

GUAYAQUIL

The Power of Partnership

Ecuador's biggest and richest city is positioning itself to be an innovative regional hub for Pacific and intra-Americas trade and investment in the 21st century, with a strong emphasis on logistics, services, and business events and tourism. The key driver? A pro-business city administration.



Looking out; looking ahead

The past several years have been kind to Guayaquil. But the city has created much of its own luck—through hard work and fighting back after decades in the doldrums. Today it is looking to the Americas and Europe but also to Asia and the booming Pacific Rim, seeking a share of the logistics revolution and the booming business conventions market.

Last year, as the United States grew by a dismal 1.7 percent, according to the International Monetary Fund, and the euro zone by an even more pitiful 1.4 percent, Ecuador turned in a barnstorming 5.8 percent growth rate—and some local economists put it as high as 7 percent.

“The most important factor allowing the economy to grow at these levels has been the price of oil,” said Miguel Babra Lyon, president of Banco Bolivariano. Ecuador exports over 300,000 barrels a day, and other commodities produced or processed in Guayaquil have also enjoyed excellent prices. With Guayaquil handling no less than 70 percent of the country’s foreign trade, and supplying most of the trade-related services, the city has prospered.

Henry Kronfle, president of the Guayaquil Chamber of Industry, said his “conservative” estimate has the national economy growing by a further 5 to 5.5 percent this year. Drivers are strong investments, particularly from China; rising consumer spending; and robust government spending, which should remain high as long as oil stays over US\$100.

Back in 2000, amid rampant inflation, Ecuador scrapped the 126-year-old sucre and adopted the U.S. dollar. Twelve years



later, there are some critics of this “dollarization,” but most businessmen are happy. “Dollarization has been very good, because [other] Latin American currencies have gained in value [against the dollar] and this has made Ecuadorian exports more competitive,” Kronfle said.

Ecuador, and particularly Guayaquil, has seen strong growth of middle- and lower-middle-class consumers, benefiting several sectors.

“It’s a developing country with an expanding middle class, and this creates space for the entertainment sector,” said Martín Schwartz, executive manager of the entertainment division at Corporación El Rosado. His company’s investments in high-quality digital equipment and modern theaters have helped cinema attendance more than double in six or seven years, and there is potential to attract

tourists from neighboring countries.

Guayaquil has seen extensive urban redevelopment and public housing projects. Construction was an obvious beneficiary, but businessmen in several sectors give much credit to the city administration for creating ways to work with the private sector: “The significant growth in tourism in Guayaquil really started with the opening of the new airport, a concession,” said Morice Dassum, general manager of the city’s Hilton Hotel.

The next goal for Mayor Jaime Nebot is to promote Guayaquil internationally as a “MICE” location, targeting the lucrative business tourism subsector of meetings, incentives, conferences, and exhibitions.

“We are setting aside a considerable part of our budget to achieve this vision of Guayaquil as a destination for business conventions,” Nebot said. ■



Aerial view of Av. 9 de Octubre



Guayaquil key facts

Population: 3 million (metropolitan area)

Area: 344.5 km² (133 square miles)

Location: Guayaquil is on the coast of Ecuador, just south of the Equator and close to the most westerly point of South America. It sits at the inland end of the Guayas River estuary, which flows into the Pacific Ocean at the Gulf of Guayaquil.

History: Founded by Spanish conquistadores in 1538 on the site of a native Indian village; looted by French and English pirates in 1687 and 1709; led the movement for independence from Spain in 1820.



→ Q&A

Jaime Nebot, Mayor

“Private enterprise is not an enemy of social development; it’s an ally.”

Guayaquil was in decline through much of the post-war period, before beginning its recovery in the nineties. What has driven this progress?

This city is a powerhouse of work and creativity. It’s open to humanistic capitalism that generates well-being and employment, and to a democratic system of balanced functions that values freedom of expression. Progress must come through liberty. This model sees national and international enterprises as magnificent allies to create progress and development. There are multiple ways of establishing links between the government and the private sector; we have established traditional links but also created new ones. The good news is that all these ways of linking have worked, so I am very optimistic about the future of the city.

What does this mean in practical terms?

What we have done is conceptually simple, although the execution is more complex. We have established a very honest and transparent administration with service to the people as its main purpose. And we have become an efficient administration; just 15 percent of our income goes on what are called nonproductive expenses, while 85 percent goes to investment and public services. And we have created a decentralized administrative system that provides more specialization and continuity, where project groups have clear targets and courses of action. Working side by side with the private sector helps us

maximize our budget and accomplish things without creating massive debt—we have a very conservative debt.

And one investment leads to another?

Urban regeneration led hotel businesses and malls to contribute with more regeneration. We did our part and they did theirs. People’s quality of life has improved considerably; there are malls for people of all socioeconomic levels.

What are the fiscal implications of this approach?

We have always made it clear that this alliance does not stop us from charging taxes. We must demand social responsibility. This alliance happens because both sides demand quality and service. Private enterprise is not an enemy of social development; it’s an ally. Also, we have a very rigid policy about collecting taxes. We do not think of charging a lot from the few because we would make them inefficient and that is unfair. We charge what is fair to everybody. Authority basically means applying the law equally to everybody.

How would you define your city today?

Today’s Guayaquil is very different from that of yesterday. It is a city of possibilities, of service, and of well-being, where there are still things to be done. Our city now has self-esteem; it is part of the solution and not part of the problem. The city today walks proudly.

Build it and they will come

City fathers know that their competitive advantage depends on providing world-class logistics—they've been investing in the airport and seaport.

Both the seaport and the airport have recently benefited from substantial modernization and expansion programs as part of a conscious drive by municipal authorities and business leaders to upgrade facilities. The aim is not only to give the country an efficient gateway—some 70 percent of the country's imports and exports pass through the city—but also to fight for a place in the sun as a logistics hub within the fast-expanding intra-Americas and Pacific Rim trade.

One great fan of Guayaquil is Jose Miguel Muñoz, CEO of Contecon Guayaquil S.A., which is a subsidiary of International Container Terminal and a major operator in the port. Contecon won a twenty-year operating concession for Guayaquil's container and multipurpose terminals in 2007.

In 2011 Guayaquil handled a total of 9.6 million tons of cargo, of which 52 percent was importation.

Jose Miguel Muñoz thinks that Ecuador enjoys a strategic geographic location that could help it become an international center, for cargo transshipment, and of



course as the country's premier logistics center Guayaquil is the natural focus for such hub potential.

"Guayaquil has greatly stimulated the activities of logistics operators via its ports and airports," said Jose Miguel Muñoz. "We have invested almost US\$280 million in five years and we've given the city and country infrastructure as good as any in South America."

The company's latest technology upgrade, introduced in 2012, was optical character recognition (OCR) equipment to enhance the automation of dockside cranes.

Even as the existing port and the airport

have received substantial investment, there are already plans for completely new facilities as demand grows. Studies are under way for a deep-water port at Posorja, just over 100 kilometers southwest of Guayaquil city. And a new airport complex will be built at Daular when traffic outgrows the existing single-runway field closer to town.

While the port and airport hog the limelight, Guayaquil has been pressing ahead with other infrastructure upgrades. Eléctrica de Guayaquil, the local power utility, recently completed installation of an intelligent network with wireless metering to reduce losses.

Q&A



Ezequiel Barrenechea

Executive vicepresident
of TAGSA and General Director
of Corporación America

Business tourism can drive growth of airport run by international consortium

Guayaquil's award-winning airport, officially known as José Joaquín de Olmedo International Airport, is named after the first mayor of Guayaquil city, who was also president of Ecuador and a famous poet. Since 2004 it has operated under a fifty-year concession by TAGSA, a consortium headed by Argentina's Corporación América S.A. but also including Dellair Services S.A. of Ecuador and Ormond Group S.A. of Panama. TAGSA is run by Executive Vice President Ezequiel Barrenechea, who is also general director of Corporación America.

Guayaquil handled 4.2 million passengers last year, 41 percent of them international. How do you see growth in coming years?

I see important growth levels given that the development of Guayaquil has partly been generated by a significant increase in tourism and business travelers.

What do you see driving growth?

Guayaquil stands out among Ecuadorian cities, in terms of events, exhibitions, and corporate attractions. The challenge is to position the city for events at the regional level; the main competition is from Colombia.



Nicolás Romero Sangster

General Manager, Autoridad Aeroportuaria

Nicolás Romero Sangster, general manager of the Guayaquil Airport Authority, runs a tight ship. “The Airport Authority is a tiny bureaucracy; there are just fifteen employees, and only three or four of them are really responsible for the daily monitoring of the concession contract,” he said. Nevertheless, this slim structure, working closely with TAGSA, the concessionaire operator, has helped Guayaquil win global recognition. In 2011 it was named best in the world in the “2 to 5 million passengers per year” category by the Montreal-based Airports Council International.

“This,” said Romero, “is really the result of structuring the concession correctly at the beginning; it’s a great demonstration of the fact that handing over a public service to the private sector is totally beneficial for the country and the city if it is done honestly, intelligently, properly, and with complete transparency.”

The Airport Authority doesn’t just monitor the operator. It also receives a percentage of specific operating incomes. This share has recently been worth between US\$20 and US\$25 million a year; this share is placed in a trust fund to help finance a new airport at Daular, some 30 km west of downtown Guayaquil.

Romero said the authority is now working on preliminary studies for Daular, which is due to have three parallel runways for simultaneous operation.

- 01. Guayaquil’s business center;
- 02. An ICTSI Group Company, main operator of Guayaquil’s port;
- 03. Banco Bolivariano’s headquarters;
- 04. METROVIA - Public Mass transportation;
- 05. IIASA, Distributor of Caterpillar equipment;
- 06. Interagua’s water treatment plant;



04



05



06

Creative housing solutions

Guayaquil suffered for many years from acute house shortages, mainly among lower- and middle-income groups. But recently the city has been slashing its residential deficit, thanks to creative public-private programs with land and credit.

In Mucho Lote 1 and 2 the city and developers have worked together to offer thousands of small building plots or ready-built houses, both finished and unfinished, for families that typically

earn less than US\$1,000 a month.

“We had an excellent reception to Mucho Lote I,” said Cristobal Montero Rosanía, regional manager of Mutualista Pichincha, one of the companies involved, while Carlos Lasso Muñoz, general manager of Fanbercell, said his company had been very successful in targeting the middle and lower-middle income groups. And Antonio Patiño, technical manager of Daldry, called the mayor’s management model “good in every sense.” ■

Financing is the key

“Mortgage credit has been a very important device for the government,” said Francisco Alemán, general manager of Urbanis, another developer involved in Mucho Lote. He noted that the government had made available some US\$200 million for a two-to-three-year period, offering credit not only to the developer or constructor but also—indeed mainly—to the individual or family needing the home. This public financing leveraged additional funds. “The growth has been so spectacular that we probably had around US\$800 million worth of mortgages granted last year. Approximately 40 percent of that came from private banks while the remaining 60 percent was provided by the Ecuadorian Institute of Social Security (IESS),” said Alemán, who holds a master’s degree in public administration from Harvard University and lectures locally in finance.

Alemán explained that real estate development in the city had traditionally been geared more toward the wealthier social classes who have better access to credit. “But nowadays, with the availability of IESS, private banking loans as well as housing projects like Mucho Lote, the middle and working classes can access these lines of finance and buy or build their own homes.” The Development Bank of Latin American (CAF) has been active in supporting urban renewal in Guayaquil.



Water: A success story

Many developing-world cities face critical water problems. Guayaquil reveals the potential of a well-planned concession.

In less than a generation, Guayaquil has transformed one of the most essential items of urban infrastructure—water and sewage service—from a third-world disgrace into a showpiece for smart governance. In the nineties, some areas of the city had water for just two to four hours per day, often with pitiful pressure. And less than half the population had sewage collection.

This year Guayaquil is set to reach 100 percent piped-water coverage at a reasonable pressure, at least in the formally developed areas, and sewage should also be universal by mid-2014. And poor people pay a much-reduced rate. All this, despite the city population expanding by around 2.5 percent a year.

The key to this progress has been a well-structured concession. First, the national government merged the drinking water and sewage companies into a new unit called Ecapag that could seek international financing. Then, in 2001, the entire service was offered as a thirty-year concession, won by a consortium called Interagua and led by Proactiva Medio Ambiente, a Spanish environmental services company with more than forty million consumers in eight Latin American countries. Ecapag was transformed into a regulatory agency. ■

Key Players

Central to Guayaquil's success has been a close working relationship between the concessionaire and the government regulator.



Oscar García
Acting General Manager,
Interagua

"One of our most important challenges is to reduce the so-called nonrevenue water. Some of the most important parameters in this are commercial and technical losses. We have created a unit to identify people who commit fraud or water theft. And Guayaquil's network, which is very old, is being renovated. During the day there is a consumption peak and the water pressure drops, while at night the pressure rises because people consume less, and this leads to many burst pipes. So we are installing dynamic pressure-control valves to provide constant pressure throughout the day. We hope to accomplish this within three or four years."



José Luis Santos García
General Manager,
ECAPAG

"Every five years the regulatory entity (Ecapag) and the concessionaire prepare a quinquennial investment plan, with investments from various financing sources. Among these are the equity funds provided by the concessionaire from tariffs. For the 2011–2016 term, we have planned investments of US\$107.5 million from the deductible funds provided by the concessionaire, plus US\$150 million from the municipality and loans from the state bank. ECAPAG receives this money from the state and hands it over to Interagua through a trust. Interagua carries out the public works but can only access the money if it meets contract schedules."

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Guayaquil City Council and Mucho Lote 2 program has benefited over 10,000 families who now enjoy the tranquility of having their new home in a gated community with private security, social areas, gardens and parks to enjoy with their children.

Developers:

Mutualista Pichincha **IDA LDRY S.A.** **John Martinez Zumbano** **FANBERCELL S.A.** **Urbanis**

THE MUNICIPALITY OF **GUAYAQUIL**

PRESENTS



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Traveling “light”

Tourism has been growing strongly in Guayaquil. The year-round coastal tropical climate is perfect for visitors who want a laid-back vacation.

International tourism is an extremely competitive business, with countries and cities vying for a larger share of a market that topped US\$1 trillion in 2011, according to the UN's World Tourism Organization. Guayaquil has looked carefully at its strengths and is implementing a strategy to leverage and sometimes combine these.

For Tourism Director Joseph Garzozzi, the key concept is “Traveling light.” By this he means defining the city as a relaxed, easygoing destination where visitors can enjoy all of Guayaquil's excellent restaurants without having to pack a jacket and tie. Temperatures are always comfortable, thanks to the coastal tropical location, so tourists don't need to load down their luggage with heavy clothing — and this leaves space for souvenirs and shopping in the numerous modern malls. And of course, it's never too cold for the beaches and open-air swimming pools.

“Traveling light” ties in perfectly with Guayaquil's

status as the “Gateway to the Galapagos.” Many of the 450,000 foreign tourists who visited Guayaquil in 2011 were en route to or from the islands. Persuading this ready market to stay a little longer is a key objective — Garzozzi reckons the city merits a four- or five-day visit, up from the current average of three days.

Promoting Guayaquil internationally as a choice for conferences and conventions is another related goal, because companies and organizations often like to hold their events in places where there are convenient options for rest and relaxation. Guayaquil's key advantage for business events is its location, partway between North America and South America, and this was boosted by the recent upgrading of the airport.

Yet another objective is to develop Guayaquil as a port of call for cruise liners. The city has gained a small foothold in the Pacific market — a dozen ships a year — with hopes of increasing this substantially. ■



- 01. Lineal Park
- 02. View from Las Peñas
- 03. Cathedral of Guayaquil
- 04. The PLAYAS beach
- 05. SUPERCINES, the No. 1 cinema exhibitor
- 06. El Faro Las Peñas

MUST-SEE PLACES...

Guayaquil is a great tourist stopover, with several recently renovated attractions:

MALECON 2000 Also known as the Simon Bolivar Boardwalk, this fine riverside promenade with daytime bustle and lively nightlife is a tribute to thoughtful urban renewal.

CERRO SANTA ANA Climb 444 steps through this colorful old neighborhood for a fine view of the city. Once run-down, it's now a thriving bustle of bars and bric-a-brac.

BARRIO LAS PEÑAS The city's oldest neighborhood, nestled at the bottom of Santa Ana hill; now home to many artists.



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Correction to our recent report on Peru: Manuel Pardo d'Ornellas, CEO of Somerex, was wrongly identified as Manuel D'Ornellas. We regret any confusion.

Naturally prosperous

Ecuador offers the world top-quality shrimp, bananas, fine aromatic cocoa, coffee, flowers, and much more, coming mainly from Guayaquil and its rich hinterland.



ECUADOR'S FINEST COFFEE

Traditional fresh exports like bananas, shrimp, fish, and flowers all benefit enormously from enhanced logistics, as can other export staples like coffee, timber, and oil. Some 70 percent of the country's foreign trade passes through Guayaquil, and now Ecuador's focus on sustainable production can increase the potential in global markets. The greater efficiency and dynamism of the major coastal logistics hub will leverage various economic sectors, but for products where careful and rapid handling is at a premium, the gains can be even greater.

Dole, for example, is seeking to boost its production of fresh organically grown bananas, a high-end product. The region surrounding Guayaquil is a major banana producer, and Dole

has a certified-organic banana program that involves many producers.

"We do a lot of applied research here; we bring in scientists from Central America and we're constantly testing new types of organic fertilizers and organic fungicides," said Peter Gilmore, general manager of Dole in Ecuador.

Foreign food sales are of vital importance to Ecuador, and producing for export employs a significant percentage of the poor rural population in regions around Guayaquil.

Several things can help promote these activities and offer the potential for increased earnings at the grass-roots level, including more ongoing investments in infrastructure and free trade agreements with consumer countries. ■

EXPORTS

Guayaquil is the principal port for Ecuador's global foodstuffs exports:

■ PASSION FRUIT

Research in partnership with Brazil's Ministry of Agriculture has led to introduction of a new sweeter and fungus-resistant variety. The United States and European Union are top juice markets.

■ COCOA

A century ago cocoa was a major export. Then it declined. But recently production and sales have been picking up again, in particular of the highly-prized "arriba," an aromatic, floral and spicy strain.

■ COFFEE

Guayaquil processes, packages and ships coffee from Ecuador and Colombia.

Spotlight

"Tonicorp's companies form a productive chain. The results have been highly satisfactory."

Francisco Alarcón CEO, TONICORP



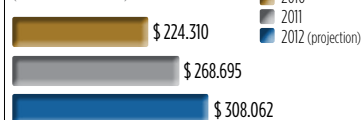
Tonicorp is a publicly-traded holding that owns three traditional Ecuadorian companies, all of them sector leaders: Industrias Lácteas Toni S.A., a major producer of value-added dairy and beverage products;

Plásticos Ecuatorianos S.A., a packaging operation that supplies both the dairy sector and the general market; and Dipor S.A., which handles distribution of Tonicorp and other product lines. All three subsidiaries go back more than four decades, but Tonicorp itself was formed recently as a move toward streamlining management and improving corporate governance.

Still largely a family-owned affair, Tonicorp went public in 2011. CEO Francisco Alarcón — who is also a major shareholder — said the fact that more than 11 percent of shares are held by the general public is providing an invaluable frame of reference: "Just thinking you're doing a great job or that your company is performing well is an illusion; the objective thermometer is given by the public."

TONICORP SALES EVOLUTION

(in millions of dollars)



Ecuador's most successful Business Group

"We've been here 87 years; our mission is to keep on growing with the city and the country."

Roberto Doumet Commercial Director, ELJURI GROUP

Eljuri Group is a privately owned commercial conglomerate with over 150 subsidiaries and activities that range from ceramics and perfumes to banking, TV, high-street appliance stores, and automobile dealerships, with tentacles that are now reaching out into neighboring South American markets.

"We are giving a lot of thought to consolidation," said Commercial Director Roberto Doumet. "The group grew a lot, but organically, during the 1980s, and then later with dollarization we expanded in [new] retail areas." Today the challenge is to unite all these activities without any single one losing its identity. "It's what is normally called cross-pollination or cross-branding or cross-marketing—how an organization that is offering household appliances can simultaneously offer construction materials," Doumet said. The strategy is to specialize in the areas that the group already dominates, rather than advance into new sectors.

Q&A

"We now have 22 medical clinics with doctors and nurses, actually in the farms".

Peter Gilmore

General Manager
DOLE

Sustainability is crucial to food production today. What is Dole doing?

We incorporate sustainability into our business model in various ways. DALE (Dole's Social Foundation) provides medical attention for all 12,500 employees and families of its 500 growers. Increasingly, clients want to know that what they buy has been produced while taking care of workers' needs and protecting the environment.

So you provide a first line of medical support?
Right. The government health service has

improved a lot but it can still be distant, whereas we always have a doctor nearby. We also have dentists, visiting dermatologists and ophthalmologists, and HIV counselors.

Presumably good growers are vital to sustainability – how do you select them?

We look very carefully at their product quality and infrastructure, and how they run their farm and take care of their workers. We have very long-term relationships, often 40 or 50 years, and a big list of farmers wanting to join.



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