



05 October 2018

MR. RAMON M. LOPEZ

DTI Secretary and Chairperson

MS. MA. LOURDES F. REBUENO

General Manager (GM)

NATIONAL DEVELOPMENT COMPANY (NDC)

NDC Building, 116 Tordesillas Street, Salcedo Village
Makati City

**RE: APPEAL FOR RECONSIDERATION ON THE
VALIDATION RESULT OF 2016 PERFORMANCE
SCORECARD OF NDC**

Dear DTI Secretary Lopez and GM Rebueno,

This refers to the letter of NDC dated 31 May 2018¹, requesting for reconsideration on three (3) Strategic Measures (SMs) under the GCG-validated 2016 Performance Scorecard². The SMs requested for reconsideration and its corresponding weight are as follows:

1. *SM1: Increase Investment in Priority Areas, such as Power and Logistics per Annum (15%);*
2. *SM2: Cumulative Total Value of Projects Preferably in Priority Areas (15%); and,*
3. *SM9: Average TAT for JV or Partnership Agreements for Signing after Approval of the NDC Board (10%).*

Under the validated 2016 Performance Scorecard, NDC garnered a final score of **62.78%**. To address its appeal on the three (3) identified SMs, the justifications of NDC will be discussed in the paragraphs hereunder.

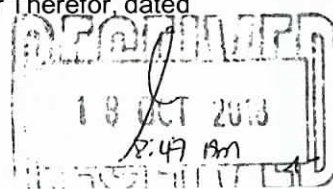
ON SM1: *Increase Investment in Priority Areas, such as Power and Logistics per Annum*

By virtue of Presidential Decree No. 1648³, NDC is mandated to pursue commercial, industrial, agricultural or mining ventures in order to give the necessary impetus to national economic development by equity investment, project financing, and fund sourcing. In line with this, NDC identifies priority areas which needs support from the government. For 2016, NDC identified that the priority areas were power/energy and logistics. In line with this, the strategic investments for 2016 include the 3.0 MW Mini-Hydropower in Dumaguete City and the Daram Aqua-culture Project

¹ Officially received by the Governance Commission on 01 June 2018.

² Letter of the Governance Commission to NDC dated 17 January 2018.

³ Reorganizing the National Development Company and Establishing a Revised Charter Therefor, dated 25 October 1979.



with the Philippine Business for Social Progress. However, based on the submission of the supporting documents of NDC, in a Board of Directors meeting on 06 January 2017, the Board decided to approve only the Daram Aqua-culture Project. Validation of the submitted supporting documents showed that the Daram Aqua-culture Project was not considered as an investment project as the Secretary's Certificate approving the said project stated that it is a corporate social responsibility initiative. As such, no merit was given for this measure.

NDC, in its appeal, acknowledges that the Daram Aqua-Culture Project is classified under its Corporate Social Responsibility (CSR) investments. However, NDC also mentioned that its CSR initiatives are not the usual "philanthropic" activity because it adopts the strategy of Sustainable Value Creation (SVC), which is a core business strategy that generates measurable profit and community benefit. The financial due diligence conducted revealed that the said project is financially attractive. Furthermore, NDC argued that any activity which yields measurable profits, no matter how minimal, is a form of investments. Moreover, per mandate of NDC, any undertaking requiring funds for any form of development is a form of investment. The strategy and business model of NDC CSR is part of the directives issued by the NDC Chairperson in 2016.

As provided in the project brief, NDC will finance the construction of warehouse facilities and ice cold storage equipment amounting to ₱2.2 Million. The said facilities will be leased out under a lease-to-own arrangement with its project partners. Based on our evaluation, we find that this project is well within the area of logistics which was identified by NDC as its priority sector in 2016. Further, the Governance Commission acknowledges that the mandate of NDC as an investment arm of the National Government also involves financing development-oriented projects that generate measurable profit which at the same time foster social benefits. We find this consistent with the policy of the National Government on the potential of GOCCs as significant tools for economic development while maintaining fiscal viability. Given that this is the only investment project approved by the Board in 2016, this satisfies the target to invest at least 75% in priority areas. In view of this, the Governance Commission hereby **INCREASES** the rating of this measure from 0% to 15.00%.

ON SM2: Cumulative Total Value of Projects Preferably in Priority Areas

This measure presents the actual value of projects endorsed to the Board of Directors of NDC. However, the endorsement to the Board does not necessarily guarantee that the project will be approved. Thus, the cumulative value is a combination of projects approved and disapproved by the Board. Also, there is a need to emphasize that the project cost may not automatically equal to the amount NDC will invest in the project. In most of the cases, NDC does not fully fund a project. The target for 2016 was ₱4.2 Billion cumulative value of investments, of which NDC reported that in 2016 it realized an actual cumulative value of investments amounting to ₱3.37 Billion, which is ₱83 Million below the target.

In its appeal, NDC proposed to revise the corrected rating scale from "Actual Increase / Target Increase x Weight" to "**Actual Cumulative Value / Target Cumulative Value x Weight**". NDC requested that its efforts in the past, given a

change of the new administration's plans and program in the middle of the year, be considered.

To put into proper perspective, the Governance Commission would like to remind that this particular measure is a manifestation of NDC's realization of its Strategic Objective which is to Increase Value of Strategic Investment. Such realization of the objective will continue to ensure that the organization becomes financially sustainable and to monitor the increase in investments with the efforts of NDC. The relative importance of this measure is also shown as it is put on top of the Strategy Map denoting its importance as a strategy of the corporation to realize its vision and perform its mandate.

While the Governance Commission recognizes the efforts extended by NDC, both in the past and during 2016, the Performance Evaluation System as a framework to reward and recognize performance is focused mainly not only on efforts extended, but by which an organization is able to deliver its mandate through verifiable outputs and outcomes. While efforts are to be recognized, rewards are only given to extraordinary performance which resulted to generation and realization of target outputs and outcomes. Moreover, the request of NDC to modify the formula to give recognition to its efforts in the past is unacceptable, past efforts were already given due recognition in previous years' validation which may have allowed NDC to grant performance-based bonus to its officers and employees. In this regard, the request for reconsideration is **DENIED**, the 6.63% score of NDC for SM 2 is **RETAINED**.

ON STRATEGIC MEASURE 9: Average TAT for JV or Partnership Agreements for Signing after Approval of the NDC Board

NDC's primary mandate is to undertake investments that are aligned with the government's economic thrusts. One of its investment priority sector is the development and operation of renewable energy sources. The 2016 target of NDC is to partner with the PNOC-RC for a solar rooftop project in the Philippine Heart Center (PHC). The terms and conditions of the agreement were finalized by both parties in August 2016. However, since the rate of the Manila Electric Company (Meralco) decreased, the base selling price used in the financial model at the rate of ₱9.50 per kWh will also decrease, rendering the project unfeasible based on NDC's investment criteria. With this, NDC deferred its participation in the project.

In its request for reconsideration, NDC provided documentation that the project can no longer be pursued due to "*reasons beyond the control of the parties*". While circumstances presented are understandable, the grant of the 0% score was based on the representations and assumptions made by the NDC.

Based on the representations made, the viability of the project is anchored on the assumption that the selling price of PNOC-RC is ₱9.50 per kWh and that there will be an annual increase in the Meralco rate. In this assumption, the viability of the project is centered on the business model that installing a solar rooftop will be cost efficient (flat rate of ₱9.50 rate per kWh vs. existing Meralco rate and projected annual increase), thereby reducing the electricity expenses of PHC using solar energy.

However, since mid-2015, a steady decrease in the rates per kWh was shown by the reports from Meralco. Thus, even before the finalization of the terms and conditions

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of the contract with PNOC-RC on August 2016, the project was already not viable. Moreover, the business viability of the project was apparently anchored on a faulty assumption (i.e. *annual increase in Meralco rate*) considering that the electricity rate of Meralco is governed by the law of demand and supply. The lack of due diligence on the part of NDC, was the primary consideration on the grant of 0% score. In line with this, the 0% score given to the said measure is hereby **RETAINED** and the request for renegotiation is **DENIED** by the Governance Commission.

Foregoing considered, the 2016 validated weighted-average score of NDC is hereby **MODIFIED** from 62.78% to **79.44%**. However, NDC remains to have failed to achieve the required weighted-average score of at least 90% in the 2016 Performance Scorecard, therefore, disqualifying NDC to grant 2016 Performance Based Bonus to its officers and employees.

FOR YOUR INFORMATION AND GUIDANCE.

Very truly yours,


SAMUEL G. DAGPIN, JR.
Chairman


MICHAEL P. CLORIBEL
Commissioner


MARITES C. DORAL
Commissioner