

RISK MANAGEMENT

The risks faced by the National Development Company (NDC) as the investment arm of the government cover a wide range of categories: strategic, financial and operational risks.

Strategic risks	Financial risks	Operational risks
<ul style="list-style-type: none">• Funding and Liquidity• Political• Industry	<ul style="list-style-type: none">• Investment• Market	<ul style="list-style-type: none">• People• Process• Systems• Legal and Regulatory

These risks may become more pronounced in challenging economic and social development contexts.

Risk taking is part and parcel of NDC's business as an investor.

The NDC Management determines the objectives and overall direction of its risk management framework and functions which are approved by its Board of Directors.

NDC's culture of balanced risk taking is reinforced by "public trust" philosophy which puts the agency above the individual, emphasizes long term over short term, and fosters the spirit of co-ownership by aligning its publics and employees' interests.

Risks are factored into in its daily operations' decision-making under the supervision of its Management Committee. NDC formulated its Investment Criteria and Guidelines (Annex A) to enhance its capabilities and processes and increase its responsiveness towards maximizing income opportunities which addresses the continued concerns of making NDC, as a government owned and controlled corporation a significant tool for the country's economic and social development.

NDC also created the Remedial Management Group (RMG) (Annex B) whose mandate is to focus solely on the disposition, strategy formulation and implementation of its non-performing / delinquent accounts.

RISK MANAGEMENT

Financial and operational risks, faced by the agency as a whole, are managed at the agency level.

Risks for investments include those risks arising from change in policies affecting industries and markets, valuation & price, laws & regulations, tax, funding and key management.

All Account Officers (AOs) are designated risk owners responsible for managing these risks at specific investment or project level.

NDC's approval authority delegation, company policies and standard operating procedures drive end-to-end process controls. These established practices, including risk reporting requirements to the Management have been proven and tested.

New Investments

NDC's new investments are in accordance with its formulated investment criteria and guidelines. To further safeguard NDC's interest, the following are a must and incorporated in all forms of agreement NDC enters into:

1. Representation in the management of the investee company;
2. Exit mechanism for NDC's investments; and
3. Compliance with government approvals and procedures.

Current Investments

NDC implemented the Strategic Business Dashboard. One of the functions of the dashboard is to provide Management real-time data / information of its current investments. With this, the Management is able to resolve issues / concerns at the best time possible relative to its investments. The dashboard also provides the AO's notifications of various provisions in the agreements that need to be complied.

Non Performing / Delinquent Accounts

The operational guidelines of RMG serve as the basis for handling of the business portfolio of non-performing / delinquent accounts, either as work-out, litigation or liquidation situation.

Investment Payback Analysis

The method of Payback Analysis determines the length of time to recover the cost of an investment. This is applied for Non- Performing Loans (NPLs) / Non-Performing Investments (NPIs) under workout situations to maximize benefits to NDC given the following options: loan restructuring, part dacion/part restructuring, asset exchange/offset or conversion of loan to equity (common or preferred).

Real and Other Properties Owned or Acquired (ROPOA)

The disposition of ROPOA is a priority policy initiative of NDC for NPIs/NPLs that were formerly under liquidation situations.

LEGAL AND REGULATIONS

The Legal Department provides the core functions of transactional and advisory support, and regulatory and internal compliance. Acceptable legal risk parameters are defined and institutionalized by the legal risk management framework and supported by policies, processes and systems to provide effective and consistent management of legal risks.

For example, the NDC Manual of Approvals as approved by its Board defines the authority of various Officers to enter into transactions or agreements within a defined scopes and limits on behalf of the agency.

Regulatory compliance is effected through an online-database among the various workgroups.

Regulatory requirements are continually reviewed and updated to track changes in law and regulations.

The Corporate Governance (CG) Manual provides the framework to guide its Board of Directors, Officers and Staff in their daily dealings. The CG is aligned with its corporate values, with INTEGRITY AND FINANCIAL PRUDENCE as two (2) of its overarching principles Relevant policies covering areas such as accepting / offering gifts and entertainment, form an integral part of its governance and best practices policies.

INTERNAL AUDIT

The Internal Audit (IA) of the ISO Task Force reports to the Management. IA conducts semestral reviews of its key control processes for all workgroups and undertakes special reviews requested by the Board and Management, The main objective is to ensure internal controls are well designed and effective across workgroups, and that control awareness and compliance are high among its Staff.

IA is consulted on internal control matters prior to the implementation of major new systems or operating process changes, so that control recommendations are factored into the development of new systems or design of new processes.

Prepared by:



COLETTE H. CORDIAL
Corporate Executive Officer II

Noted by:



MA. LOURDES F. REBUENA
General Manager

ANNEX A

**NATIONAL DEVELOPMENT
COMPANY
INVESTMENT GUIDELINES
AND CRITERIA**

1) Overview

The purpose of formulating the NDC Investment Guidelines and Criteria is to set the principles, standards and procedures that the National Development Company (NDC) will adhere to in pursuing its mandate of investments and project financing to enable the company to achieve its vision for strategic and sustainable national development.

2) NDC Vision and Mission Statements

The Investment Guidelines and Criteria are anchored on the revitalized NDC Vision and Mission Statements as follows:

➤ Vision

By 2019, the preferred government investment arm serving as an effective catalyst for inclusive growth.

➤ Mission

NDC invests in strategic areas where supply chain gaps exist.

NDC manages a financially sustainable investment portfolio responsive to public interest and priorities.

NDC undertakes joint venture arrangements to promote and enhance the competitiveness in the industry and agriculture sectors.

3) Investment Guidelines

These consist of general guidelines which would be the basis for project consideration.

1. Basic Guidelines

	Pass
a. Consistent with the priority goals and objectives of the Philippine Development Plan (PDP)	
b. Consistent with the Investment Priorities Plan (IPP)	
c. Lead to the creation of quality, sustainable jobs	
d. Encourage public-private partnership	
e. Seek to strategically focus government initiatives by coordinating and combining resources of communities	
f. Be financially sound with demonstrated long term viability	

2. Project Selection Criteria

a. Eligible Partners/Beneficiaries*

- Privately owned entities
- GOCCs
- Local Government Units (LGUs)
- Cooperatives, NGOs

** This would preferably involve a collaborative partnership between the private and public sectors.*

** Must have juridical personality and power to accept equity infusion and/or to borrow.*

b. NDC Participation

- Equity
- Loan
- Equity and Loan
- Bridge Financing

c. Type of Organization

- Incorporated JVs
- Unincorporated JVs
- Existing Corporations

d. Size of Project/Project Cost

- Private Sector proposed projects should have Project Cost of at least P100 Million
- NDC's internal projects could have Project Cost of less than P100 Million

e. Type of Project/Sector/Industry

	Rank in priority
• Agri-Agra	1
• Environment	2
• Energy	3
• Tourism	4
• Infrastructure	4
• Others	5

f. NDC Equity Participation

- Minority
- Majority
- 100% ownership

g. Funding (Equity/Loan) Coverage

- Equity infusion per project if minority
 - Up to 34% of total equity but shall not be more than P250 Million
- Equity infusion per project if majority
 - Up to 60% of total equity but shall not be more than P500 Million
- Loan Financing per project
 - Up to P1 Billion
- Both equity and loan
 - Equity
 - Loan

h. Financial Returns and Economic Consideration

- $NPV \geq 1$
- $IRR \geq 15\%$
- $EIRR \geq 15\%$
- Based on industry practice

i. Exit Mechanism for Investments

- There should be a clear exit mechanism

j. Management Participation

- Seat in the Executive Committee

k. Project Readiness

- Should have a feasibility study subject to validation by NDC
- Must be ready for implementation in terms of project concept, structure, proponents, technology design, securing necessary approvals
- No legal, rules and regulations issues
- All preparations should be ready for NDC's conduct of financial, legal and technical due diligence

I. Proponents must have

- Financial capability to provide capital and security
- Proven capability to provide value-added to the project
- Strong commitment to the project
- Experienced management team with skills and competence
- Adherence to good corporate governance
 - Clear ownership and roles of Board of Directors
 - Transparent and audited management reports
 - Good financial systems and support

m. Environmental Impact

- Should have environmental control to preserve clean environment
- Environmental Assessment
- Environmental Compliance Certificate (ECC)

4) **Investment Assessment Worksheet**

1. General Criteria*

Criteria	Rating					Remarks
	10	20	30	40	50	
High Impact						
Employment Impact						
Sector/Industry						
Proponents/Partners						
Partners Capability						
Ownership Structure						
Project Preparation						
Financing						
NDC Participation						
Financial Returns						
Risk Assessment						
Exit Mechanism						
Environmental Impact						
Application of Technology						
Regional Importance						

**The project should have a passing mark of 70% of the maximum points attainable.*

2. Criteria: High Impact

Criteria	Rating					Remarks
	10	20	30	40	50	
Pioneering and Developmental						
Lead to creation of direct employment						
Forex Savings/Import Substitution						
Forex Generation/Exports						
Nationwide Impact						
Address gaps						
Innovation						

3. Criteria: High Impact-Employment

Criteria	Rating					Remarks
	10	20	30	40	50	
New employment						
Use of local labor						
Professional development						

4. Criteria: Type of Project/Sector/Industry

Priority	Rating					Remarks
	10	20	30	40	50	
(1) Agri-Agra						
(2) Environment						
(3) Energy						
(4) Tourism						
(5) Infrastructure						
(6) Others						

5. Eligible Partners

Criteria	Rating					Remarks
	10	20	30	40	50	
Private Companies <ul style="list-style-type: none"> • Listed • Non-listed 						
GOCCs						
LGUs						
Cooperatives, NGOs						
Others						

6. Eligible Partners-Capability

Criteria	Rating					Remarks
	10	20	30	40	50	
Track record						
Professionalism level on relevant field						
Experience on relevant field						
Management skills						
Reliability						

7. Ownership Structure

Criteria	Rating					Remarks
	10	20	30	40	50	
Majority Private						
Minority Private						
Majority GOCCs						
Majority LGUs						

8. Project Preparation Readiness

Criteria	Rating					Remarks
	10	20	30	40	50	
Comprehensiveness of the feasibility study						
Realistic financial projections						
Reliability of technical specs						
Compliance with regulatory requirements						

9. Financing (Debt to Equity Ratio)

Criteria	Rating					Remarks
	10	20	30	40	50	
Debt to equity ratio = 60:40						

10. NDC's participation

Criteria	Rating					Remarks
	10	20	30	40	50	
Loan <ul style="list-style-type: none"> • Less than 50% of total debt • Less than 1/3 of total debt 						
Equity-common						
Preferred shares with features of convertibility, dividend, redemption, voting						
Combination of loan and equity						

11. Financial Returns

Criteria	Hurdle Rate	Rating					Remarks
		10	20	30	40	50	
IRR	≥15%						
EIRR	≥15%						
NPV	≥1						

12. Risk Assessment

Criteria	Rating					Remarks
	10	20	30	40	50	
Prone to political, legal risk						
Low Risk						

13. Exit Mechanism/Period

Criteria	Rating					Remarks
	10	20	30	40	50	
Less than 5 years						
5 to less than 7 years						
7 to less than 10 years						
10 years and above						

14. Environmental Impact

Criteria	Rating					Remarks
	10	20	30	40	50	
Impact on environment						
Environmental protection arrangements						
Impact on social-cultural improvement						
Technical safety arrangements						

ANNEX B

REMEDIAL MANAGEMENT GROUP

I. MANDATE

Focus solely on disposition / strategy formulation / implementation on the non-performing / delinquent accounts (

II. PROCESS

1. NDC Management identifies existing non-performing investments (NPIs) and non-performing liabilities (NPLs)
2. Once the account has been classified as NPL/NPI, it is turned over to RMG
3. RMG formulates policy to distinguish between temporary and permanent impairment of NPLs / NPIs.

III. FUNCTIONS OF THE RMG

1. Continuing specific attention will be provided to NPLs/NPIs specifically on:
 - a. Deficiencies (legal, documentation, collateral, etc)
 - b. Unresolved issues/credit problems of specific accounts
 - c. Action plan for the NDC exposure in the account.
2. An evaluation report is prepared on each account in its portfolio
 - a. The purpose of the report is to document a clear strategy to resolve the identified issues/problems.
 - b. The report is result oriented and contains actions taken with results compared with previous targets particularly as circumstance change and new targets are established.
3. The key output is in the continuing pro-active measures to implement the action plan for the NDC exposure in the specific account by which the oversight function is with the Management Committee

IV. ACTION PLAN

1. Using said policy, establish operational guidelines for segregation of accounts into current or NPLs / NPIs, henceforth to serve as a basis for handling of the portfolio (either as workout, litigation or liquidation situation), and invest in manpower training on remedial management.

2. For work-out situations
 - a. Apply investment payback analysis to maximize benefits to NDC given the following options: loan restructuring, part dacion/part restructuring, other modes such as asset exchange/offset or conversion of loan to equity (preferred or common) etc.
3. For litigation situations
 - a. Beef-up litigation efforts through external legal firms/lawyers that can undertake litigation for NDC either as retained or outsourced consistent with Commission of Audit rules and regulations.
4. For liquidation situations (once the NPIs/NPLs become ROPOAs)
 - a. Improve its current marketing efforts such as creation of sales team and/or collaborate with external groups who specializes in the selling of certain kinds of properties
 - b. Make the disposition of NPLs/NPIs a priority policy initiative by creating a Mancom-level committee to oversee action on the agency's NPLs/NPIs.