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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

INTERNATIONAL DEVELOPMENT ASSOCIATION

# APPRAISAL OF THE PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES

September 12, 1966

Development Finance Companies

## CURRENCY EQUIVALENTS

| | | |
|---|---|---|
| Currency Unit | = | Philippine Peso (₱) |
| US $1 | = | ₱ 3.90 |
| ₱ 1 | = | US $0.256 |
| US $1 million | = | ₱ 3,900,000 |
| ₱ 1 million | = | US $256,000 |

MEMORANDUM ON THE ECONOMIC
SITUATION OF THE PHILIPPINES

1. The last report on the Philippines, entitled "Current Economic Position and Prospects of the Philippines" was dated June 2, 1965 (FE-44). That report noted the marked slow-down of the Philippine economy since the beginning of the 1960's, after an impressive economic growth record in the preceding decade. The leading sector in the growth of the 1950's was manufacturing, which increased its share in total output from 10% to 20%. Manufacturing was stimulated by a variety of favourable circumstances, the chief of which was the protection given to import-substituting industries by an over-valued currency accompanied by tight import and exchange controls. Import and exchange allocations thus enabled manufacturers to obtain foreign exchange at far less than its real cost and therefore encouraged the flow of investment into manufacturing for the highly protected local market, while discouraging the flow of capital into export agriculture. There were also tax exemption and liberal credit policies for investment in manufacturing. Between 1951 and 1957 national income grew by nearly 7% per annum at constant prices, with industry growing by nearly 13% per annum.

2. Towards the end of the decade, however, these formulas began to lose their effectiveness. New opportunities for relatively inexpensive import substitution were becoming harder to find, the domestic agriculture was lagging badly, and most seriously the system of controls was breaking down through maladministration and evasion. Hence, in 1960 a course of staged devaluation and decontrol was decided upon. By 1962 a free exchange system was introduced, with an exchange rate which has been stabilized at P3.90 to the dollar as compared to P2 to the dollar before decontrol. The effect of this was a substantial shift in income from the manufacturing sector into export agriculture. It has not, however, revived the rapid economic growth of the 1950's. Industrial growth has been slow and agriculture even slower. Real national income increased between 1960 and 1964 by only 4% per annum, which with population growth of about 3.5% meant virtual per capita income stagnation. Furthermore, with sagging real wages, income levels have probably fallen for a considerable part of the population.

3. The sluggish state of the economy continued in 1965. The growth in output was at much the same rate as in previous years, but industry registered its second slowest year since 1951. The situation was aggravated by the actions of the Government. Current government expenditure rose sharply, a characteristic feature of a Philippine election year. The Government was forced to reduce first the allocations for capital investment and then the credit available for private sector investment. While money supply was about constant in the first half of 1965, it jumped by 11% in the last six months. There was little change with regard to exports and imports, though reserves improved during the year as a result of some net capital inflow. Despite generally adverse economic indicators there was little indication of a coherent approach to deal with the economic difficulties. Vested

economic and political interests were proving strong enough to ensure that measures which seriously affected their interests were either not approved or not effectively administered.

4. In assessing Philippine economic prospects, the last economic report identified obstacles in the way of translating the Philippine economic potential into actual growth of output and income. It saw the task of removing these obstacles as being firstly "financial and organizational reforms designed to enable the public sector to provide more active support to the expansion of productive activities by the private sector". Here the problem was to raise public revenues to a point where they could make a real contribution to infrastructure investment, and to reform the organization and administration of government to ensure that the increased revenues were effectively utilized. The second task was to assist and encourage "private initiative and investment into those fields where their contribution to the growth of the economy is likely to be optimal", more particularly into the intermediate stages of manufacturing and domestic agriculture. Such reforms are difficult to carry out in the best of circumstances and even more difficult in the political atmosphere of the Philippines.

5. Nevertheless, it is the declared intention of the new government of President Ferdinand Marcos, which took office in January 1966, to take measures necessary to revitalize the Philippine economy. It is early as yet to make judgments as to the achievements of the new administration, but the President has made a start in the process of dealing with some of the more glaring economic shortcomings. Perhaps his most significant effort so far has been in reform of the administration, particularly the National Irrigation Authority and the Department of Public Works. Both of these agencies are crucial to the execution of high priority programs for the future and both have constituted serious bottlenecks in the past. Much attention has been devoted to the agencies responsible for revenue collection, the Bureau of Internal Revenue and the Customs Bureau and the President has made clear his intention to deal firmly with corruption. Steps have been taken to ensure better performance on major investment projects particularly those involving foreign financing, in which the past record is extremely poor. A "troubleshooter" has been appointed to provide a direct link between the President and these projects, and where necessary he has not hesitated to intervene directly in expediting the completion of a project; e.g. in calling on the army corps of engineers to assist in the construction of the Manila North Diversion road. Solutions of this kind are not satisfactory in the long run however, and much will hinge on his attempts at funadmental reform. In this he has been hindered by the failure of Congress to pass a bill for administrative reform.

6. Efforts at fiscal improvement have been concentrated so far on action to improve the collection of revenue. This campaign has focused particularly on smuggling, including technical smuggling through under-declaration. The Customs Bureau has been put in the charge of a new "team", heavy penalties instituted and rewards offered for information. There is some evidence of early success in the anti-smuggling campaign in the form of somewhat larger customs collections and reduced competition from smuggled imports, especially textiles. It is still too early, however, to judge the extent of fiscal improvement that can be expected from these efforts at more effective tax collection. They will undoubtedly help, but it hardly seems

probable that better tax collection alone will be adequate to raise the low Philippine revenues (now only about 11% of GNP) to a more satisfactory level.

7. One of the most pressing problems facing the new Government was the lack of credit for the private sector. Many of the lending institutions were fully extended and government deficit financing had abosrbed much of the credit which might otherwise have been available for private purposes. The first steps to ease credit were taken in January 1966, when the rediscount rate of the Central Bank was lowered from 6% to 4 3/4% and reserve requirements were reduced. Bank liquidity has also been improved. The Banks, however, have followed a cautious policy during the first half of the year, apparently preferring to strengthen their financial position rather than increase markedly their lending. They are very much stronger at present than at the beginning of the year. Mid-year indications are, however, of a marked rise in money supply reflecting a revival of bank credit activity, although information is not yet available as to the sectors of credit expansion. With the open nature of the Philippine economy it will be difficult to experience any sustained and substantial increase in credit without adverse effects on reserves. Despite the recent additions to reserves, they are still only equivalent to about three months' imports ($223 million in June, 1966).

8. In dealing with the problems of the economy this year, the Philippines have been assisted by favourable export developments. During the first quarter of the year export receipts grew by $37 million from $163 million to $200 million both through buoyant demand and prices for Philippine exports and increased production by the export agricultural sector. Payments for imports also rose but only by $16 million. A breakdown of imports indicates that the increases have been largely concentrated in consumption goods and raw materials, while the proportion of investment goods has fallen. Revival of investment and economic activity generally will probably stimulate import demand which, as indicated above, may overtake export growth unless prudent monetary policies are followed.

9. The plans of the Government for increased investment are contained in the Four-Year National Economic Program for the years 1967-1970. The plan has so far appeared only in draft form and is still subject to change. The aim of the Plan is to raise investment from 11% to 24% of GNP, which seems almost certainly over-ambitious. In many respects the draft Plan leaves much to be desired. Its financial framework has not yet been well-formulated and appears to rely on a large internal credit expansion, the inflationary tendencies of which would be counteracted by a substantial rise in imports to be financed, hopefully, by increased foreign aid. The sectoral balance is not well-articulated and individual programs are inadequately worked out. These are faults which can be corrected however, given the effort necessary to raise domestic resources and provide the administration required for a large-scale program of investment.

10. With such an effort, and given Philippine potentialities for economic growth, it should be possible to deal successfully with the current economic difficulties, as well as the longer-run structural problems which the economy faces. Of these longer-run problems, there is, first the need for industry to adapt from the present pattern of producing mostly finished and more simple intermediate goods to a more complex and increasingly vertically integrated

industrial structure. Fortunately, the Philippines possesses adequate entrepreneurial and managerial qualities to carry out this task, given the necessary incentives and financial and infra-structure facilities. A second major long-term problem is the one of accelerating the growth of domestic agriculture which has fallen behind the rate of population growth. Fundamental to this are irrigation schemes and other programs of improvement in agricultural facilities, methods and institutions, including land reform. Previous governments have had little success in revitalizing and reforming Philippine agriculture and it remains to be seen whether the record of the present administration will be better in this respect. There is another basic long-term problem - the severe inequality of income, recently aggravated by the decline in real wages. This is not only a social problem but an economic one since falling standards for the working population mean a restriction in the local market and lack of incentives for the necessary growth in manufactures. Improvements in this situation will have to be made in the face of strong political opposition.

11. Measured against both potentialities and requirements for economic development, the economic role of the Philippine Government in recent years hardly constitutes a satisfactory record of economic performance. Perhaps the new Government, with its stated determination to improve the public performance, will be able to make a better record. It will have to overcome formidable political obstacles to do this, however, and the results remain to be seen.

12. Nevertheless, faster Philippine economic growth should be possible on the basis of the dynamic forces within the private sector - given adequate incentives and means. It was with the aim of helping to improve the means for private development that the Bank and IFC took part in organizing the Private Development Corporation of the Philippines. In its three years of operation the P.D.C.P. has become an important supplement to the other institutional facilities for financing private investment. It promises with adequate resources to become increasingly important and a key element in facilitating the further contribution of the private sector to Philippine economic development. The P.D.C.P. provides an effective channel through which the Bank can assist directly in the further development of the private sector. It is this sector, especially private manufacturing, where past performance has been impressive and where the major future contribution to development can be expected.

Asia Department
September 6, 1966

APPRAISAL OF

PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES

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This report is based on the findings of a mission consisting of Messrs. P. M. Mathew, Tore Hedberg and David W. K. Peacock, which visited the Philippines in November, 1965.

PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES

## List of Annexes

SUMMARY

i. Private Development Corporation of the Philippines (PDCP) was established in February 1963, with an IFC equity participation, to assist private industrial enterprises in the Philippines. Its share capital of ₱25.0 million is divided into Class "A" shares (70%) which may be held only by Philippine nationals, and Class "B" shares (30%), which may be held by any individual or entity. The share capital is supplemented by a thirty-year AID loan of ₱27.5 million and a loan of US$15.0 million from the Bank.

ii. PDCP has a Board of eleven Directors, of whom eight represent Class "A" shareholders and three represent "B" shareholders. The Chairman and President is Mr. Roberto S. Villanueva. The day-to-day management is in the hands of the Executive Vice President, Mr. Vicente Jayme. PDCP is well organized and the work flow is efficient. Project appraisals are reasonably good, although some lack of financial expertise is noticeable. PDCP realizes that improvements are desirable. The Board of Directors, consisting of some of the most respected business leaders in the Philippines, has exercised good judgment in its investment decisions.

iii. Relations with the Government are good. PDCP is independent of politics. Relations with the business community are generally satisfactory, although some business groups feel that PDCP is not sufficiently venturesome.

iv. PDCP has committed its funds rapidly since start of operations in mid-1963, nearly all in loans. Only one equity investment has been made. The loan portfolio is generally well diversified among industrial sectors. There is some concentration in the electric utility and cement industries, but this will diminish as the portfolio increases. PDCP's operations have been profitable from the beginning. Operating costs have been kept low relative to the size of the portfolio and the return on equity has been quite satisfactory, reaching 15.8% in 1965. The Corporation ranks with regard to the level of its operating costs as one of the most efficient development finance companies with which the Bank and IFC are connected.

v. PDCP's contribution to the development of the Philippine economy is still relatively modest, but its financial and technical guidance has been of value to the business community.

vi. The future prospects for PDCP appear promising. The moderate growth of the industrial sector which has occurred in the recent past is expected to continue during the next few years, although much depends upon the policies of the new administration. Long-term capital is likely to continue to be in short supply, and the demand for PDCP's assistance is expected to remain high. PDCP has been urged to seek partners, including IFC, in some of the larger projects which it intends to finance; in this way PDCP can help develop the capital market while minimizing the demand

on its own resources. PDCP has also been urged to undertake more equity investment.

vii. PDCP is in need of additional resources. It has almost fully committed its present foreign currency resources, and can be expected to employ efficiently around $25 million over the next two years. It is a suitable recipient of a second Bank loan. In view of PDCP's satisfactory performance to date, projects requiring less than $250,000 out of the loan should not be subject to prior approval by the Bank. The loan should be on terms usual for Bank loans to development finance companies.

APPRAISAL OF

PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES

# I. INTRODUCTION

1. Private Development Corporation of the Philippines has asked the Bank for a loan of $25 million to replenish its foreign exchange resources. On February 13, 1963, at the time of PDCP's establishment, IFC subscribed to P800,000 (equivalent to US$205,128) of its share capital and entered into a stand-by commitment to purchase an additional 420,000 shares. At the same time the Bank made a loan of US$15.0 million. This loan, which was PDCP's only foreign currency resource, has now been almost fully committed.

2. A mission visited the Philippines in November 1965 to review PDCP's operations and to appraise its performance and prospects, including its needs for additional resources. It was the first appraisal mission to visit PDCP since it was established. This report is based on the mission's findings and recommendations, and on further information obtained from PDCP during and after negotiations.

# II. THE ENVIRONMENT

## Industrial Growth

3. Reference is invited to the report entitled "Current Economic Position and Prospects of the Philippines" (No. FE-44, dated June 2, 1965) circulated to the Executive Directors on June 2, 1965.

4. The Philippine economy is somewhat more diversified than that of many other developing countries. Although agriculture is still the largest element in the national income and has continued to be the principal source of foreign exchange earnings, manufacturing has become more important, and now contributes about one-fourth of the national product.

5. Manufacturing in the Philippines is largely a postwar development. It was aided by the Government's policies in the 1950's, which made available relatively cheap foreign exchange for the import of raw materials and restricted the import of finished products. Ample credit was also available through the banking system. Manufacturing began with and still mainly consists of light finishing operations applied to

imported materials, and output increased rapidly. Devaluation of the peso, removal of exchange controls, and liberalization of imports in the 1960's made such finishing industries less profitable and encouraged a move into the intermediate stages of production.

6. Out of about 490,000 industrial establishments, all but about 8,000 have fewer than five workers. Some 1,900 employ 20 or more workers. In the past ten years there has been an increase in the labor employed and goods produced in establishments employing 20 or more workers, without a corresponding increase in the number of such establishments.

7. By 1960 gross investment in the fixed assets of manufacturing establishments employing more than 5 workers reached an annual level of ₱300 million (at post devaluation prices). No reliable data exist about more recent investment, but there are indications that it continued to increase through 1964. In that year the figure was perhaps ₱500 million. This level was probably not maintained in 1965.

8. Since the introduction of the free exchange system in 1962, manufacturing has not developed as well as had been hoped. Measures to encourage industrial development, which the Government had intended to introduce as a substitute for those operating under exchange control in the 1950's, ran into legislative difficulties. Exemptions from income taxes were still granted, and, as a stop-gap measure, some industries were exempted from import duties on capital goods; but Government plans for a far-reaching revision of tariffs and for financial assistance through Government-owned agencies to industry, for refinancing, and/or financing new investment, were not carried out. In particular, Congressional opposition to additional taxation forced the Government to rely increasingly on borrowing from the banking system and public financial institutions; this led to restrictions on private credit. Smuggling and under-declaration of imports for customs purposes created difficulties in the domestic market for some industries. The new Government is interested in carrying out reforms but it is too early to predict how effective its action will be.

9. Industrial enterprises in the Philippines suffer in general from a disproportionate burden of short-term debt, and their difficulties have been aggravated by a decline in profit margins following introduction of the free exchange system. Refinancing is urgently needed, but available sources are inadequate.

10. The pace of economic growth quickened in 1963 and 1964, when agricultural export production was stimulated by the devaluation of 1962 and helped by favorable weather and demand conditions. In these years the annual rate of growth was about 5 to 6%. Because of a population growth rate of over 3% per annum, however, per capita income has risen more slowly, to a level of about $150. In 1965 the pace of economic growth seems to have slowed down.

11. There is no doubt that the basic conditions for fairly rapid industrial development exist in the Philippines. The country possesses

political stability, and there is wide scope for private economic activity and initiative. General education is comparatively advanced, and labor has proved readily trainable. The spirit of entrepreneurship exists, and a growing group of professional managers in both the technical and general fields has developed in recent years. Apparently, family enterprises have begun to change towards broader ownership. Moreover, the domestic market is fairly large, consisting of over 30 million people with comparatively high average incomes by Asian standards.

Sources of Finance

12. Commercial Banks. The Philippines has 40 commercial banks which together have more than 250 branches, but their lending is mainly short-term. Their operations have until recently been restricted by a lack of liquidity, as well as by credit restrictions imposed by the Government. The beginnings of an improvement in the credit situation stemming from the policies of the new Government are now apparent.

13. Insurance Companies. The most important insurance enterprises are the Government Service Insurance System (GSIS), which owns 67% of the assets of all insurance companies, and the Social Security System (SSS). In the past, most insurance funds have been invested in real estate and loans to policy-holders. For example, of loans totaling ₱500 million granted by GSIS and SSS in 1964, only ₱1.29 million went to industry, compared with ₱495 million to real estate and policy loans. These Government-owned agencies, with their large resources, could provide substantially more industrial finance with even a relatively small change in their investment policies.

14. Development Banks. Important agencies established to provide investment finance are the Government-owned development banks and the private development companies. By far the largest of these is the Development Bank of the Philippines (DBP) with resources totaling ₱1,118 million. It has organized a network of 23 small private development banks operating in the smaller cities to assist agriculture and small industry.

15. National Investment and Development Corporation (NIDC), was established in 1963 as a subsidiary of The Philippine National Bank, a large, Government-owned commercial bank. NIDC had loan and equity commitments of ₱135 million and resources of ₱136 million on September 30, 1965. In addition, outstanding guarantees amounted to ₱151 million. NIDC has the staff to undertake a larger volume of business, but its limited resources are likely to be applied mainly to projects such as the coconut industry, livestock development and warehousing. Its management has recently decided, in view of existing heavy commitments, not to undertake new long-term financing for some time.

16. Among the private institutions, PDCP already has the largest resources (P116 million), and if they are augmented it will have the opportunity of becoming an important source of finance for private industry.

17. Bancom Development Corporation (Bancom), established in 1964, has as its Chairman a former director of PDCP, and as its President the former consultant to PDCP's Board. It is owned by a Filipino group led by its Chairman, and Bankers International Financing Corporation. Its resources, almost entirely share capital, were P7.3 million on June 30, 1965. It undertakes all types of investment banking, including promotions and refinancing. Aggressively led, and flexible in its operations, Bancom is likely to expand considerably.

18. CCP Securities of the Philippines became active in 1964 as an underwriting and security sales agency and finance house. It is owned by the Ayala Group of investors in association with three U.S. investment houses.

19. House of Investments, with equity of P8.2 million and total resources of P18.3 million at the end of 1964, acts mainly as a holding company.

20. A fairly well established securities market exists in the Philippines. During the fiscal year ending June 30, 1965, 3.1 billion shares with a total value of P110.7 million were traded on the Manila Stock Exchange. About 110 issues are listed on the Exchange. A new stock exchange was recently opened in Makati, but its volume of business so far has not been substantial. Over-the-counter trading is relatively unimportant.

## III. DESCRIPTION OF PDCP

### Background

21. PDCP was incorporated on February 4, 1963. Its inception dates back to discussions in early 1961 between the Bank and the then President of the Republic. The Bank, on the advice of Mr. George D. Woods, then a special consultant, recommended setting up a development finance company with a P25 million ($6.4 million) share capital, a long-term AID loan, a Bank loan, and an IFC subscription to the Corporation's equity. A Steering Committee took charge of the steps to establish PDCP, and in March 1963 PDCP made a public share issue. IFC has a holding of 80,000 shares (P800,000) or 3.2% of the capital stock of the Corporation.

### Objectives and Powers

22. PDCP was established to assist in the creation, expansion and modernization of private productive enterprises in the Philippines, to

encourage participation of foreign and domestic private capital, to help develop capital markets, and to encourage the growth of technical, financial, managerial and administrative skills in the country. Its functions are broadly defined to include making long- and medium-term loans, equity investments, underwriting, and guarantees, and furnishing managerial and technical assistance; they include those directed towards expansion of the securities market, by such means as purchasing securities and revolving investments.

Resources

23. PDCP began operations in June 1963 with the following resources, which have not yet been replenished:

| | | | |
|---|---|---|---|
| Share Capital: | "A" shares | P17,500,000 | |
| | "B" shares | P 7,500,000 | P25,000,000 |
| AID loan (fully paid-in) | | | P27,500,000 |
| First Bank Loan | | | $15,000,000 |

The authorized, issued and fully paid share capital totals 2.5 million shares of P10 par value each (or P25 million) divided into P17.5 million (70%) Class "A" shares which may be owned only by citizens of the Philippines, corporations in which 60% of the share capital is owned by such citizens, and IFC, and P7.5 million Class "B" shares which may be held by any person or entity.

24. The AID peso loan is for 30 years including 15 years of grace and carries an interest rate of one-half of 1% per annum. In the event of liquidation, any part of the loan outstanding and not due for payment will be subordinated to other debt and equity. The AID loan is maintained as a separate fund and may be used only for goods and services of Philippine origin. Individual loans from this fund exceeding P500,000 (equivalent to US$128,000) require AID approval. The first Bank loan, channeled through the Philippine National Bank, is on the terms usual in Bank loans to development finance companies. Projects using the equivalent of US$100,000 or more require the approval of the Bank.

Organization and Procedures

25. Shareholders. At December 31, 1965, PDCP had 945 shareholders, 878 of whom (including IFC) held "A" shares and 67 of whom held "B" shares. There are 856 Filipino holders of less than 20,000 "A" shares each who together own about 35% of the Corporation. Twenty-two Filipinos have holdings of 20,000 or more shares and own 34% of the Corporation. Details of shareholders are given in Annex 1.

26. No significant changes have taken place among small shareholders in the past two years, but several institutional investors, including Bancom, accumulated substantial blocks during 1965 through a series of small purchases in the open market. The price of "A" shares reached a low of P8.70 in December 1964, but was quoted around P10.00 during

most of 1965. In June 1966 the price increased to P12.50. The volume of trading in "B" shares has been very small and prices have remained firm around par. Foreign financial institutions show no wish to sell.

27. The Board. PDCP's Board consists of 11 members, eight of whom must be citizens of the Philippines, representing Class "A" shareholders. The remaining three are elected by the Class "B" shareholders. All directors are elected for one-year terms. PDCP has agreed with the Philippine National Bank, the channel for the first Bank loan, that as long as any portion of that loan is outstanding, PNB shall be entitled to one member of PDCP's Board of Directors. IFC is not represented on PDCP's Board.

28. PDCP's Board of Directors (listed in Annex 2) consists of leaders in the business community, representing some of the strongest business houses in the Philippines. It meets every two weeks, but as most members have other business interests, Board meetings are not always well attended.

29. Following the Annual Shareholders' Meeting on March 15, 1966, Mr. Roberto S. Villanueva was elected Chairman and President by the Board, in succession to Mr. Aurelio Montinola. Mr. Villanueva, an important and respected business leader, is taking an active part in PDCP's affairs.

30. PDCP has an Executive Committee consisting of the President and four other directors, one of whom must represent "B" shareholders. This Committee is a device used when there is no quorum at a regular meeting of the Board. In that event, any three directors of whom one is a Class "B" director, may constitute themselves the Executive Committee and take action on behalf of the Board.

31. Management and Staff. The Management of PDCP consists of the Executive Vice President, Mr. Vicente R. Jayme, and six heads of departments. Mr. Jayme succeeded Mr. J. K. Paulding as Executive Vice President in March 1965, after serving PDCP a little more than a year as Vice President-Treasurer. He is an economist by training and was a Vice President heading the Department of Economics in the PNB before he joined PDCP. During this time, he was PNB's representative on the Steering Committee which established PDCP and was its Director on PDCP's Board at the beginning. He is able and energetic and is considered one of the more promising professionals in the business community.

32. The position of Vice President exists but is now vacant. The team of senior staff which assists management is young, well-educated and enthusiastic. The top seven executives have had relatively wide experience in government and business, and are acquiring it in practical financial analysis and development banking.

33. PDCP's staff consists of 27 professionals and 25 others, organized in three line departments, each headed by an Assistant Vice President, and three supporting staff departments. The Project Development and Economics Department which was created very recently is engaged in the development and promotion of new projects, while the Project Evaluation and Supervision Department (to which a senior engineer was appointed

in 1965) prepares detailed appraisals for Board consideration. The Treasury and Finance Department handles disbursement, follow-up reviews, short-term placement of funds and capital market operations. The three supporting staff departments are Legal, Accounting, and Administration and Personnel. Annex 3 shows the Organization Chart as of June 1, 1966. PDCP's work procedures are orderly and well developed, and the flow is smooth.

34. The staff needs to be strengthened by the recruitment of financial analysts to the Project Evaluation and Supervision Department. Management is aware of this problem, and is giving it priority. When financial analysts have been recruited, only small increases in the number of the staff over the next two years are foreseen. A training program for the staff has been set up in business finance, to be taught by, among others, faculty members of local colleges. The head of Project Development and Economics Department has recently completed the Industrial Project Evaluation Course in the Economic Development Institute. Staff training in other development finance companies is planned.

35. Project Appraisals. If a project does not need to be reshaped, PDCP can complete an appraisal and get a Board decision in about two months. These quick decisions have helped PDCP to commit its resources rapidly. The mission noted that some of the earlier appraisal reports were superficial and tended to be summaries of the facts and views presented by the sponsor of the project; the cause was partly the inexperience of the staff and partly the sacrifice of quality to speed. More recent appraisal reports have been quite satisfactory. The risk of poor investment decisions, which might have resulted from the shortcomings of PDCP's appraisal techniques during its start-up phase, appears to have been avoided largely through the good business judgement of the Board.

36. Follow-Up. As its portfolio grows, PDCP is improving the follow-up procedures needed to supervise projects in the post investment stage. Periodic reports in great detail are now required from clients and procedures to deal with these reports have been organized. Regular on-the-spot inspections of projects are also part of the follow-up program.

37. In general, PDCP's management and staff have established sound procedures for the conduct of the business and show promise of attaining with further experience a high degree of efficiency.

## IV. POLICIES AND OPERATIONS

### Policies

38. General Policies. PDCP's Statement of General Business Policies adopted by the Board of Directors on March 17, 1964, defines the scope of the Corporation's activities. It is contained in Annex 4. The Statement emphasizes PDCP's role in the economic development of the Philippines through assistance to private productive enterprises in the

form of medium and long-term loans as well as equity financing. PDCP has the declared aim to assist in the development of a wider market for corporate securities and to encourage a wider distribution of ownership of private enterprises. PDCP defines private enterprises as those enterprises where private ownership amounts to at least two-thirds of the voting stock.

39. PDCP has adopted several policies designed to reduce its risks. It endeavors to diversify its portfolio as far as practicable in types of industries financed, location of enterprises, and the nature of the assistance granted. Investment, both loans and equity, in any one enterprise has been limited to 10% of PDCP's total assets. PDCP has now decided to be somewhat more restrictive and to limit its help to any one client to 15% of PDCP's equity and the AID loan and to 50% of the total assets of the client. It plans to amend its statement of business policies accordingly.

40. PDCP's Board has from time to time given consideration to increasing the Corporation's flexibility in dealing with investment opportunities. It is now willing, in appropriate circumstances and using its own resources, to refinance existing projects, though, in practice, it has not yet become active in this field. It is also considering possibilities for financing large-scale agricultural projects run on commercial lines. Projects in these new fields have not yet become ripe for financing. PDCP passes the exchange risk on foreign currency loans to the borrower. Some prospective borrowers have objected, but there is no evidence that PDCP has lost any substantial amount of business on account of this.

41. Loan Terms. It is PDCP's policy to adjust the terms of its loans to reflect the risk it undertakes, but its interest rate has varied little. The limits have been 8 1/2 - 9 1/2%. In addition it generally charges an acceptance commission of between 1% and 2%, and a semi-annual service charge of one-quarter of 1%. PDCP's effective interest rate therefore ranges up to 10% per annum. It is the same for both peso and foreign currency loans; in view of the greater demand for peso loans, PDCP is considering some increase in the interest rate for this category of loans. The rates charged by commercial banks in the Philippines vary from 10 1/2% to 14 1/2%.

42. Repayment periods on loans made by PDCP are related to the borrower's ability to repay. In PDCP's loan portfolio the shortest repayment period is 3 1/2 years and the longest 15 years. On foreign currency loans the average (weighted) maturity is 9.1 years and on peso loans the average is 8.1 years. Combined, the average (weighted) maturity is 8.7 years. Annex 5 analyses PDCP's loan portfolio by maturity.

43. Grace periods on PDCP's loans are usually one year, with a very small number where it is longer. PDCP intends that the grace periods should reflect the borrower's ability to commence repayment but grace periods have tended to be somewhat short.

44. Normally, PDCP's loans are secured by a first mortgage on present and future assets, usually to the extent of 150% to 200% of the value of the loans. PDCP has frequently stipulated that the promoters or principal owners of a project personally guarantee the loan. The requirement is in keeping with Philippine business practice.

45. Quite frequently, PDCP has insisted before signing the loan agreements for new ventures that the principals commit themselves to strengthening their plans for management and accepting Board members designated by PDCP. On occasion, PDCP has required that the owners of an enterprise submit their controlling interest to a voting trust, whose trustees are appointed with PDCP's approval. This practice is not unusual in the Philippines.

46. Equity Investments. PDCP has so far made only one equity investment. This investment (P225,000) was approved in September 1965 and was made in conjunction with a sizeable loan to the same enterprise. There is great need for equity capital in the Philippines and by paying more attention to this need, the management should be able to increase the Corporation's contribution to the economy as well as to add profitably to its portfolio.

Operations

47. Since the start of operations in 1963 till the end of 1965 PDCP appraised 71 projects, and made commitments to 34 of them. Of the other 37 projects which were fully appraised, nine were withdrawn by the applicants. Eight of those withdrawals were made during PDCP's first year of operation. Projects have been declined by PDCP for a variety of reasons; some of them might have become viable and profitable if PDCP had been willing to invest in equity.

48. The 34 loan commitments at the end of 1965 totaled P84.0 million. P29.4 million were local currency loans and P54.6 million (US$13.9 million) were foreign currency loans. Of the 34 loans approved, 17 had been fully disbursed, eight were being disbursed, and the rest were awaiting satisfaction of conditions for disbursement. PDCP has no loans in arrears or default, but, as none of the loans is more than two-and-a-half years old, it would be premature to infer from that fact the overall soundness of PDCP's portfolio. However, on the basis of appraisal reports and spot checking by the mission in November 1965, it appears that PDCP's loans generally are of good quality.

49. Of the 34 loans, 23 were for expansion and/or modernization and 11 were for new ventures. PDCP expects to finance a larger proportion of new ventures in future.

50. PDCP's loans have ranged in size from P230,000 to P15,000,000. The average is P2.5 million (equivalent to over $600,000). This is quite high compared to most development finance companies with which the Bank and IFC are associated. In the latter part of 1965, some unusually large

projects were approved and in three instances the investment limitations set out in the Policy Statement were exceeded. PDCP is bound in terms of the AID loan agreement to seek the permission of AID before it exceeds those limits. (Annex 6 presents investment projects by size). In case of larger projects PDCP has been urged to seek partners, including IFC, rather than exceed its investment limitations. Most investment projects require loans in both foreign and local currencies. Since the start of operations, six projects received only foreign currency, five projects received only local currency and 23 projects received both foreign and peso currency loans.

51. In general, the industrial diversification of PDCP's portfolio is satisfactory. Food industries as a group account for 21.8% of approved loans, but a range of industries within the group is represented. There is some concentration of loans in the electric light and power industry, representing 24.5% of approved loans, and in the cement industry, representing 17.7%. When making new loans, PDCP will have regard to further diversification of its portfolio. (Annex 7 presents PDCP's loans by industry).

52. Most of the projects assisted by PDCP are located in Metropolitan Manila and the neighbouring provinces of Central and Southern Luzon, where industrial activity is concentrated. Commitments to projects in these three areas total P67.3 million, 80% of total loans approved. Manila and the surrounding provinces will probably continue to receive the largest part of PDCP's financial assistance. (Annexes 8a and 8b present PDCP's loans by location).

Underwriting Activities

53. In order to carry out its policy of assisting in the development of a wider market for corporate securities and encouraging a wider distribution of the ownership of enterprises, PDCP has so far participated in four underwriting ventures. Annex 9 presents PDCP's underwriting record. The first was for Filipino Investment and Finance Corporation (FIFC), a firm engaged in the financing of automobile purchases in the Philippines. The offering consisted of P4.0 million of straight and convertible debentures and PDCP acted as the principal underwriter. This operation was the first "firm" underwriting conducted in the Philippines; PDCP sold a total of P2.5 million of the debentures. The balance of P1.5 million of debentures taken up by PDCP is presently being re-offered to the public.

54. In the three other underwritings, PDCP did not act as head of a syndicate, but participated jointly with other underwriters. One such operation, for Northern Motors, Inc., was on a firm underwriting basis. PDCP purchased P500,000 worth of convertible debentures, sold P172,000 and retained P318,000. Another underwriting was of a rights offering to stockholders of Philippine Long Distance Telephone Company and PDCP was in the "standby" group, selling P1,492,000 worth of shares. The fourth underwriting was that of Esso Standard Fertilizer and

Agricultural Chemical Company common stock. This underwriting was on a "best effort" basis and PDCP sold 28,535 shares at P10 per share.

Conversion Options and Stock Purchase Warrants

55. In connection with its long-term loans, PDCP has acquired a number of conversion options and stock purchase warrants from its clients. Most were acquired during the first year of operation, when PDCP pursued such arrangements with zeal. The concept of conversion options and purchase warrants is not well-known in the Philippines, and PDCP's inclusion of these in various loan agreements met with strong opposition from clients. As a result the conversion options and purchase warrants presently in PDCP's portfolio were acquired on unfavorable terms, and most of them, if not all, are unlikely to yield any capital appreciation.

Promotional Activities

56. PDCP has been active in promoting its services to the business community in the capital market field, mostly through personal contact by the management and senior staff. In the spring of 1965, a more ambitious policy was adopted. Following an advertising campaign, six persons were engaged for training as "investment consultants"; four of them will be retained. Their principal duties are to sell new underwritings in which PDCP has a position; to keep the business community informed about PDCP's other services such as loans, technical assistance, investment advisory service, portfolio management, feasibility studies, etc., and to be on the lookout for promising new projects which PDCP can take the initiative in financing. PDCP has also prepared and distributed a number of informative pamphlets describing the capital market, and staff members frequently speak on the subject before various civic groups. Although the impact of such activities is hard to measure during a short period, in time they should, together with the activities of other business groups, help the growth of the capital market. In order to better serve the objective of developing an orderly capital market, PDCP is considering the establishment of a subsidiary specializing in underwriting and wholesaling of securities, and related services. Over a period of years, the activities of the subsidiary are proposed to cover a broad range of capital and stock-market operations.

57. PDCP has not undertaken promotional activity in the sense of launching an investment project under its sponsorship. In 1963 a consultant made a start with the organization of a project development division and also gave some technical advice to prospective clients, but this activity languished with his departure. The recent establishment of a Project Development Department under an experienced Assistant Vice President represents a new effort in developing projects to the stage of financing.

Guarantees

58. PDCP has not yet undertaken any guarantee business. Opportunities exist in the field of guaranteeing suppliers' credits for purchases of

equipment, and PDCP's management plans to become active in this field.

## V. FINANCIAL POSITION AND RESULTS

### Balance Sheet

59. Annex 10 presents PDCP's balance sheet as of December 31, 1963, 1964 and 1965. A summarized balance sheet for March 31, 1966, is presented below:

| | In P '000 |
|---|---|
| **Assets** | |
| Current assets | 43,981 |
| Loans receivable | |
| Foreign currency | 31,413 |
| Local currency | 16,275 |
| Equity investment | 255 |
| Property and equipment | 214 |
| Other assets | 704 |
| | 92,842 |
| **Liabilities** | |
| Current liabilities | 3,211 |
| Long-term debt | |
| AID | 27,500 |
| IBRD | 31,080 |
| Paid-in capital | 25,000 |
| Retained earnings | 6,051 |
| | 92,842 |

As of March 31, 1966, PDCP's commitments on loans amounted to P89.0 million, compared with disbursements (shown in the balance sheet) of P47.7 million. This difference is due to the normal time-lag between commitment and disbursement of funds. For foreign currency loans, this time-lag has averaged 7 months and for peso loans almost as long. PDCP's foreign currency resources (the first Bank loan) were fully committed at that date. Subsequent cancellations and reductions have resulted in a small uncommitted balance. Uncommitted peso resources were P28.3 million, out of a total of P58.5 million.

60. Pending disbursement to clients, funds are placed in short-term paper. In 1965 more than half of PDCP's interest income was derived from this type of placement of "idle" funds. On December 31, 1965, total short-term placements were P40.9 million, divided as follows:

| | In ₱ '000 |
|---|---|
| Government bonds | 50 |
| Bankers' acceptances | 34,185 |
| Short-term loans to finance companies | 2,712 |
| Short-term loans to public utilities | 2,000 |
| Short-term loans to industrial and commercial companies | 2,000 |
| | 40,947 |

Because of the shortage of capital in the Philippines, even short-term paper carries attractive interest rates; the average yield on PDCP's short-term placements at the end of 1965 was 9.87%. The astute use of temporarily idle funds has been an important factor in making the Corporation profitable from the very beginning.

61. On March 31, 1966, PDCP's current liabilities were amply covered by current assets. The long-term debt/equity ratio was 1.9:1. Under the first Bank loan, PDCP may not incur debt (apart from the AID loan) of more than three times its share capital, reserves, and the AID loan; as of March 31, 1966, this ratio stood at only 0.5:1.

Profit and Loss

62. PDCP has had remarkably good financial results in its first two-and-a-half years of operations. Net income which was ₱750,485 for 1963 (5 months of operation) increased to ₱3.4 million in 1964 and almost ₱4.0 million in 1965. The 1965 result represented a return of 15.8% on share capital and 12.9% on net worth. These satisfactory results are due not only to favorable short-term placements, as mentioned above, but also to the availability from the start of the low cost AID loan; and to good control of operating costs. Annex 11 presents comparative profit and loss accounts for 1963, 1964 and 1965.

63. The following table presents PDCP's annual non-financial operating expenses as a percentage of long-term portfolio:

| | 1963 | 1964 | 1965 |
|---|---|---|---|
| Portfolio at year end (in '000) | ₱ 337 | ₱10,521 | ₱36,861 |
| Operating expenses (in '000) | 226 | 980 | 1,052 |
| Operating expenses as a percentage of portfolio | 67.0% | 9.3% | 2.5% |

As PDCP's portfolio continues to increase in size, the percentage will decline further, and according to management's forecast, operating expenses should reach a level below 1% of year-end portfolio in 1967. For a young organization such as PDCP, this would be a respectable achievement.

64. Apart from some "basic industries" which enjoy substantial tax relief, corporate income in the Philippines is taxable at a maximum of 30% on amounts in excess of P100,000. PDCP's effective tax rate in 1965 was about 27.5% on income and should remain at about that level.

65. The Corporation's auditors are Sycip, Gorres, Velayo & Co., a qualified Filipino firm. The auditors have found PDCP's accounts satisfactory.

## Reserves and Dividends

66. PDCP's reserve policy, as agreed with the Bank at the time of the first Bank loan, calls for reserves being set aside equal to at least 50% of annual net profits until such reserves have reached P3.0 million. Thereafter, reserves equal to at least 20% of annual net profits are to be set aside until reserves have reached an amount equal to the part of PDCP's debt which is subordinate to capital stock (currently P27.5 million). PDCP's reserves passed P3.0 million in early 1965, but the Corporation has continued the policy of retaining a substantial portion of net profits. On March 31, 1966 reserves and unappropriated surplus were over P6 million.

67. No bad debt reserve has yet been created, but PDCP intends, starting in 1966, to charge against income an allowance for bad debts equal to 0.5% of the value of its loan portfolio, until more experience has been gained.

68. Starting in the first quarter of 1965, PDCP adopted the policy of paying quarterly cash dividends of 2% on the par value of its shares. At the end of 1965 a 2% "extra" dividend was paid, bringing total 1965 payments to 10%. This represented 63.1% of PDCP's net earnings for that year. In March 1966 the quarterly rate was increased to 2.5% and the Board announced its intention to continue this rate through 1966.

# VI. FUTURE PROSPECTS

## The Setting

69. The outlook for PDCP is closely linked with the prospects of growth for Philippine industry. As mentioned in paragraph 11, a number of favorable factors exist, which point toward further growth of the industrial sector. However, the realization of that growth will depend a good deal on the ability of the new administration to remove obstacles from which development of the sector has suffered in recent years. The Government has undertaken to ease restrictions on credit to the private sector and is considering a scheme for refinancing on a large scale enterprises in financial distress. It is not clear, however, how funds for this scheme will be made available from non-inflationary sources. The Government has launched a campaign against smuggling and is considering various other measures to support industrial development. The new

administration has not been in office long enough to justify a judgment on the prospects of success. Even if major improvements in the environment of industrial growth are not yet clearly in sight, it should be recognized that not much improvement is needed to restore the situation prevailing before 1965, when manufacture was achieving a modest pace of growth.

70. <u>PDCP's Forecasts</u>. PDCP's forecasts of future activity (see Annexes 12 and 13) are based on the assumption that, even without an acceleration in the rate of industrial growth, attractive investment opportunities will continue to exceed capital available during the next two years. Early in 1966 PDCP forecast new commitments (both peso and foreign currency) in 1966 and 1967 each to be about ₱70.0 million, an almost 25% increase over the ₱57.1 million committed in 1965. However, commitments in 1965 were affected adversely by the fact that it was an election year with consequent uncertainties about business prospects. Also, PDCP slowed down its commitments since the middle of 1965 pending negotiation of fresh resources. There has been a further lag in commitments during 1966, as a result of delay in obtaining from Congress the legislation needed to authorize the Government to guarantee the proposed second Bank loan.

71. PDCP expects that by the end of 1966 its rate of new lending and investing will have increased to a level substantially higher than that reached in 1965. It has based its request for a second Bank loan on the expectation that its annual rate of foreign exchange lending will soon reach about $12.5 million. Among other things, this assumes that, as in the past, about two-thirds of total commitments will be in foreign exchange and one-third in pesos. Projects which have been held over since the latter half of 1965 are ready to go ahead. Those in the pipeline call for about $15 million in foreign exchange, out of which loans of about $10 million are expected to materialize. The new Chairman and Board are active in canvassing business for PDCP, and PDCP's staff strength has been increased to cope with a higher level of activity. PDCP's estimated need over the next two years for $25 million in foreign exchange can be considered realistic.

72. Peso commitments for 1966 and 1967 are estimated at ₱24.0 million and ₱25.0 million respectively. In 1965, the figure was ₱19.7 million. In addition to making straight loans, PDCP will seek to obtain from its clients negotiable bonds and debentures, which might later be resold when it becomes necessary to replenish the Corporation's peso resources. Unlike the past two years, in which only one equity investment was made, PDCP expects, starting in 1966, that 10% of new peso commitments will be in the form of equity investments. In addition to the projected investments in bonds, debentures and equities, PDCP expects that it will hold in its portfolio, until they are saleable, fixed income securities and equities acquired through underwriting ventures, and that the volume of such investments will increase from ₱1.4 million at December 31, 1965, to ₱5.0 million at the end of 1967. If commitments at the projected rate materialized, PDCP will need to replenish its peso resources around the middle of 1967. The management is thinking about the possibility of raising peso capital through issue of securities domestically. Should this prove difficult, PDCP would have to try to

and seek to engage in more joint operations with other investors.

73. Financial Prospects. PDCP's financial projections, prepared in early 1966 when it expected full-scale operations in both 1966 and 1967, are presented in Annexes 14, 15 and 16. Interest income from loans is expected to increase from ₱2.5 million in 1965 to ₱13.4 million in 1967 as disbursements increase. Income from short-term placements will decline. Acceptance commissions on project loans, which contributed about ₱480,000 to income in 1965, are expected to rise to ₱1.4 million in 1967. PDCP forecasts commissions from underwriting to be nearly ₱600,000 in 1967, compared with ₱47,616 in 1965. Income from equities and negotiable long-term securities is projected to increase to ₱1.1 million in 1967, from ₱0.2 million in 1965. The higher figure may be difficult to attain. Operating expenses are forecast to increase to ₱1.4 million in 1966, but stabilize thereafter.

74. PDCP forecasts a satisfactory rate of net income for 1967. In that year income is projected as ₱6.5 million, representing a return of 26.1% on share capital and 17.0% on net worth. It expects to pay dividends at the annual rate of 10% in 1966 and 1967. This would be 44.9% of estimated 1966 earnings and 38.2% of estimated 1967 earnings. Such a distribution would be conservative. By the end of 1967, the long-term debt/equity ratio would be 4.0:1, and the ratio of unsubordinated debt to equity and the AID loan 2.1:1.

## VII. CONCLUSIONS AND RECOMMENDATIONS

### Evaluation

75. During its life of little more than three years, PDCP has established itself as an efficient and useful organization, making a worthwhile contribution to the development and financing of private enterprise. Its total commitments of ₱89.0 million, although small in relation to overall volume of industrial investment, are spread over most of the important industries of the country and have contributed to significant increases in production, payroll and employment. The 34 projects to which PDCP had lent up to December 31, 1965, had capital requirements of more than ₱230 million, and although some of them might have been able to find capital elsewhere, many would probably not have come into being without PDCP's financial help. Several of the 34 projects have probably been improved in quality by PDCP's technical and financial advice.

76. In the context of the Philippine economy, PDCP is still a small institution and has a long way to go before its activities significantly affect economic growth, even within the industrial sector alone. Nevertheless, among Philippine financial institutions providing long-term loans for private investment, PDCP has rapidly gained importance. In 1965, PDCP provided probably more than one-tenth of all long-term loans made by such institutions for private investment other than real estate.

77. PDCP's contribution in other forms which cannot be directly measured is also worth noting. Its practice of requiring from its clients detailed information about the projects to be financed has made its clients, and others, more aware of the need for careful examination of investment proposals. Its contribution to the capital market has also been worthwhile.

78. PDCP has done little equity financing and should make a greater effort in this field. It expects to do so.

Recommendations

79. PDCP needs **additional** foreign currency resources as soon as possible. Its present foreign currency resources have already been almost fully committed and disbursements against commitments are expected to be completed in the latter part of 1966, except in the case of one project loan. New foreign currency requirements during the next two years are expected to be about US$25 million. PDCP's record to date and its future business prospects lead to the conclusion that it is a suitable institution to receive assistance, on the terms usual for loans to development finance companies.

80. Projects using more than $250,000 out of the proposed loan should require prior Bank approval. Under the first loan this limit was $100,000. PDCP's appraisal standards have improved enough to justify an increase to US$250,000 in the limit. On this basis, assuming that PDCP's average loans will be of the same size as before, about one-half of its projects, absorbing some 90% of the amount of its foreign currency lending, would require prior approval.

# PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES

## Class "A" Shareholders with Holdings of 20,000 Shares or More of Class "A" Stock as of December 31, 1965

| | Class "A" Shareholders | Number of Shares Held |
|---|---|---|
| 1. | Filipinas Mutual Finance, Inc. | 103,589 |
| 2. | Binalbagan-Isabela Sugar Co., Inc. | 99,059 |
| 3. | International Finance Corporation | 80,000 |
| 4. | Beneficial Life Insurance Co. | 50,000 |
| 5. | San Miguel Corporation | 50,000 |
| 6. | Bancom Development Corporation | 48,750 |
| 7. | Bosar Enterprises, Inc. | 37,500 |
| 8. | Pampanga Sugar Mills | 35,000 |
| 9. | Economic Development Foundation | 35,000 |
| 10. | Admiral Investment and Financing Co., Inc. | 30,000 |
| 11. | Felipe Ysmael, Jr. and Co., Inc. | 30,000 |
| 12. | Felipe Ysmael, Jr. | 30,000 |
| 13. | Amado Araneta | 25,000 |
| 14. | Jorge Araneta | 25,000 |
| 15. | Caltex Phil., Inc. Provident Fund | 25,000 |
| 16. | Manila Electric Company | 25,000 |
| 17. | Meralco Securities Corporation | 25,000 |
| 18. | Philippine Portland Cement Co., Inc. | 25,000 |
| 19. | Trustees-Caltex Phil., Inc. Provident Fund | 25,000 |
| 20. | Vicente R. Jayme | 23,093 |
| 21. | Angel Reyes and/or Celerina Reyes | 22,500 |
| 22. | Felipe Juan Ysmael, Jr. | 20,000 |
| | | 869,491 |
| | Other Class "A" Shareholders (856) | 880,509 |
| | Total Number of Class "A" Shares Outstanding | 1,750,000 |

April 20, 1966

PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES

Class "B" Shareholders with Holdings of 20,000 Shares or More of Class "B" Stock as of December 31, 1965

| | Class "B" Shareholders | Number of Shares Held |
|---|---|---|
| 1. | Bank of America | 45,500 |
| 2. | The Chartered Bank | 45,500 |
| 3. | Chemical International Finance, Ltd. | 45,500 |
| 4. | Continental International Finance Corporation | 45,500 |
| 5. | Deutsche Bank Aktiengesellschaft | 45,500 |
| 6. | First National City Overseas Investment Corporation | 45,500 |
| 7. | Irving International Financing Corporation | 45,500 |
| 8. | Manufacturers Hanover International Finance Corporation | 45,500 |
| 9. | Morgan Guaranty International Finance Corporation | 45,500 |
| 10. | Bankers International Financing Co., Inc. | 45,499 |
| 11. | The Hongkong and Shanghai Banking Corporation, Head Office | 45,499 |
| 12. | The Bank of Tokyo | 45,490 |
| 13. | Boston Overseas Financial Corporation | 31,000 |
| 14. | Philadelphia International Investment Corporation | 31,000 |
| 15. | Wells Fargo Bank International Corporation | 31,000 |
| 16. | American Express Company | 20,000 |
| 17. | Lehman Brothers | 20,000 |
| 18. | New York Hanseatic Corporation | 20,000 |
| | | 698,988 |
| | Other Class "B" Shareholders (49) | 51,012 |
| | Total number of "B" shares outstanding | 750,000 |

IFC/DFC

April 20, 1966

ANNEX 2

# PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES

## Board of Directors, As of June 1, 1966

### Representing Class "A" Shareholders

| | |
|---|---|
| Roberto T. Villanueva (Chairman) | - President, Trans-Philippine Investment Corporation |
| Jorge Araneta | - President, Progressive Development Corporation |
| Roberto S. Benedicto | - President, Philippine National Bank |
| Antonio C. Delgado | - President, Delgado Brothers, Inc. |
| Jose B. Fernandez, Jr. | - President, Far East Bank and Trust Company |
| Benigno Toda, Jr. | - Chairman of the Board, Philippine Air Lines, Inc. |
| Felipe Ysmael, Jr. | - President, Ysmael Steel Manufacturing Co. |
| One Vacancy | |

### Representing Class "B" Shareholders

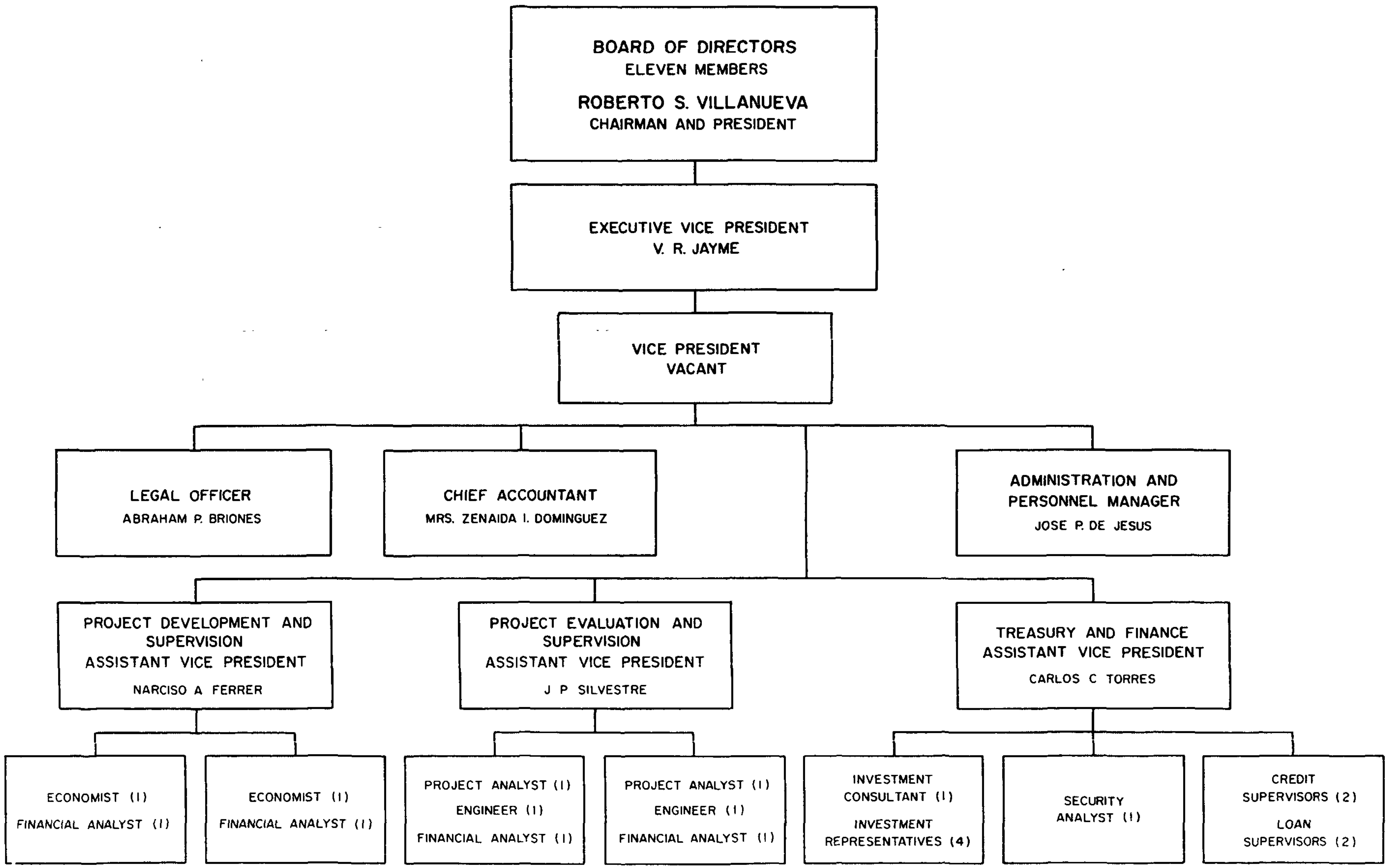
| | |
|---|---|
| Earl Carrol | - President, Philippine American Life Insurance Co. |
| John E. Pipe | - Resident Manager, The Chartered Bank |
| R.D.H. Wilmer | - Resident Manager, Bank of America |

IFC/DFC

June 30, 1966

# PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES

## ORGANIZATION CHART AS OF JUNE 1, 1966




(R) IBRD-3071

ANNEX 3

# PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES

## General Business Policies

(Adopted by the Board on March 17, 1964)

1. Economic Role of PDCP. The Corporation shall assist in the economic development of the Philippines. To this end it will assist in the development of private productive enterprises in the country by providing medium-, long-term and equity financing to such enterprises, assisting in the development of a wider market for corporate securities, encouraging a wider distribution of ownership in such enterprises.

2. Privately-Controlled Industrial and Other Productive Enterprises. The term "privately-controlled" as used in the Articles of Incorporation will be taken to mean all enterprises which are privately operated and managed, and where private ownership is of controlling interest (at least 2/3 of the voting stock). The mere fact that such firms have secured loans from Government financial institutions, or that the Government holds a minority equity position (up to 1/3 of the voting stock) will not exclude such firms from receiving financial assistance from the Corporation.

3. Non-Control of Enterprises Financed. The Corporation will not seek to control any of the enterprises that it finances and will not participate in the management of such firms.

4. Diversification of Investments. In managing its portfolio, the Corporation will endeavor to diversify its investments - in terms of the type of industries being financed, the location of such industries, and as to whether funds are used for medium- or long-term loans, or for equity investments.

5. Maximum Investment -

(a) The Corporation shall not make an investment (including loans and equity participations) in any one investment enterprise, if at the time or as a result thereof the total investment (as so defined) of the Corporation in such investment enterprise shall exceed an amount equivalent to 10% of the Corporation's total assets.

(b) In general, the Corporation's investment (loans and equity participation) in any one investment enterprise shall not exceed 50% of the total assets of the investment enterprise including PDCP's investment.

6. Retirement of Equity Investments. The Corporation looks upon its equity investments more as an assistance to productive enterprises and will seek to retire and dispose of its shares, as soon as this becomes

feasible and a fair price can be obtained for its shares.

7. Dissemination of Ownership. The ownership of the Corporation will be disseminated as widely as possible, and reasonable efforts will be taken to prevent any one person, entity, or group from dominating the ownership or management of the Corporation.

8. Reserve Policy. It will be the policy of the Corporation to build and maintain adequate reserves.

9. Exchange Risk. The Corporation will endeavor to pass on to its borrowers

(a) the charges the Corporation incurs under the Subsidiary Loan Agreement with the PNB as compensation for the PNB's incurring certain exchange risks, and

(b) the exchange risk which the Corporation may bear under the Subsidiary Loan Agreement upon the amendment to or repeal of Republic Act No. 529. To this end appropriate arrangements will be made between the Corporation and its borrowers substantially corresponding to those made between the Corporation and the Philippine National Bank under the Subsidiary Loan Agreement.

10. Criteria in Processing Loan Applications. Loan applications filed with the Corporation will be processed on the basis of their economic and business merits. The projects will be analyzed as to their economic desirability, technical feasibility, financial soundness, management competence, etc., to insure that only sound productive ventures are financed.

11. Technical Assistance to New Enterprises. The Corporation will endeavor to provide the necessary technical services to the enterprises being financed, whenever necessary.

IFC/DFC

December 3, 1965

PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES

Approved Project Loans by Maturity

As of December 31, 1965

| Maturity (Years) | Foreign Currency No. of Projects | Foreign Currency Total Value (In Dollars) | Local Currency No. of Projects | Local Currency Total Value (In Pesos) | Total No. of Projects | Total Total Value (In Pesos) |
|---|---|---|---|---|---|---|
| 3 - 4 | 2 | $ 0.13 | 1 | ₱ .25 | 3 | ₱ .74 |
| 5 - 8 | 19 | 5.40 | 24 | 20.09 | 25 | 41.27 |
| 9 - 11 | 3 | 3.75 | 3 | 4.07 | 4 | 18.79 |
| 12 + | 2 | 4.65 | 1 | 5.00 | 2 | 23.23 |
| Total | 26 | $13.93 | 29 | ₱29.41 | 34 | ₱84.03 |

IFC/DFC

April 27, 1966

ANNEX 5

PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES

Approved Project Loans
By Size as of December 31, 1965

| Size of Investment (in U.S. $000) | No. of Projects | In Equivalent* U.S.$ Total Loans | Local Currency | Foreign Currency |
|---|---|---|---|---|
| 60 to 99 | 5 | 376 | 256 | 120 |
| 100 to 199 | 10 | 1,413 | 856 | 557 |
| 200 to 299 | 3 | 648 | 208 | 440 |
| 300 to 499 | 5 | 1,958 | 720 | 1,238 |
| 500 to 999 | 6 | 4,391 | 2,529 | 1,862 |
| 999 + | 5 | 12,650 | 2,934 | 9,716 |
| TOTALS | 34 | $21,436 | $ 7,503 | $13,933 |

*₱3.92 to US$1.00

IFC/DFC

April 20, 1966

## PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES

### Approved Project Loans by Industry as of December 31, 1965

| | No. of Projects | Foreign Currency (U.S. Dollars) | Local Currency (Pesos) | Total (Pesos) |
|---|---|---|---|---|
| | | (in millions) | | |
| Transportation | 1 | 1.79 | - | 7.00 |
| Power | 5 | 4.16 | 4.28 | 20.60 |
| Food | 8 | 2.21 | 9.72 | 18.38 |
| Textiles | 1 | .20 | - | .80 |
| Wood and Cork | 1 | .56 | 1.00 | 3.20 |
| Printing and Publishing | 1 | .07 | .25 | .52 |
| Chemicals | 5 | .62 | 2.71 | 5.13 |
| Glass, Clay and Stone Products | 4 | 2.09 | 6.68 | 14.87 |
| Basic Metal (Products) | 3 | .06 | 2.65 | 2.90 |
| Machinery | 1 | .27 | 1.52 | 2.56 |
| Electrical Machinery | 1 | .06 | .15 | .41 |
| Miscellaneous Industries | 1 | - | .45 | .45 |
| Mining | 1 | 1.78 | - | 6.98 |
| Others | 1 | .06 | - | .23 |
| TOTAL | 34 | $13.93 | ₱29.41 | ₱84.03 |

IFC/DFC

April 21, 1966

PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES

Approved Project Loans by Location

As of December 31, 1965

| | REGION Bureau of Census and Statistics Classification | No. of Projects | Local Currency (₱'000) | Foreign Currency ($'000) | TOTAL (Equivalent) (₱'000) |
|---|---|---|---|---|---|
| I | Metropolitan Manila (including Pasay City, San Juan, Quezon City, Makati & Paranaque) | 9 | ₱ 8.63 | $ 5.72 | ₱31.06 |
| II | Ilocos & Mountain Province | 2 | - | 2.08 | 8.15 |
| III | Cagayan Valley & Batanes | - | - | - | - |
| IV | Central Luzon (including Bulacan & Tarlac) | 6 | 10.52 | 4.15 | 26.80 |
| V | Southern Luzon & Mindoro (including Rizal) | 10 | 7.26 | .55 | 9.44 |
| VI | Bicol & Masbate | - | - | - | - |
| VII | Western Visayas (including Iloilo & Negros Occ.) | 4 | 1.07 | .59 | 3.37 |
| VIII | Eastern Visayas | - | - | - | - |
| IX | Southwestern Mindanao & Sulu | 2 | 1.57 | .75 | 4.50 |
| X | Northeastern Mindanao | 1 | .36 | .09 | .71 |
| | TOTALS | 34 | ₱29.41 | $13.93 | ₱84.03 |

ANNEX 8a

IFC/DFC

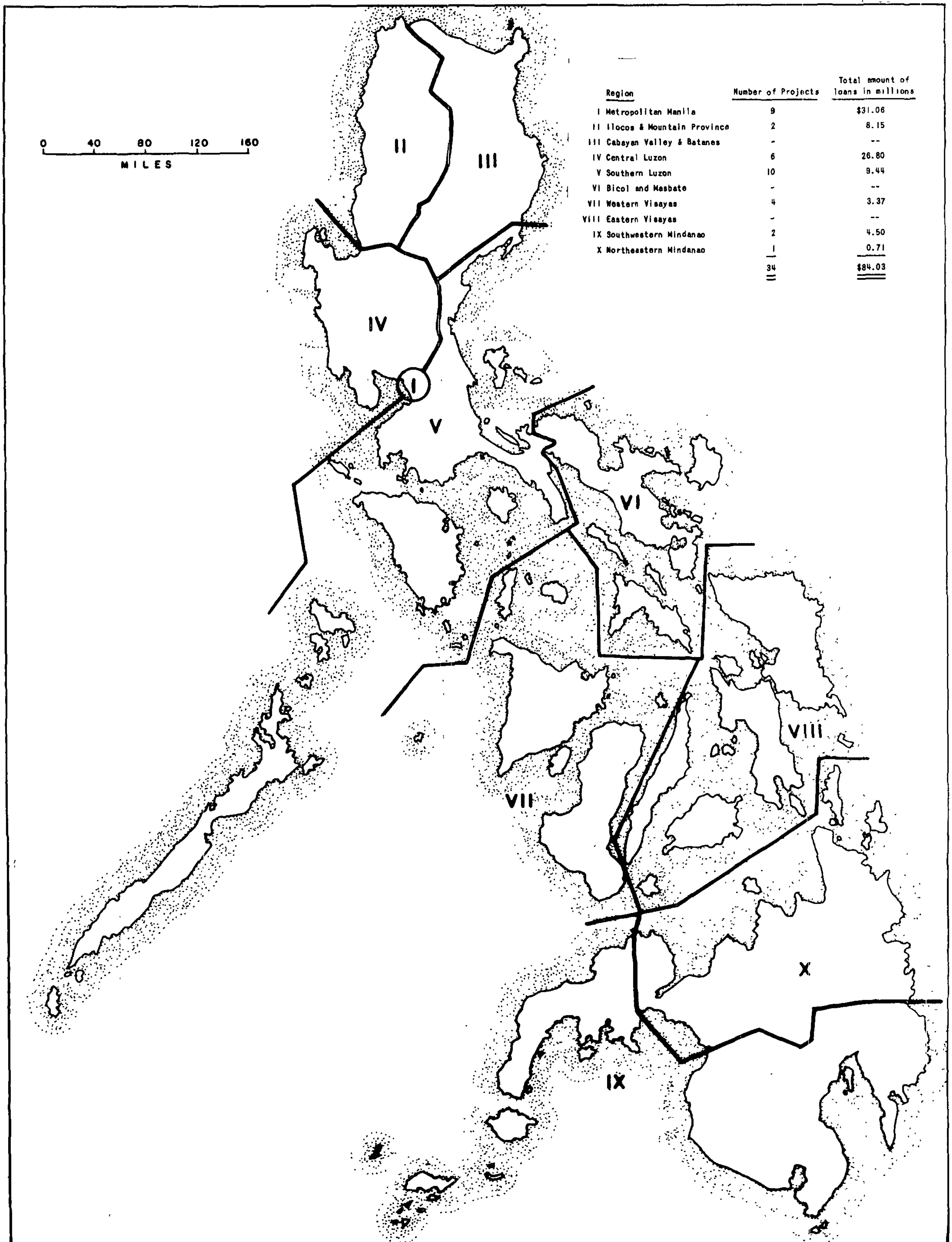
April 26, 1966

**PHILIPPINES**

# APPROVED INVESTMENT PROJECTS BY REGION

DECEMBER 31, 1965

ANNEX 8B




| Region | Number of Projects | Total amount of loans in millions |
|---|---|---|
| I Metropolitan Manila | 9 | $31.06 |
| II Ilocos & Mountain Province | 2 | 8.15 |
| III Cabayan Valley & Batanes | - | -- |
| IV Central Luzon | 6 | 26.80 |
| V Southern Luzon | 10 | 9.44 |
| VI Bicol and Masbate | - | -- |
| VII Western Visayas | 4 | 3.37 |
| VIII Eastern Visayas | - | -- |
| IX Southwestern Mindanao | 2 | 4.50 |
| X Northeastern Mindanao | 1 | 0.71 |
| | 34 | $84.03 |

PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES

Underwriting Record
December 31, 1965

| Date of Offering | Name of Company | Type of Security | Underwriting Basis | Amount of Offering in ₱ '000 | Position ₱'000 | Sold ₱'000 | Retained ₱'000 |
|---|---|---|---|---|---|---|---|
| 7.17.64 | Filipinas Investment and Finance Co. | Debenture | "Firm" | 4,000 | 4,000 | 2,551 | 1,449 |
| 12.29.64 | Philippine Long Distance Telephone Co. | Common Stock | "Stand-by" | 21,450 | 536 | 1,492* | - |
| 5.25.65 | Esso Standard Fertilizer | Common Stock | "Best effort" | 20,000 | 285 | 285 | - |
| 7.15.65 | Northern Motors | Debenture | "Firm" | 5,000 | 500 | 172 | 328 |

*PDCP was committed to only 2.5% (₱536,000) of the issue. On a "best effort" basis it sold additional shares.

IFC/DFC

May 13, 1966

ANNEX 9

# PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES

## Audited Comparative Balance Sheet
(in thousand pesos)

| | As of December 31 | | |
|---|---|---|---|
| **ASSETS** | 1963 | 1964 | 1965 |
| Current Assets | | | |
| Cash on hand and in banks | ₱ 717.5 | ₱ 2,161.2 | ₱ 935.4 |
| Investment in bonds & stocks | 7,818.1 | 2,145.0 | 1,836.0 |
| Receivables (Current portion) | 36,643.0 | 47,381.1 | 46,309.8 |
| Prepaid Expenses | .7 | 4.3 | 5.4 |
| Total Current Assets | ₱45,179.3 | ₱51,691.6 | ₱49,086.6 |
| Loans Receivable & Equity Investment | ₱ 337.8 | ₱10,521.1 | ₱36,861.1 |
| Property and Equipment (net of depreciation) | ₱ 186.0 | ₱ 176.2 | ₱ 214.6 |
| Other Assets | ₱ 460.2 | ₱ 400.0 | ₱ 727.0 |
| Total Assets | ₱46,163.3 | ₱62,788.9 | ₱86,889.3 |
| **LIABILITIES & STOCKHOLDERS' EQUITY** | | | |
| Current Liabilities | | | |
| Accounts payable and accrued expenses | ₱ 8.4 | ₱ 22.0 | ₱ 1,117.4 |
| Accrued interest payable | 64.4 | 64.8 | 64.8 |
| Income Tax | 268.4 | 1,338.3 | 1,576.5 |
| Loans payable (current portion) | - | 28.9 | 3,348.7 |
| Total Current Liabilities | ₱ 341.2 | ₱ 1,454.0 | ₱ 6,107.4 |
| Long-term Debts Due to AID | ₱27,500.0 | ₱27,500.0 | ₱27,500.0 |
| Loans payable | - | 4,637.1 | 22,622.3 |
| Total Long-Term Debts | ₱27,500.0 | ₱32,137.1 | ₱50,122.3 |
| Stockholders' Equity | | | |
| Paid-in Capital | ₱17,571.6 | ₱25,000.0 | ₱25,000.0 |
| Retained Earnings: | | | |
| Appropriated to Reserves | ₱ 525.3 | ₱ 2,938.4 | ₱ 4,079.8 |
| Unappropriated | 225.1 | 1,259.4 | 1,579.8 |
| Total Stockholders' Equity | ₱18,322.1 | ₱29,197.8 | ₱30,659.6 |
| TOTAL LIABILITIES & STOCKHOLDERS' EQUITY | ₱46,163.3 | ₱62,788.9 | ₱86,889.3 |

IFC/DFC

April 20, 1966

# PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES

## Audited Comparative Statement of Income and Expenses

| | August 1 to Dec. 31, 1963 | Jan. 1 to Dec. 31, 1964 | Jan. 1 to Dec. 31, 1965 |
|---|---|---|---|
| REVENUE | | | |
| Interest Income | | | |
| Government Bonds | ₱ 135,090 | ₱ 405,952 | ₱ 352,973 |
| Other bonds and securities | 114,568 | 253,704 | 156,279 |
| Loans, notes and acceptances | 1,082,166 | 4,114,261 | 6,185,234 |
| Saving accounts and others | 3,727 | 59,105 | 34,062 |
| Commissions | 15,625 | 1,238,038 | 1,187,454 |
| Other Income | - | 53,142 | 2,483 |
| TOTAL | ₱1,351,176 | ₱6,124,202 | ₱7,918,485 |
| OPERATING EXPENSES | | | |
| Salaries, wages and bonuses | ₱ 142,310 | ₱ 533,217 | ₱ 536,265 |
| Taxes and licenses | 1,395 | 63,571 | 4,108 |
| Rent, light and water | 21,248 | 54,912 | 81,389 |
| Directors' per diems | - | 52,600 | 31,200 |
| Consultants' fees and expenses | - | 46,976 | - |
| Professional fees | 8,266 | 45,078 | 37,601 |
| Transportation and travelling | 10,187 | 41,268 | 114,039 |
| Depreciation | 15,969 | 38,704 | 48,867 |
| Representation and entertainment | 4,543 | 27,613 | 40,349 |
| Stationery and supplies | 9,802 | 18,964 | 30,957 |
| Repairs and maintenance | 3,126 | 12,252 | 16,030 |
| Postage, telephone and telegram | 3,507 | 11,895 | 19,967 |
| Advertising and publicity | 637 | 9,104 | 60,208 |
| Employees' Welfare | 831 | 7,155 | 8,416 |
| Social Security contributions | 1,368 | 4,400 | 6,510 |
| Dues and subscriptions | 998 | 4,213 | 3,289 |
| Insurance | 337 | 2,280 | 2,471 |
| Miscellaneous | 1,486 | 6,330 | 11,112 |
| TOTAL | ₱ 226,010 | ₱ 980,532 | ₱1,052,778 |
| OPERATING INCOME BEFORE INTEREST AND OTHER EXPENSES | ₱1,125,166 | ₱5,143,670 | ₱6,865,707 |
| Less: Interest and other expenses | | | |
| Interest and bank charges | ₱ 64,418 | ₱ 227,057 | ₱1,218,148 |
| Amortization of organization and pre-operating expenses | 41,833 | 119,122 | 107,448 |
| Commission expenses | - | 11,938 | 1,786 |
| TOTAL | ₱ 106,251 | ₱ 358,117 | ₱1,327,382 |
| NET INCOME BEFORE TAXES | ₱1,018,915 | ₱4,785,553 | ₱5,538,325 |
| LESS: PROVISION FOR INCOME TAX | 268,430 | 1,338,280 | 1,576,503 |
| NET INCOME FOR THE PERIOD | ₱ 750,485 | ₱3,447,273 | ₱3,961,822 |

IFC/DFC
April 20, 1966

PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES

Forecast of Peso Currency Commitments and Sources of Funds
(in thousand pesos)

| | 1965 Actual | 1966 1st Half | 1966 2nd Half | 1967 1st Half | 1967 2nd Half |
|---|---|---|---|---|---|
| Funds available for peso commitments at beginning of period | 43,584 | 26,413 | 20,926 | 7,661 | 5,211 |
| Add: New funds received during period | | | | | |
| Repayments | 474 | 593 | 889 | 1,094 | 1,641 |
| Increase in retained earnings | 1,462 | 1,533 | 1,533 | 2,019 | 2,019 |
| Non-cash expenses | 156 | 87 | 88 | 87 | 88 |
| Sale of securities (gross)[a] | 1,728 | 3,700 | 2,825 | 4,600 | 4,100 |
| Additional borrowing/credit line | - | - | - | 6,000 | 11,000 |
| Total new funds | 3,820 | 5,913 | 5,335 | 13,800 | 18,848 |
| Total available for commitments | 47,404 | 32,326 | 26,261 | 21,461 | 24,059 |
| Less: Expected commitments during the period | | | | | |
| Peso projects loans | 18,340 | 4,800 | 12,000 | 7,550 | 9,950 |
| Equity investments and securities of PDCP clients | 1,330 | 3,600 | 3,600 | 3,700 | 3,800 |
| Underwriting commitments | 1,321 | 3,000 | 3,000 | 5,000 | 3,500 |
| Total commitments | 20,991 | 11,400 | 18,600 | 16,250 | 17,250 |
| Funds available for commitments at end of period | 26,413 | 20,926 | 7,661 | 5,211 | 6,809 |

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a/ Including sale of new underwritten issues.

IFC/DFC

May 17, 1966

PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES

Forecast of Foreign Currency Commitments and Disbursements
(in thousand U.S. dollars)

| | Amount During Period | | Cumulative at End of Period | |
|---|---|---|---|---|
| | Commitments | Disbursements | Commitments | Disbursement |
| December 31, 1964 | | | $ 4,160 | $ 1,252 |
| 1965 | | | | |
| First Half (Actual) | 3,058 | 3,682 | 7,218 | 4,934 |
| Second Half (Actual) | 6,532 | 1,886 | 13,750 | 6,820 |
| 1966 | | | | |
| First Half | 4,200 | 5,700 | 17,950 | 12,520 |
| Second Half | 7,800 | 7,170 | 25,750 | 19,690 |
| 1967 | | | | |
| First Half | 5,500 | 6,735 | 31,250 | 26,425 |
| Second Half | 6,500 | 6,230 | 37,750 | 32,655 |

NOTE: These forecasts were prepared when PDCP expected to obtain a second Bank loan in the first half of 1966. The delay in obtaining necessary legislation has caused some postponement of new operations.

IFC/DFC

August 30, 1966

# PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES

## Projected Balance Sheet
(in thousand pesos)

| ASSETS | 1966 | 1967 |
|---|---|---|
| Current Assets: | | |
| Cash and marketable securities | ₱ 1,050 | ₱ 1,100 |
| Notes and Acceptances | 13,000 | 5,549 |
| Interest receivable | 306 | 201 |
| Others | 236 | 225 |
| Total Current Assets | ₱ 14,592 | ₱ 7,075 |
| Loans Receivable (Net of Reserve for Uncollectable Accounts) | ₱117,684 | ₱184,324 |
| Equities | 3,050 | 6,075 |
| Long-term securities | 5,475 | 11,150 |
| Property and equipment (net of depreciation) | 215 | 157 |
| Other Assets | 167 | 54 |
| TOTAL ASSETS | ₱141,183 | ₱208,835 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Income tax payable | ₱ 2,365 | ₱ 2,782 |
| Withholding tax payable | 175 | 184 |
| Accrued interest payable | 65 | 65 |
| Dividends payable | 625 | 625 |
| Total Current Liabilities | ₱ 3,230 | ₱ 3,656 |
| Long-term Debt | | |
| AID | ₱ 27,500 | ₱ 27,500 |
| IBRD/IFC | 76,358 | 122,545 |
| Other peso borrowings | - | 17,000 |
| Total Long-term Debt | ₱103,858 | ₱167,045 |
| TOTAL LIABILITIES | ₱107,088 | ₱170,701 |
| Stockholders' Equity | | |
| Paid-in capital | ₱ 25,000 | ₱ 25,000 |
| Retained earnings: | | |
| Appropriated to reserve | 5,758 | 7,719 |
| Unappropriated | 3,337 | 5,415 |
| Total Stockholders' Equity | ₱ 34,095 | ₱ 38,134 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | ₱141,183 | ₱208,835 |

IFC/DFC
April 20, 1966

# PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES

## Projected Statement of Income and Expenses
(In thousand pesos)

| | 1966 | 1967 |
|---|---|---|
| Interest Income | | |
| Project loans | ₱ 7,538 | ₱13,386 |
| Short-term placements | 3,090 | 1,684 |
| Government bonds | 20 | 20 |
| Others | 12 | 39 |
| Commissions Earned | | |
| Project loans | 1,416 | 1,436 |
| Short-term placements | | |
| Underwriting ventures | | |
| Service Charges | | |
| Project Loans | 354 | 359 |
| Guarantee Fees | 75 | 117 |
| Income from equities & long-term securities | 518 | 1,114 |
| Income from investment advisory activities | 14 | 46 |
| Total income | ₱13,779 | ₱19,040 |
| Operating Expenses | 1,450 | 1,542 |
| Interest and other expenses (including charges for bad debt) | 4,396 | 8,177 |
| Net income before taxes | ₱ 7,933 | ₱ 9,321 |
| Provision for income taxes | 2,366 | 2,782 |
| Net income for the period | ₱ 5,567 | ₱ 6,539 |
| Net income/total income | 40.3% | 34.3% |
| Net income/share capital | 22.2% | 26.1% |
| Net income/net worth | 16.3% | 17.1% |
| Operating expenses/portfolio | 1.1% | 0.7% |

IFC/DFC

May 13, 1966

PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES

Projected Cash Flow
(in thousand pesos)

| | 1966 | 1967 |
|---|---|---|
| Cash Balance, beginning | ₱ 935 | ₱ 900 |
| Estimated Receipts: | | |
| Net profit before interest and other expenses | 12,329 | 17,498 |
| Depreciation | 66 | 66 |
| Provision for uncollectible accounts | 591 | 345 |
| Sales of securities from portfolio | 2,025 | 2,325 |
| Amortization of pre-operating expenses | 109 | 109 |
| New peso borrowings | --- | 17,000 |
| Withdrawals from IBRD loans | 50,190 | 50,564 |
| Repayments: | | |
| Peso currency | 1,654 | 2,746 |
| Foreign currency | 2,561 | 4,375 |
| Decrease in short-term placements | 27,321 | 24,839 |
| TOTAL RECEIPTS | ₱96,846 | ₱119,867 |
| TOTAL CASH AVAILABLE | ₱97,781 | ₱120,767 |
| Estimated Disbursements: | | |
| Repayment on IBRD Loan | ₱ 2,561 | ₱ 4,375 |
| Cash dividends | 2,875 | 2,500 |
| Interest and other expenses | 3,696 | 7,723 |
| Income tax | 1,486 | 2,366 |
| Increase in property and equipment | 63 | 7 |
| Increase in investment in equities, and long-term securities | 8,700 | 9,625 |
| Income tax withheld from dividends of foreign stockholders | 110 | 175 |
| Increase in short-term placement | --- | 17,000 |
| Peso loan disbursement | 27,200 | 25,532 |
| Foreign currency loan disbursement | 50,190 | 50,564 |
| TOTAL DISBURSEMENTS | ₱96,881 | ₱119,867 |
| Cash Balance, ending | ₱ 900 | ₱ 900 |

IFC/DFC

May 13, 1966

ANNEX 17

# PRIVATE DEVELOPMENT CORPORATION OF THE PHILIPPINES

## Assumptions Used in the Forecasts

### Resources

(1) It is assumed that a second IBRD loan of US$25.0 million will become available during 1966.

(2) Peso borrowing of ₱17.0 million will be undertaken during 1967.

(3) No increase in paid-in capital is projected.

### Operations

(1) New commitments in 1966 will be undertaken at a rate 23% higher than in 1965. New commitments in 1967 will be at the same rate as in 1966.

(2) About two-thirds of total commitments will be in foreign currency and one-third will be in local currency.

(3) In 1966 and 1967 10% of new peso commitments will be in the form of equity investments.

(4) The average maturity on project loans will be 8 years.

### Income

(1) Average income on project loans will be 8-3/4% and semi-annual service charge will be 1/4 of 1%.

(2) Guarantee fees will be 1-1/4% per annum on the outstanding obligations guaranteed.

(3) One-half of equity investments will yield 8% per annum. No income is assumed on the other half.

(4) Dividends of 10% per annum will be paid on the capital stock in 1966 and 1967.

(5) 30% of annual net income will be appropriated to general reserves.

IFC/DFC

August 31, 1966