

## 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"><li>• Funding and Liquidity</li><li>• Political</li><li>• Industry</li></ul>	<ul style="list-style-type: none"><li>• Investment</li><li>• Market</li></ul>	<ul style="list-style-type: none"><li>• People</li><li>• Process</li><li>• Systems</li><li>• Legal and Regulatory</li></ul>

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) 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.

## Other Risks

In compliance with the ISO 9001:2015 standard clauses, the corporate risk registers and the various workgroups' risk registers were formulated. The risk registers identified the various risks' source, type, cause and effect, likelihood and severity, treatment, existing control and action plans.

## **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.

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## **ANNEX A**

# **NATIONAL DEVELOPMENT COMPANY INVESTMENT GUIDELINES AND CRITERIA**

## I. 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 mission of enabling industry development, spurring local economies.

NDC on its own or in joint venture with the private sector undertake projects.

## II. NDC Vision and Mission Statements

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

### ➤ Vision

*NDC is the Philippine's leading state-owned enterprise investing in diverse industries, serving as an effective catalyst for inclusive growth.*

### ➤ Mission

*Enabling industry development, spurring local economies.*

## III. Investment Guidelines

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

### A. Basic Guidelines

	Pass
1. Consistent with: a. Ambisyon 2040 b. Philippine Development Plan's (PDP) priority goals and objectives anchored in Ambisyon 2040 c. Investment Priorities Plan (IPP) of the Board of Investments (BOI)	
2. Encourage public-private partnership (PPP)	
3. Seek to strategically focus government initiatives by coordinating and combining resources of communities	
4. Be financially sound with demonstrated long term viability	

### B. Qualified Projects

1. Addressing supply chain gaps
  - Projects that would fill-in gaps in the downstream/upstream requirements of value adding industries.

## 2. Enabler/Catalytic

- Projects that would spur development through industrial estate and infrastructure development, including shared services, among others.
- Project that would provide the foundation for others to build-up new industries/develop new projects

## 3. Pioneering

- Project that has not been done before, or those involving new methods or techniques with large scale application and potential to open development for new markets.

## 4. Socially relevant and financially viable projects mandated by government

### C. Investment Selection Criteria

#### 1. Eligible Partners

- a. Privately owned entities (local and foreign)
- b. GOCCs
- c. Local Government Units (LGUs)
- d. Cooperatives and social entrepreneurs with juridical personality

#### 2. NDC Participation

- a. Equity
- b. Loan
- c. Equity and Loan
- d. Bridge Financing

#### 3. Investment Vehicle

- a. Incorporated Joint Ventures/New Company
- b. Unincorporated Joint Ventures
- c. Existing Corporations

#### 4. Size of Project/Project Cost

- a. Total Project Cost of at least P100 Million for Private Sector proposed projects
- b. Total Project Cost of at least P50 Million for Joint Ventures with government partners or NDC's internal projects

#### 5. Priority Sectors based on Ambisyon 2040

- a. Projects that would spur countryside and agricultural developments such as renewable energy, food exchange complexes
- b. Manufacturing enterprises with agricultural component such as food processing, palm oil processing

- c. Projects that would promote connectivity such as road, port, transport
- d. Tourism Related Service which could form part of food complex
- e. Logistics such as bagsakan, cold storages, warehouses

6. NDC Equity Participation

- a. Minority from 34% to 49% ownership (to attain veto power)
- b. Simple Minority of less than 34%
- c. Majority of at least 51% but less than 100%
- d. 100% ownership

7. Investment Structure

- a. Joint Venture
- b. Investor in an already existing company
- c. Bridge Financing
- d. Public Private Partnership

8. Funding (Equity/Loan) Coverage

- a. Equity infusion per project, if minority
  - Shall not be more than P250 Million
  - Shall not be more than P350 Million
- b. Equity investment using NDC properties as contribution
- c. Loan Financing per project
  - Not to exceed 70% of total debt requirement but up to P1 Billion
- d. Both equity and loan

9. Fund Sourcing

- a. Internal funds
- b. Bond Flotation
- c. Bank loans

10. Financial Returns and Economic Consideration

- a. NPV  $\geq 1$
- b. IRR based on NEDA guidelines
- c. EIRR based on NEDA guidelines
- d. Based on industry

11. Exit Mechanism for Investments

- There should be a provision for NDC's exit in the project which should be stated in the agreement among the parties, or for incorporated ventures, in the by-laws.

12. Project Readiness

- a. Should have a feasibility study subject to validation by NDC

- b. Must be ready for implementation in terms of project concept, structure, proponents, technology design, securing necessary approvals
- c. No legal impediments

13. Proponents must have

- a. Financial capability to provide capital and security
- b. Proven capability to provide value to the project
- c. Strong commitment to the project
- d. Experienced management team with skills and competence
- e. Adherence to corporate governance
  - Clear ownership and roles of Board of Directors
  - Transparent and audited management reports
  - Good financial systems and support
- f. Track record in terms of experience in related projects

The guidelines remain in effect until amended.



## **LIST OF DOCUMENTS TO BE COMPLETED**

1. Feasibility Study
2. Audited/Latest Financial Statements for the last 3 years of the proponent and its shareholders, if applicable;
3. Concession or other applicable Agreement with the Government;
4. Updated Project Information Memorandum of the Project;
5. ICC Recommendation of the Project, if applicable
6. NEDA Board Approval of the Project, if applicable
7. Certification from NEDA of project's inclusion in the MTPIP/CIIP, if applicable
8. Articles of Incorporation and By-Laws;
9. Current Shareholders and corresponding shareholdings of project proponent;
10. Information on the following:
  - a. Source of repayment of the loan;
  - b. Proposed terms of loan;
  - c. Security of the loan;
  - d. Specific utilization of the proceeds of the proposed loan.

## ANNEX A:

### STANDARD FORMAT OF PROJECT PROPOSALS

1. Executive Summary
2. Industry/Market Analysis.
  - a. Regulatory Framework
  - b. Analysis of the sector
  - c. Demand: market segments, size, growth, projections
  - d. Supply: key players, competitors, market positions, differentials, prices, quality of products/services
  - e. Potential changes in the sector (regulation, competition)
  - f. Potential changes in the market (growing unemployment, demographics)
3. Project Proponent Organizational Structure
  - a. History
  - b. Shareholders
  - c. Organizational chart
  - d. Management team
  - e. Legal Structure
  - f. Licenses, permits, accreditation and trade registrations
  - g. Track record in terms of experience in related projects
4. Financial Performance
  - a. Revenues, main products/services groups
  - b. Variable cost structure, main elements
  - c. Fixed cost structure, main elements
  - d. Capital structure and cost
  - e. Audited financial statements past three (3) years
  - f. Foreign exchange risk/exposure
5. Strategic Plan
  - a. Strategy and Goals
  - b. Institutional Weaknesses/Strengths
6. The Project
  - a. Description and objectives of the project
  - b. Strategic fit of the project
    - b.1 Detailed discussion of all project impacts and potential Impacts of significance
  - c. Size and Type of NDC support required
  - d. Timetable for project implementation
7. Project Cost, Financing and Return
  - a. Ten-year financial projections, profit and loss statement, balance sheet, cash flow statement
  - b. Internal rate of return
  - c. Estimate of total project cost with breakdowns
  - d. Proposed financial structure of venture, indicating expected sources and terms of equity and debt financing
8. Risk and Issues
  - a. Opportunities and Threat
  - b. Projects Strength and Weaknesses