International Bank for Reconstruction and Development
International Finance Corporation

WORLD BANK

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INTERNATIONAL FINANCE CORPORATION IFC

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SUBJECT: Finance for new Private Development Corporation in the Philippines

The World Bank and its affiliate, the International Finance Corporation, have agreed to provide loan and share capital for the Private Development Corporation of the Philippines, a new corporation established to assist the expansion of private industry in the Philippines. The Corporation will be privately owned and managed. Of the initial share capital of 25 million pesos (about US$6.4 million), 70% will be owned by Filipino investors and the IFC; the balance will be held by foreign investors. Its resources will total the equivalent of 111 million pesos, including a loan of $15 million from the World Bank, and a loan of 27.5 million pesos from the United States Agency for International Development.

The Private Development Corporation of the Philippines was conceived and organized with the advice and assistance of the World Bank and the IFC, and has the full support of the President of the Republic of the Philippines and of the local business community. President Macapagal has stated: "The Corporation represents a unique and promising pattern of relationship between private business and the Philippine Government. Although the ownership and control of the Corporation will be wholly in private hands, the Government has been an active sponsor of its establishment and has assisted, through the grant of guarantees and otherwise, in the Corporation's initial financing. Although the Corporation's selection of investments will be wholly in keeping with its character as a private firm, its decisions are expected to be guided by the over-all priorities of the country's economic development. The Corporation, in other words, stands to serve as a leading instrument in promoting the growth of Philippine industry within the healthy, expansion framework of free enterprise."

The new Corporation will fill a gap in Philippine financial institutions necessary for an expansion of the capital market. It will make long and medium-term loans to privately controlled industrial and other productive enterprises. It will also invest in the equity of private enterprises, underwrite new issues of securities, guarantee loans from other investment sources, and provide managerial and technical advice and assistance. The Corporation will sell its investments whenever it can do so on satisfactory terms, thereby revolving its own capital for further investment.

Discussions of how best to assist the growth of private industry in the Philippines first took place early in 1961 when a Vice President of the World Bank visited Manila. Soon thereafter, Mr. George D. Woods, then Chairman of The First Boston Corporation and now President of the World Bank and IFC, agreed to act as Special Consultant to the Bank and IFC to investigate the need and desirability of setting up a privately-owned financing corporation in the Philippines and to assist in its creation. Mr. Woods drew up the main outlines of the Corporation and asked prominent businessmen in the Philippines to act as a committee to organize the new entity and to bring it into operation. The members of this committee were Messrs. Francisco Ortigas, Jr., Chairman, a well-known businessman and lawyer identified with a number of civic organizations; Jesus Cabarrus, President of the Mining Association of the Philippines; Manuel J. Marquez, President of the Bankers Association of the Philippines; and Aurelio Montinola, a former Secretary of Finance and chairman of several corporations in the construction industry. Mr. Washington SyCip, of SyCip, Gorres, Velayo and Company, Certified Public Accountants, acted as Secretary to the committee, and Mr. Sixto Roxas, former Executive Vice President of Filoil and now Director of the President's Program Implementation Agency, was a Special Consultant.

The share capital of the Corporation will be offered for public sale in the Philippines at an early date, and it is the intention to spread shareholdings as widely as possible among individual investors. The stock is divided into two classes: Class A shares, which will comprise 1,750,000 shares of ₱10 each (about US$4.5 million) to be subscribed and owned exclusively by citizens of the Philippines, corporations which have a majority of Philippine citizens as shareholders, and IFC; and Class B shares which will comprise 750,000 shares of ₱10 each (about US$1.9 million) which can be subscribed and owned by any person or entity. IFC intends to subscribe to 80,000 Class A shares and to give a standby commitment for 500,000 Class A shares, less the number of shares allotted to it on its subscription. Foreign banking and investment institutions which have indicated their intention of applying for the Class B shares include United States, British, German and Japanese financing institutions.

The World Bank loan of $15 million, signed today, was made to the Philippine National Bank which will re-lend the proceeds to the Private Development Corporation of the Philippines. The loan has a maximum term of 15 years; each part of the loan will be committed for a particular project to be financed by the Corporation and will be repaid in semi-annual installments according to a schedule to be determined at the time of the commitment. Interest will be applied to each part of the loan at the Bank's current rate when such part is committed for one of the Corporation's projects. The loan is guaranteed by the Republic of the Philippines.

The loan from the United States Agency for International Development in the amount of 27.5 million pesos is repayable in 30 semi-annual installments beginning on a date 15 years after the first interest payment date. Interest on the outstanding balance of the loan is at the rate of 1/2 of 1% per annum beginning not later than six months after disbursement of the loan. The AID loan provides for acceleration of repayment under certain conditions.

The basic problem of economic development in the Philippines is essentially one of achieving and maintaining an adequate growth rate of per capita income in the face of a rapidly expanding population and a change in the traditional sources of external earnings. Its solution will require a substantial increase in investment to help diversify production and increase productivity. To achieve this, a much larger proportion of investment should now go into capital-intensive types of production based on domestic raw materials, such as mineral processing, industrial chemicals, wood products, etc., rather than into light manufacturing based on imported raw materials. There is, even now, a serious gap between the demand and supply of long-term capital for industry. If the economy is to be developed at the rapid pace envisaged by the Government's Five-Year Socio-Economic Program and by the World Bank mission which studied the Philippine economy in 1961, the need for long-term capital for industry will become even greater.

The new Private Development Corporation is intended to play a key role in meeting these expanded financial requirements. It will directly increase the supply of long-term loan capital and equity funds for industry, and will help to widen the Philippine capital market, thereby stimulating the inflow of equity and long-term funds from other sources -- both domestic and foreign. Furthermore, it will be able to provide guidance on both the opportunities and pitfalls associated with the shift away from the simpler manufacturing technology of the past to the more complex and capital-intensive activity likely to dominate future development.