluación de cartera de la financiera al 31 de diciembre de 1985. Dicho resumen comprende el riesgo total con los clientes, excluyéndose únicamente la parte no devengada de la comisión de riesgo cambiario por un monto de S/.438,000,000 a devengarse en años futuros:

	S/.
	---
	(en miles)
1 Crédito otorgado a empresas que experimentan dificultades que les impiden cumplir regularmente con sus pagos y en relación con los cuales, en base a las garantías con que cuenta la compañía, a los resultados de las gestiones de apoyo y consolidación efectuadas y a los restantes elementos de juicio de que se dispone en la actualidad, la administración de la financiera considera que:	
a no habrá problema alguno en la recuperación del crédito otorgado a empresas con problemas financieros pero con garantías suficientes o gestiones de rehabilitación y apoyo en proceso.	620,000
b el proceso de cobro será más complicado en el crédito otorgado a empresas cuyas dificultades son mayores o las garantías más débiles.	86,000
	-----
	706,000
	=====
2 Saldos de créditos de dudosa recuperación, no cubiertos por las provisiones disponibles.	250,000
	=====

En vista de que el vencimiento final de los créditos de dudosa recuperación no cubiertos por la provisión es en el año 1990, la administración de la financiera elaboró un plan mensual de provisiones a realizar a partir de 1985, mediante el cual, anualmente la provisión se incrementará en aproximadamente S/.70,000,000 que servirán para cubrir todas las posibles pérdidas que se vayan produciendo al vencimiento de las obligaciones mencionadas.

## NOTA 2 - RESUMEN DE LOS PRINCIPIOS Y PRACTICAS CONTABLES MAS SIGNIFICATIVOS

Los estados financieros anexos han sido preparados de acuerdo con principios contables generalmente aceptados en el Ecuador incorporando prácticas seguidas en el ámbito financiero en el país, prescritas o permitidas por la Superintendencia de Bancos.

### Prácticas prescritas o permitidas por la Superintendencia -

a partir del 1ro. de enero de 1985, se utiliza un nuevo catálogo de cuentas cuya adopción motivó ciertos cambios en la presentación de los estados financieros. Dichos cambios consisten, en general, en reclasificaciones entre diversos rubros del activo y pasivo, excepto en el caso de las cartas de crédito emitidas y no utilizadas que se han transferido al grupo de contingentes.

los intereses ganados sobre préstamos vencidos se llevan a resultados en el ejercicio en que se cobra o refinancia la operación.

a partir de 1985 la compañía adoptó la práctica de no reconocer ingresos por intereses devengados en los casos en que existen motivos para suponer que la cobrabilidad del principal e interés es dudosa.

las comisiones son registradas como resultados en base de caja, excepto para el caso de créditos de estabilización, préstamos con bonos de fomento, préstamos con fondos del Banco Mundial y con recursos del FOPINAR que se registran por el método de lo devengado.

a partir de junio de 1985 todas las cuentas en moneda extranjera, excepto deudores por aceptaciones y cuentas contingentes deben ser convertidas a sucres utilizando la tasa de cambio del mercado libre de cambios. Hasta esa fecha se utilizaba la tasa del mercado oficial. El cambio no tuvo un efecto significativo sobre los estados financieros. Las diferencias de cambio no realizadas se registran en la cuenta "Regularización de divisas" la cual tiene el siguiente tratamiento.

- Si el saldo es deudor se puede optar entre cargar las diferencias de cambio a los resultados del período o diferirlas para amortizarlas en un plazo de cuatro años.

- Si el saldo es acreedor puede transferirse a la cuenta provisión para créditos incobrables, destinarse a cualquier otra cuenta previa autorización de la Superintendencia o mantenerse en la misma cuenta "Regularización de divisas".

b Inversiones -

Están registradas al costo de adquisición, que es menor al de mercado.

c Activo fijo -

Los activos fijos de acuerdo con las disposiciones legales vigentes están registrados al costo más las revalorizaciones. La depreciación se computa en base al método de línea recta utilizando tasas adecuadas para depreciar los activos durante su vida útil.

d Bienes adjudicados en pago -

Se registran al valor de los créditos que son cancelados por estos bienes. Este valor se aproxima al resultante de los avalúos técnicos realizados por profesionales independientes.

e Ingresos -

Con excepción de los detallados en el punto a, los intereses ganados son registrados por el método de lo devengado.

f Impuesto a la renta y participación  
de empleados en las utilidades (15%) -

Son registrados con cargo a los resultados de los ejercicios semestrales en que se devengan.

## NOTA 3 - POSICION EN MONEDA EXTRANJERA

	US\$
	---
<b>ACTIVOS</b>	
Fondos disponibles	343,516
Depósitos a plazo comprometidos para garantizar cartas de crédito	397,669
Deudores por aceptaciones	530,106
Cartera de crédito y otras cuentas por cobrar vencidas	428,486
Otros activos	44,103
	-----
	1,743,880
	-----
<b>PASIVOS</b>	
Aceptaciones en circulación	530,106
Otras obligaciones	293,518
Otros pasivos	26,050
	-----
	849,674
	-----
Posición neta activa	894,206
	=====
<b>CONTINGENTES</b>	1,421,566
	=====

Al 31 de diciembre de 1985, las cuentas en moneda extranjera quedaron convertidas a S/.123.00/US\$1.

## NOTA 4 - CARTERA DE CREDITOS Y OTRAS CUENTAS POR COBRAR

El siguiente es un resumen de la cartera al 31 de diciembre de 1985:

	S/.
	---
Préstamos	775,828,109
Operaciones con recursos administrados por el Banco Central (Nota 8)	3,009,713,462
Operaciones con recursos del Banco Mundial (BIRF)	501,010,570
Fondo para la Pequeña Industria y Artesanía (FOPINAR)	291,538,609
Préstamos con recursos de certificados financieros especiales	95,288,407
Documentos pagados por cuenta de clientes	95,987,899
Otros préstamos	155,837,958
Otras cuentas por cobrar - clientes	100,577,079
	-----
Total	5,025,782,093
	=====

El siguiente es un detalle de vencimientos de la cartera de créditos y otras cuentas por cobrar:

	S/.
	---
Por vencer dentro del próximo año	1,722,540,079
Créditos vencidos y pagos efectuados por cuenta de clientes	201,885,014
	-----
Total por cobrar en el corto plazo	1,924,425,093
Por cobrar en el largo plazo	3,101,357,000
	-----
Total	5,025,782,093
	=====

#### NOTA 5 - PROVISION PARA CREDITOS INCOBRABLES

El siguiente es el movimiento durante 1985, de la provisión para créditos incobrables.

	S/.
	---
Saldo al inicio del año	86,879,183
Incremento de la provisión mediante:	
Cargos a resultados del período	80,653,444
Utilización de la cuenta regularización de divisas (ganancias en cambio)	39,297,165
Castigos de créditos incobrables	(123,447,359)
	-----
Saldo al 31 de diciembre de 1985	83,382,433
	=====

#### NOTA 6 - INTERESES Y COMISIONES POR COBRAR Y POR PAGAR

	Por cobrar	Por pagar
	-----	-----
	S/.	S/.
	---	---
Intereses y comisiones exigibles	39,610,404	24,686,436
Intereses y comisiones acumulados	99,165,460	146,316,413
	-----	-----
	138,775,864	171,002,849
	=====	=====

## NOTA 7 - ACTIVO FIJO

	Al costo -----	Revalori- zación (1) -----	Total -----
Activo fijo			
Edificios	18,951,672	-	18,951,672
Equipos de oficina	19,164,387	16,816,384	35,980,771
Muebles y enseres	9,709,107	12,990,054	22,699,161
Vehículos	6,908,125	4,035,325	10,943,450
	-----	-----	-----
	54,733,291	33,841,763	88,575,054
Depreciación acumulada	(10,852,250)	(13,146,450)	(23,998,700)
	-----	-----	-----
Activo fijo neto	43,881,041	20,695,313	64,576,354
	=====	=====	=====

(1) La Financiera en 1985 revalorizó sus activos fijos, con excepción de edificios, por los años 1983, 1984 y 1985 de acuerdo disposiciones vigentes.

## NOTA 8 - OBLIGACIONES CON EL BANCO CENTRAL DEL ECUADOR

	S/.
	---
OPERACIONES POR CUENTA DE CLIENTES	
Redescuentos:	
Comunes	249,909,570
Fondos financieros	356,753,818
De pesca	41,279,339
De la construcción	153,911,493
Del diferencial cambiario	32,488,599
De la comisión de riesgo cambiario	28,641,153
Créditos de estabilización (1)	1,540,732,016
Operaciones con bonos:	
De fomento agropecuario	308,750,000
De garantía general (3)	130,300,000
De garantía específica	1,000,000
Otros	165,947,474
	-----
	3,009,713,462
OPERACIONES POR CUENTA DE FINIBER	
Anticipo extraordinario (2)	300,000,000
Créditos de estabilización (1)	400,716,360
	-----
Total	3,710,429,822
Vencimientos hasta un año de plazo	1,157,258,673
	-----
Vencimientos a más de un año de plazo	2,553,171,149
	=====

- (1) Durante 1984, se emitió la regulación 201-84 a través de la cual los plazos de las operaciones sucretizadas en los términos de la regulación No.101-83 se extendieron hasta 7 años, con 5 de gracia. Estas operaciones generaron una comisión de riesgo cambiario a favor del Banco Central que figura registrada en el rubro de Contingentes. El monto de dicha comisión correspondiente a operaciones a cargo directo de la Financiera está siendo llevado a resultados en base a lo devengado.

Al 31 de diciembre de 1985 la Financiera, había confirmado con sus clientes su decisión de acogerse a la nueva regulación a excepción de 14 de ellos por un importe total de S/.124,557,133, que no extendieron el plazo original de sus obligaciones.

- (2) La Junta Monetaria en sesión del 6 de noviembre de 1985 resolvió autorizar al Banco Central del Ecuador la concesión a FINIBER de un anticipo extraordinario de S/.300 millones. El anticipo devenga un interés del 23% anual más impuestos, tiene un plazo de 3 años con uno de gracia, y es pagadero en cuotas semestrales iguales.

En virtud de este anticipo extraordinario, FINIBER deberá observar algunas condiciones entre las cuales, las más importantes, se mencionan:

entrega de cartera en colateral por un 125% del valor del anticipo concedido,

venta de los dólares de la cuenta especial en divisas que mantenía FINIBER en el Banco Central del Ecuador por motivo del mecanismo de refinanciamiento determinado en la Regulación de la Junta Monetaria No.101-83 (ya efectuada al 31 de diciembre de 1985).

estricta sujeción al programa financiero aprobado por el Banco Central y Superintendencia de Bancos, en el que se establece que durante la vigencia del anticipo, la compañía repartirá utilidades sólo en los montos que superen a los requerimientos de capital y reservas que prevé el programa financiero. En el caso que las utilidades sean insuficientes para este efecto, FINIBER se compromete a aportar capital fresco,

FINIBER no podrá registrar en la cuenta con el Banco Central sobregiros ni cartera vencida durante la vigencia del anticipo.

En caso de incumplimiento a las condiciones anotadas el Banco Central tomaría las siguientes medidas:

- . suspensión parcial de líneas de crédito,
- . suspensión total de líneas de crédito normales y especiales,
- . declaratoria de vencimiento del anticipo.

(3) En su mayoría negociados a través de la Bolsa de Valores.

#### NOTA 9 - OTRAS OBLIGACIONES

El siguiente es el detalle de otras obligaciones al 31 de diciembre de 1985.

	Menores a un año -----	Mayores a un año -----	Total -----
Fondo para la Pequeña Industria y Artesanía FOPINAR (1)	24,976,873	178,635,510	203,612,383
Organismos financieros internacionales (2)	120,984,400	489,755,800	610,740,200
Certificados emitidos	95,254,089	62,448,770	157,702,859
	-----	-----	-----
	241,215,362	730,840,080	972,055,442
	=====	=====	=====

(1) Corresponde al mecanismo de créditos promovido y administrado por la Corporación Financiera Nacional (CFN) con recursos del BIRF, con el fin de impulsar el desarrollo de la Pequeña Industria y la Artesanía ecuatoriana, mediante un sistema de créditos a mediano y largo plazo; en el cual, FINIBER por haber suscrito convenios de participación con la CFN, descuenta en esta institución financiera, el 90% de cada crédito concedido para este propósito.

(2) Corresponden básicamente al monto utilizado de las líneas de crédito obtenidas del Banco Mundial a través del (BIRF) por S/.505,561,134 a través del AID por S/.100,279,066 y a través del convenio AID-Fedexport por S/.4,900,000 para financiar cartas de crédito de importación de maquinaria y equipo concedidas a empresas del sector agroindustrial dentro del programa de desarrollo agropecuario e industrial.

#### NOTA 10 - PATRIMONIO

- a) A partir del 9 de abril de 1985, el capital autorizado de FINIBER fue incrementado a S/.600,000,000.
- b) De acuerdo con las disposiciones legales vigentes, un mínimo del 10% de la utilidad semestral debe ser apropiado para formar un fondo de reserva legal hasta que éste llegue a un mínimo del 50% del capital pagado. Esta reserva puede ser utilizada únicamente para incrementar el capital o absorber pérdidas netas.

De acuerdo con prácticas establecidas por la Superintendencia de Bancos el 10% mencionado fue cargado a los resultados del ejercicio anual. Para presentar el estado de ganancias y pérdidas de cada año de acuerdo con principios contables generalmente aceptados, los cargos en los resultados indicados anteriormente, han sido mostrados en los estados financieros como apropiaciones de las utilidades no distribuidas (véase estado de evolución del patrimonio) mediante un ajuste a las cifras que surgen de los registros contables.

#### NOTA 11 - ACTIVO Y PASIVO CONTINGENTE

	S/.
	---
Comisión de riesgo cambiario (1)	1,496,991,107
Avales y fianzas M.N. y M.E.	209,277,427
Cartas de crédito M.E.	132,799,842
Operaciones suigéneris	3,400,000
	-----
	1,842,468,376
	=====

(1) Incluye aproximadamente S/.295,000,000 correspondientes a operaciones propias de la Financiera.

53

NOTA 12 - RESOLUCIONES TOMADAS POR LA JUNTA GENERAL DE ACCIONISTAS CELEBRADA EL 27 DE ENERO DE 1986

A continuación se resumen las principales decisiones tomadas por la mencionada junta:

- . ratificar los cargos a resultados del período por la compañía en 1985 para incrementar la provisión para créditos incobrables;
- . destinar de las utilidades no distribuidas un monto de S/.20,000,000 para constituir una reserva especial para capitalización y S/.102,287 a Reserva Legal;
- . utilizar S/.20,600,000 del superávit por revalorización de activos fijos para incrementar el capital pagado de la compañía.

NOTA 13 - MODALIDADES PRINCIPALES DE OPERACION DE LA FINANCIERA (en base a las disposiciones vigentes al 31 de diciembre de 1985)

Véase página siguiente

NOTA 13 - MODALIDADES PRINCIPALES DE OPERACION DE LA FINANCIERA  
(en base a las disposiciones vigentes al 31 de diciembre  
de 1985)

Operaciones	Destino	Plazos (1)	Tasa anual de interés		Comisión
			Activa	Pasiva	
			%	%	
Préstamos	Capital de trabajo	30 a 180 días	23	-	-
Operaciones con recursos administrados por el Banco Central					
Créditos de estabilización	Refinanciar y convertir a sucres la deuda privada en M.E.	7 años	18	13	Ver Nota 8
Redescuentos comunes	Capital de trabajo	30 a 180 días	23	18	-
Fondos financieros	Industria, agricultura, ganadería, turismo y pesca	1 a 2 años	18	13	-
Aceptaciones bancarias	Actividades industriales y agrícolas	Hasta 180 días	18	18	2 y 3
Redescuentos de la construcción	Capital de trabajo de compañías de construcción	Hasta 540 días	23	18	-
Bonos de fomento	Fomento de la agricultura y ganadería	5 a 10 años	18	18	2 y 3
Préstamos para la pequeña industria y artesanía (FOPINAR)	Actividades industriales y artesanales	2 a 10 años	18 al 23	16 al 18	2
Cartas de crédito y créditos documentarios	Abiertas mediante líneas de crédito concedidas por bancos del exterior para financiar importaciones	A la vista hasta 370 días	-	-	4

(1) La Junta Monetaria según Regulaciones Nos.304 y 314-86 del 19 de marzo de 1986, autoriza reajustar las tasas de interés para todas las operaciones de crédito activas y pasivas a 720 días o más de plazo.

(Free translation of original in Spanish prepared in accordance with accounting principles generally accepted in Ecuador)

FINANCIERA DE GUAYAQUIL S. A.

FINANCIAL STATEMENTS  
DECEMBER 31, 1985 AND 1984

CONTENTS

Report of independent accountants  
Balance sheet  
Statement of income  
Statement of changes in stockholders'  
equity accounts  
Statement of changes in financial position  
Notes to financial statements

Abbreviations used:

S/. - Ecuadorian sucres  
US\$ - United States dollars

*Price Waterhouse*

(Free translation of original in Spanish)

## REPORT OF INDEPENDENT ACCOUNTANTS

February 7, 1986

To the Board of Directors and  
Stockholders of  
Financiera de Guayaquil S. A.

We have examined the balance sheets of Financiera de Guayaquil S. A. as of December 31, 1985 and 1984 and the related statements of income, of changes in stockholders' equity accounts and of changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements examined by us present fairly the financial position of Financiera de Guayaquil S. A. at December 31, 1985 and 1984 and the results of its operations and the changes in its financial position for the years then ended, in conformity with accounting principles generally accepted in Ecuador (see Note 1) consistently applied.

*Price Waterhouse & Co.*

FINANCIERA DE GUAYAQUIL S. A.

BALANCE SHEET  
DECEMBER 31, 1985 AND 1984  
(Expressed in Ecuadorian sucres)

Assets	1985	1984(x)	Liabilities and stockholders' equity	1985	1984(x)
CASH	372,892,313	216,171,322	SIGHT OBLIGATIONS	108,096,383	87,502,829
MARKETABLE SECURITIES	21,089,428	1,820,000	ACCEPTANCES		
LOAN PORTFOLIO			Domestic	222,752,876	212,600,359
Common loans	2,689,453,867	2,339,485,949	Letters of credit	280,399,844	319,190,816
Loans to small business	1,459,216,985	1,222,266,371		503,152,720	531,791,175
Local currency loans arising from the refinancing and conversion of foreign exchange operations	2,678,575,500	2,577,035,703	ACCOUNTS PAYABLE	220,819,934	115,979,608
Loans granted with the proceeds of finance certificates	45,000,000	-	LOANS PAYABLE TO BANKS AND OTHER FINANCE INSTITUTIONS		
Payments on behalf of customers	100,425,039	205,435,931	Ecuadorian Central Bank	4,939,506,245	4,709,515,280
Allowance for doubtful accounts	( 230,000,000)	( 180,000,000)	National Finance Corporation-Rediscouts FOPIAR	90,722,500	70,958,892
	6,742,671,391	6,164,223,954	Foreign banks and other institutions	154,269,743	134,298,932
DUE FROM CUSTOMERS ON ACCEPTANCES	503,152,720	531,791,175	International finance agencies	184,583,212	11,496,882
ACCOUNTS RECEIVABLE	269,860,837	145,487,862		5,369,081,700	4,926,269,986
ASSETS RECEIVED IN SETTLEMENT OF RECEIVABLES	76,921,421	63,183,825	AGRICULTURAL DEVELOPMENT BONDS AND OTHER OBLIGATIONS	505,050,000	365,800,000
FIXED ASSETS	90,588,386	50,714,864	OTHER LIABILITIES		
OTHER ASSETS			Credits and deferred income	433,956,754	385,308,390
Deferred charges	13,750,306	36,082,999	Foreign currency regularization	37,205,630	-
Shares and participations	89,973,702	36,114,547	Accrued liabilities	228,983,931	193,632,528
Interest receivable (net of \$/8,675,758 in 1985 of allowance for doubtful accounts)	216,259,873	183,236,777	Other liabilities	198,907,529	215,591,432
Other assets	27,061,370	23,874,158		899,053,844	794,532,350
	347,045,251	279,308,481		7,605,254,581	6,821,875,948
	8,424,221,747	7,452,701,483	STOCKHOLDERS' EQUITY (As per attached statement)	818,967,166	630,825,535
	-----	-----		8,424,221,747	7,452,701,483
	1985	1984(x)		-----	-----
CONTINGENCIES	3,109,027,345	2,433,700,425	MEMORANDUM ACCOUNTS	13,102,599,040	7,719,428,004
	-----	-----		-----	-----

(x) Figures reclassified for comparability purposes in accordance with the chart of accounts applicable to financial institutions ruling since January 1, 1985.

The accompanying notes are an integral part of the financial statements

85

(Free translation of original in Spanish prepared in accordance with accounting principles generally accepted in Ecuador)

FINANCIERA DE GUAYAQUIL S. A.

STATEMENT OF INCOME  
YEARS ENDED DECEMBER 31, 1985 AND 1984  
(Expressed in Ecuadorian sucres)

	1985 ----	1984(*) ----
Income		
Interest	1,122,500,229	754,328,259
Commissions	128,945,136	135,378,798
Other ordinary income	3,763,511	9,959,616
Extraordinary income	30,088,064	53,114,846
	-----	-----
	1,285,296,940	952,781,519
	-----	-----
Expenses		
Interest and commissions	724,402,072	559,197,876
Personnel	91,454,518	62,885,967
Operating	57,935,794	27,222,780
Allowances, depreciation and amortization	85,040,666	86,212,962
Other	2,817,058	16,762,380
	-----	-----
	961,650,108	752,281,965
	-----	-----
Income before employees' profit participation and income tax	323,646,832	200,499,554
Employees' profit participa- tion	48,547,024	30,074,933
Income tax	65,982,038	41,433,089
	-----	-----
Net income for the year	209,117,770	128,991,532
	=====	=====

(\*) Figures reclassified for comparability purposes in accordance with the chart of accounts applicable to financial institutions ruling since January 1, 1985.

The accompanying notes are an integral part of the financial statements

(Free translation of original in Spanish prepared in accordance with accounting principles generally accepted in Ecuador)

69

FINANCIERA DE GUAYAQUIL S. A.

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY ACCOUNTS  
YEARS ENDED DECEMBER 31, 1985 AND 1984  
(Expressed in Ecuadorian sucres)

	Paid-in capital	Statutory reserve	Capital surplus arising from restate- ment of fixed assets	Undistributed earnings	Total
	-----	-----	-----	-----	-----
Balances at January 1, 1984	393,000,000	52,267,444	5,616,486	67,891,649	518,775,579
Resolutions of the stockholders' general meetings held on February 27 and July 31, 1984					
Appropriation to statutory reserve		16,759,240		( 16,759,240)	
Dividends declared				( 42,987,152)	( 42,987,152)
Capital increase					
Through compensation with credits for dividends declared	22,000,000				22,000,000
Through capitalization of undistributed earnings	59,383,514			( 59,383,514)	
Through capitalization of the restatement surplus	5,616,486		(5,616,486)		
Restatement of fixed assets			6,058,424		6,058,424
Application of undistributed earnings				( 2,012,848)	( 2,012,848)
Net income for the year 1984				128,991,532	128,991,532
Appropriation to statutory reserve from income of the second semester of 1984, subject to approval of the stockholders' general meeting		11,798,851		( 11,798,851)	
Balances at December 31, 1984	480,000,000	80,825,535	6,058,424	63,941,576	630,825,535
Resolutions of the stockholders' general meetings held on February 5 and August 26, 1985					
Appropriation to statutory reserve		18,243,419		( 18,243,419)	
Dividends declared				(171,749,975)	(171,749,975)
Capital increase					
Through compensation with credits for dividends declared	138,941,576				138,941,576
Through capitalization of the restatement surplus	6,058,424		( 6,058,424)		
Restatement of fixed assets			11,832,260		11,832,260
Net income for the year 1985				209,117,770	209,117,770
Appropriation to statutory reserve from income of the second semester of 1985, subject to approval of the stockholders' general meeting		14,121,264		( 14,121,264)	
Balances at December 31, 1985	625,000,000	113,190,218	11,832,260	68,944,688	818,967,166

(Free translation of original in Spanish prepared in accordance with accounting principles generally accepted in Ecuador)

FINANCIERA DE GUAYAQUIL S. A.

STATEMENT OF CHANGES IN FINANCIAL POSITION  
YEARS ENDED DECEMBER 31, 1985 AND 1984  
(Expressed in Ecuadorian sucres)

;	1985 ----	1984(*) ----
Financial resources were provided by		
Net income for the year	209,117,770	128,991,532
Add - items which do not require utilization of financial resources		
Depreciation and amortization	6,635,118	6,212,962
Allowance for doubtful accounts and write-off of credits	78,405,548	80,000,000
	-----	-----
Resources provided by operations	294,158,436	215,204,494
Increase in		
Sight obligations	20,593,554	
Accounts payable	104,840,326	19,198,951
Loans payable to banks and other finance institutions	442,811,714	2,085,946,102
Agricultural Development Bonds and other obligations	139,250,000	253,800,000
Other liabilities	104,521,494	270,949,912
Decrease in		
Cash	-	168,397,744
Marketable securities	-	285,000
Accounts receivable	-	53,565,473
	-----	-----
	1,106,175,524	3,067,347,676
	=====	=====
Financial resources were used for		
Increase in:		
Cash	156,720,991	-
Marketable securities	19,269,428	-
Loan portfolio	646,311,320	2,818,022,818
Accounts receivable	124,372,975	-
Assets received in settlement of receivables	13,737,596	35,822,834
Fixed assets	34,397,346	4,880,524
Other assets	78,557,469	151,725,432
Cash dividend paid out	32,808,399	23,000,000
Decrease in		
Sight obligations	-	33,896,068
	-----	-----
	1,106,175,524	3,067,347,676
	=====	=====

(\*) Figures reclassified for comparability purposes in accordance with the chart of accounts applicable to financial institutions ruling since January 1, 1985.

The accompanying notes are an integral part of the financial statements

(Free translation of original in Spanish prepared in accordance with accounting principles generally accepted in Ecuador)

FINANCIERA DE GUAYAQUIL S. A.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 1985 AND 1984

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES AND PRACTICES

In accordance with current legislation, the company has fiscal periods of six months, ending on June 30 and December 31 each year. The accompanying financial statements cover full calendar year periods, thus including the results of the two semesters.

a) Reclassification of 1984 financial statements -

Effective January 1, 1985, the company adopted the new chart of accounts for financial institutions issued by the Superintendency of Banks. For comparability purposes, the 1984 financial statements were reclassified in accordance with the new chart of accounts. The main differences between the financial statements formerly issued and the annexed financial statements are as follows:

	Total assets and liabilities	Contingencies
	----- S/. ---	----- S/. ---
As per financial statements formerly issued	7,767,974,359	2,118,427,549
letters of credit pending utilization (Note 13)	( 315,272,876)	315,272,876
	----- 7,452,701,483 =====	----- 2,433,700,425 =====

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in Ecuador and with specific practices of finance companies, prescribed or permitted by the Ecuadorian Superintendency of Banks (entity in charge of the control over finance companies).

b) According to the practices mentioned -

interest earned on loans overdue is taken to income on a cash basis;

until December 31, 1984 all the accounts in foreign currency, independent of the exchange market through which the relevant transactions would be realized, were translated to Ecuadorian sucres utilizing the official market exchange rate (S/.66.50/US\$1 at December 31, 1984) and the exchange differences were taken to the results of the year when those transactions were completed. As a result, accrued exchange differences were not recognized until realized.

Since 1985 and according to Resolution No.85/011 of the Superintendency, asset and liability accounts in foreign currency are translated to Ecuadorian sucres utilizing the free market exchange rate ruling at end of year. Contingent accounts (letters of credit and guarantees in respect of loans granted to third parties by foreign financial institutions) are translated to sucres utilizing the exchange rate of the market through which the relevant transactions will be realized. Exchange differences are taken to results of the year when those transactions are completed. Those exchange differences (not realized) arising from the updating of the accounts in foreign currency utilizing the free market exchange rate are recorded under other liabilities and the balance of this account at December 31, 1985 was S/.37,205,630.

The accounting policy adopted in 1984 and 1985 gives the company an additional element of protection for its credit portfolio since exchange gains that could have been recognized as income would supplement the provision for doubtful accounts.

c) Allowance for doubtful accounts -

Recorded as a charge to income to cover the losses that may arise upon realization of loans.

d) Fixed assets -

Stated at cost of acquisition plus restatement less accumulated depreciation. The depreciation is computed by use of the straight-line method applying the annual rates of 1.5% for buildings, 10% for furniture and fixtures and

20% for vehicles. These rates are considered adequate to extinguish the cost of the assets over the period of their useful lives.

In accordance with current legislation, since 1982 the company has been recording a restatement of its fixed assets (cost and related accumulated depreciation). The net increase of S/.25,785,132 (from which S/.11,832,260 relates to 1985 and S/.6,058,424 relates to 1984) is to be shown in equity as restatement surplus; S/.13,952,872 of such amount were utilized until December 31, 1985 for capital increase purposes. The balance is not available for distribution but may be utilized to absorb accumulated losses or increase capital.

e) Shares and participations -

Stated at cost.

f) Income -

Income relating to commissions on guarantees given in foreign currency and interest earned, except as mentioned in item b) above, are recorded on the accrual basis. Other commissions are recognized as income upon completion of the relevant transactions.

Based on considerations of conservatism, the company recognizes interest and commission income in respect of doubtful customers on a cash basis.

g) Income tax and employees' profit participation -

These are shown in the financial statements as a charge to income for the period in which they are accrued, but are recorded in books in the following period, after approval by the stockholders' meeting.

h) Benefits payable to employees who retire with 25 years or more of service -

A Supreme Court ruling issued in 1983 requires employers to make pension payments to retired employees who have completed at least 25 years of service with them. Since there are no employees of the company whose years of service are near the required number, no provision has been made in respect of those future payments and the amount of the provision that could be calculated in this connection and that of the charge which could be expected to be applicable to the year are not considered to be material.

## NOTE 2 - POSITION IN FOREIGN CURRENCIES

	US\$ or its equivalent in other currencies	
	December 31	
	1985	1984
<b>Assets</b>		
Cash	1,028,256	1,613,920
Loan portfolio	544,266	488,237
Due from customers on acceptances	4,317,122	4,451,800
Accounts receivable	28,791	-
	5,918,435	6,553,957
<b>Liabilities</b>		
Acceptances	4,317,122	4,451,800
Loans payable to banks and other financial institutions	586,364	493,514
Other liabilities	70,311	522,107
	4,973,797	5,467,421
<b>Net asset position in foreign currencies</b>	<b>944,638</b>	<b>1,086,536</b>
<b>Contingencies</b>		
Letters of credit and loans granted to third parties by foreign banks guaranteed by the company (see Note 13)	5,606,374	4,901,670

The rates of exchange per U.S. dollar prevailing at December 31, 1985 and 1984 were as follows:

	S/.	S/.
	---	---
Official market of the Ecuadorian Central Bank	96,50(*)	66,50
Intervention market of the Ecuado- rian Central Bank	96,50	96,50
Free market	126,00	120,00

(\*) Effective November 12, 1985 the official and the intervention rates of exchange were unified at S/.96,50/US\$1.

65

Furthermore, since January 29, 1986 the intervention exchange rate, applicable to exports and imports and payment of obligations which have the right to utilize such market, was increased to S/.110/US\$1. At the date of issue of those financial statements (February 7, 1986) the free exchange rate was S/.145/US\$1.

### NOTE 3 - CURRENT ASSETS AND LIABILITIES

As explained in Note 1 a), 1985 and 1984 financial statements are presented in accordance with the new standard chart of accounts which does not segregate current assets and liabilities. Such information is as follows:

	1985 ---- S/. ---	1984 ---- S/. ---
<b>CURRENT ASSETS</b>		
Cash	372,892,313	216,171,322
Marketable securities	21,089,428	1,820,000
Loan portfolio	3,221,943,404	2,940,772,867
Due from customers on acceptances	503,152,720	531,791,175
Accounts receivable	269,860,837	145,487,862
Other assets	257,071,549	243,225,482
	----- 4,646,010,251 -----	----- 4,079,268,708 -----
<b>CURRENT LIABILITIES</b>		
Sight obligations	108,096,383	87,502,829
Acceptances	503,152,720	531,791,175
Accounts payable	220,819,934	115,979,608
Loans payable to banks and other finance institutions	1,745,492,185	2,034,402,272
Agricultural development bonds and other obligations	92,650,000	18,950,000
Other liabilities	427,891,460	409,223,960
	----- 3,098,102,682 -----	----- 3,197,849,844 -----
Working capital at end of year	1,547,907,569 =====	881,418,864 =====

## NOTE 4 - LOAN PORTFOLIO

The main conditions of the credits, as showed in the balance sheet, are as follows:

; Common loans (1985 - S/.2,689,453,867; 1984  
; S/.2,339,485,949).

Loans which largely fall due within 12 months and bear interest of 23% (1984 - 19 to 23%) p.a. to be paid on a quarterly basis (Until June 16, 1984 such interest was payable in advance).

Loans to small business ("fondos financieros") (1985 - S/.1,459,216,985; 1984 - S/.1,222,266,371).

Loans which fall due in varying periods of 6 to 30 months and bear interest of up to 18% p.a. plus a commission of 2% when the terms of loans exceed of 24 months. These loans are granted to finance agricultural and livestock activities, small industries, etc.

Local currency loans arising from the refinancing and conversion of foreign exchange operations (sucretización) (1985 - S/.2,678,575,500; 1984-S/.2,577,035,703).

Loans granted under Regulations No.201/84 and 283/85 of the Monetary Board, payable in periods of up to 7 years since 1983 with maturities basically in 1991 and bearing interest varying from 16% to 17.5% p.a. to be paid on a half-yearly basis and commission of 2%. The exchange risk commission is recorded as a contingency (see Note 13), is payable at the same time that the principal and earns a commission of 1% p.a.

## Overdue loans -

Loans are recorded as overdue the day following that of the maturity date. According to instructions of the Superintendency, the accounting transfer from outstanding to overdue loans should be made 8 days after the maturity date. In accordance with company's policy the amounts of overdue loans at December 31, 1985 and 1984 included under loan portfolio were as follows:

See next page

	1985	1984
	-----	-----
	S/.	S/.
	---	---
Common loans	267,860,612	160,228,165
Loans to small business	13,044,769	18,954,524
Payments on behalf of customers	100,425,039	205,435,931
	-----	-----
	381,330,420	384,618,620
	=====	=====

The economic problems the country has been suffering during recent years, have affected the ability of a number of enterprises to meet their obligations with banks and finance companies within the terms originally agreed.

The conversion of private foreign debt into Ecuadorian sucres and its refinancing up to 7 years, has provided some relief to overindebted companies through longer terms during which they should be able to generate enough funds to repay their liabilities, now in local currency and bearing fixed interest rates during all the period.

Despite the above and other measures taken also by government to give support to specific troubled enterprises, certain companies and economic sectors are still undergoing critical situations of lack of liquidity, vulnerability, market difficulties or uncertainty as to their future. The company has obtained reasonable guarantees consisting of mortgages, pledges, third-party commitments and portfolio in most cases but their immediate realization in conditions similar to those of normal times might be jeopardized under present economic circumstances. In view of the foregoing, the recovery of troubled loans will involve close follow-up and, eventually, support action in order to preserve the value and realizability of the guarantees received.

Based on a study of the portfolio it has been determined that a percentage of the total outstanding credit portfolio relates to balances with customers which are experiencing problems that have resulted in their inability to cancel their obligations on a regular basis. It is estimated that the existing risks in connection with these or other balances outstanding, are adequately provided for

## NOTE 5 - ACCEPTANCES

- a) Domestic (1985 - S/.222,752,876; 1984 - S/.212,600,359).

The balances of this account represent bills of exchange accepted by Figanciera de Guayaquil S. A. and discounted with the Ecuadorian Central Bank to finance industrial and agricultural activities for periods of up to 270 days. These transactions generate commissions of 3% p. a.

- b) Letters of credit (1985 - S/.280,399,844; 1984 - S/.319,190,816).

This caption represents confirmed letters of credit opened on the basis of lines of credit granted by foreign banks. The company earns a commission of 4% p. a. on these operations.

## NOTE 6 - FIXED ASSETS

	December 31			
	1985			1984
	Cost	Restatement	Total	Restated cost
	S/.	S/.	S/.	S/.
Property	25,247,800	-	25,247,800	26,765,445
Furniture, fixtures and equipment	23,943,400	27,447,648	51,391,048	30,148,586
Vehicles	8,378,322	11,424,310	19,802,632	14,266,268
Construction in progress	26,462,807	-	26,462,807	-
	84,032,329	38,871,958	122,904,287	71,180,299
Less - accumulated depreciation	12,854,473	19,461,428	32,315,901	20,465,435
	71,177,856	19,410,530	90,588,386	50,714,864
	=====	=====	=====	=====

## NOTE 7 - ECUADORIAN CENTRAL BANK

The obligations with the Ecuadorian Central Bank at December 31, 1985 and 1984 were as follows:

See next page

	1985	1984
	-----	-----
	S/.	S/.
	---	---
<b>Short-term</b>		
Notes rediscounted	749,841,243	753,161,656
Rediscounts of loans to finance exchange differences	89,223,537	40,976,141
Rediscounts applicable to financing of small business ('fondos financieros')	482,785,581	486,504,697
Rediscounts of loans to finance exportable production	21,800,000	4,200,000
Rediscounts of loans arising from the refinancing and conversion to local currency of foreign exchange operations	-	314,978,718
Discounts relating to the refinancing and conversion to local currency of foreign exchange operations	-	227,180,634
Rediscounts of loans to refinance interest on loans arising from the refinancing and conversion to local currency of foreign exchange operations	145,034,624	-
Other (1)	16,516,479	50,100,184
	-----	-----
	1,505,201,464	- 1,877,102,030
	-----	-----
<b>Long-term</b>		
Notes rediscounted	- 67,359,167	75,172,699
Rediscounts applicable to financing of small business ('fondos financieros')	70,797,976	74,790,819
Rediscounts of loans to finance exchange differences	67,316,465	154,664,218
Rediscounts of loans to finance exportable production	129,000,000	150,800,000
Rediscounts of loans arising from the refinancing and conversion to local currency of foreign exchange operations	1,499,674,514	1,233,846,549
Discounts relating to the refinancing and conversion to local currency of foreign exchange operation and others	1,444,556,109	1,143,138,965
Rediscounts of loans to refinance interest on loans arising from the refinancing and conversion to local currency of foreign exchange operations	146,330,034	-
Other (1)	9,270,516	-
	-----	-----
	3,434,304,781	2,832,413,250
	-----	-----
	4,939,506,245	4,709,515,280
	=====	=====

(1) They relate to loans to sugar companies (1985 - S/.10,500,000; 1984 - S/.1,250,000) and other in 1985 (S/.15,286,995). Additionally, in 1984 included S/.48,850,184 relating basically to rediscount of loans to small business pending of charging by the Ecuadorian Central Bank.

Notes are rediscounted for varying periods of 6 to 36 months and bear interest of up to 18% p.a. These operations are subject to upper limits which vary from 10% to 90% of the company's paid in capital and reserves.

Rediscounts applicable to financing of small business are payable in varying periods of 6 to 24 months and bear interest of 12 to 13% p.a. These operations are subject to upper limits which vary from 15% to 70% of the company's paid in capital and reserves.

Rediscounts applicable to financing of the development of exportable production are payable in a period of up to 7 years and bear interest of 12 to 13% p.a.

Discounts and rediscounts of loans refinanced and converted ("sucretización") fall due generally in a period of 7 years since 1983 and bear interest of 12% to 13% p.a.

Rediscounts applicable to finance exchange differences are payable in a period of up to 36 months and bear interest of 18% and commission of 2% p.a.

Rediscounts of loans to refinance interest on loans arising from the refinancing and conversion to local currency of foreign exchange operations are payable quarterly in a period of up to 36 months and bear interest of 16 to 18% p.a.

#### NOTE 8 - INTERNATIONAL FINANCE AGENCIES

Under this caption are included the company's obligations with the World Bank (1985 - S/.5,683,213; 1984 - S/.11,496,882) and the International Development Bank (1985 - S/.178,899,999; 1984 - NIL).

##### World Bank loan -

The World Bank granted to the Ecuadorian Government a loan for a total amount of US\$15,500,000 to finance livestock development projects, small agricultural industry and the development of credit for agriculture in Ecuador, through Financiera de Guayaquil S. A. and

other participating entities without limit for any participant within the total amount of the loan. This loan is payable to the Ecuadorian government in semi-annual installments of varying amounts until May 1987 and bears interest at the rate of 9% p. a. The company earns interest on these operations at the rate of 12% p. a.

#### International Development Bank (IDB) Loans -

These loans were granted to finance production activities. The company utilized such resources in credits to customers with projects of increasing exports. Loans are payable to IDB in varying periods of 7 to 10 years with a two-year grace period and bear interest of 18% p.a.

#### NOTE 9 - AGRICULTURAL DEVELOPMENT BONDS AND OTHER OBLIGATIONS

	1985	1984
	----	----
	S/.	S/.
	---	---
Agricultural development bonds	436,850,000	365,800,000
General guarantee bonds	13,200,000	-
Special finance certificates	45,000,000	-
Common finance papers	10,000,000	-
	-----	-----
	505,050,000	365,800,000
	=====	=====

In March 1981, the company initiated the issuance of Agricultural Development Bonds in accordance with the provisions of the Agricultural Development Law and Regulations and Resolutions of the Monetary Board (Junta Monetaria) and the Superintendency of Banks. The bonds issued have a minimum term of five years and a maximum of ten years, bear interest of up to 18% per annum and are guaranteed by the capital and reserves of Financiera de Guayaquil S. A. and by the aggregate of the loans made by means of this mechanism. The Central Bank buys the Agricultural Development Bonds at par value.

During 1985 the company obtained authorization, under the terms of Regulation No.214/84, to negotiate special and common finance certificates for an amount of up to S/.549,000,000. These resources are applied by the company in loans with a spread of 4%.

12

Furthermore, the company is authorized to issue general guarantee bonds which are income tax exempted (8%), bear interest of 23% p. a. and are payable in 9 years.

#### NOTE 10 - CAPITAL

The company's capital is represented by shares of \$/.100 each par value. Authorized capital amounts to \$/.900,000,000.

#### NOTE 11 - STATUTORY RESERVE

In accordance with Ecuadorian law, a minimum of 10% of annual earnings must be appropriated to a statutory reserve until this reserve equals 25% of paid-in capital. The reserve may only be utilized to increase capital or to absorb losses.

#### NOTE 12 - INCOME TAX

The provision for income tax has been determined by use of the effective rate of 23.8% applicable to undistributed taxable income.

The company's income tax returns have been inspected by the tax authorities until 1983.

#### NOTE 13 - CONTINGENCIES

	1985	1984
	----	----
	\$/.	\$/.
	---	---
Guarantees in respect of loans granted to third parties by foreign finance institutions (1)	333,908,436	280,973,551
Guarantees in local currency (1)	177,098,822	10,688,131
Letters of credit pending utilization (see Note 2)	528,910,459	315,272,876
Other	-	2,059,000
	-----	-----
Commission on refinancing and conversion of foreign loans(2)	1,039,917,717	608,993,558
	2,069,109,628	1,824,706,867
	-----	-----
	3,109,027,345	2,433,700,425
	=====	=====

(1) The company earns commissions on these operations at the rate of the 4% p. a.

(2) See Note 4.

NOTE 14 - MEMORANDUM ACCOUNTS

	1985	1984
	-----	-----
	S/.	S/.
	---	---
Assets received custodied by third parties	1,330,009,990	1,404,700,192
Assets received from third parties	7,063,008,021	4,008,712,623
Interest receivable and payable and other	4,709,581,029	2,306,015,189
	-----	-----
	13,102,599,040	7,719,428,004
	=====	=====