



DEPARTMENT OF FINANCE  
DEPARTMENT OF BUDGET AND MANAGEMENT



Joint Memorandum Circular No. 2017 - 1  
30 June 2017

To: **ALL CONCERNED NATIONAL GOVERNMENT AGENCIES AND LOCAL GOVERNMENT UNITS**

Subject: **GUIDELINES ON THE IMPLEMENTATION, MONITORING, AND REPORTING ON THE USE OF PHP 1 BILLION ALLOCATION UNDER THE NATIONAL DISASTER RISK REDUCTION MANAGEMENT (DRRM) FUND FOR INSURANCE OF GOVERNMENT FACILITIES**

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### 1.0 Purpose and Coverage

- 1.1 This Joint Memorandum Circular (JMC) of the Department of Finance (DOF), and the Department of Budget and Management (DBM) shall serve as the guidelines contemplated under the Special Provision of National DRRM Fund Section of the Republic Act (RA) 10924, otherwise known as the 2017 General Appropriations Act (GAA). This Special Provision earmarks one billion pesos (Php 1,000,000,000) for the insurance coverage of government facilities against natural calamities. The insurance shall be with the GSIS, and implementation of said provision will be subject to this JMC.
- 1.2 For the purpose of developing the guidelines, a Technical Working Group (TWG) is hereby created. The TWG shall be composed of duly designated representatives from the DOF, DBM, GSIS, Office of Civil Defense (OCD), National Economic and Development Authority (NEDA), Department of Interior and Local Government (DILG), Commission on Audit (COA) and Bureau of the Treasury (BTr).
- 1.3 This JMC covers all Departments and/or entities that constitute the TWG, the National Government Agencies (NGAs) and Local Government Units (LGUs) that are beneficiaries of the parametric insurance policy, and all other relevant agencies involved in the effective implementation of this program.

### 2.0 Background

- 2.1 The Philippine DRRM Act of 2010 (RA 10121) was enacted mandating the adoption of a DRRM approach, and the formulation of national frameworks and national plans that aims to strengthen the capacity of the National Government, and the LGUs in coping with the socioeconomic and environmental impacts of disasters.

- 2.2 Under RA 10121, the National DRRM Framework and the National DRRM Plan were formulated to provide the overall approach to DRRM, and to set out goals and specific objectives for reducing disaster risks, respectively.
- 2.3 Given that major disasters in the past revealed significant funding gaps experienced by NGAs and LGUs in the aftermath of disaster, one approach identified is to develop appropriate risk transfer mechanisms. As defined in RA 10121, risk transfer is the process of shifting the financial consequences of particular risks from one party to another to pre-finance the rehabilitation and recovery of impacts of natural disasters.
- 2.4 The use of risk transfer instruments is embodied in Outcome 5 of the National DRRM Plan 2011-2028, which aims to ensure that communities have access to effective and applicable disaster risk financing and insurance (DRFI) and that DOF shall take the lead in making available such instrument. Thus, the DOF formulated the DRFI Strategy<sup>1</sup>. Insuring of Government assets is one key activity under the Strategy.

### 3.0 Legal Bases

This JMC is hereby promulgated based on the following legal provisions:

- 3.1 Section 6 (f) of RA 10121 which was reiterated in Section 3 (f), Rule 3 of its Implementing Rules and Regulations (IRR) mandates to "develop appropriate risk transfer mechanisms that shall guarantee social and economic protection and increase resiliency in the face of disaster."
- 3.2 RA 656 or the "Property Insurance Law of 1951" requires all NGAs and LGUs, except municipal governments below first class, to secure insurance for their properties to indemnify or compensate the government "for any damage to, or loss of, its properties due to fire earthquake, storm or other casualty."
- 3.3 Special Provision 1c of the National DRRM Fund Section of RA 10924 provides earmarked funds amounting to one billion pesos (PhP 1,000,000,000) for insurance coverage of Government facilities against natural calamities.
- 3.4 Section 6a of the General Provisions of RA 10924 states that non-tax sources such as insurance proceeds shall be deposited with the National Treasury and shall be recorded as trust receipts in accordance with Executive Order No. 338, series of 1996, as implemented by COA-DBM-DOF Joint Circular No. 1-97 dated January 2, 1997.

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<sup>1</sup>The DRFI Strategy identified three overarching goals in managing the financial effects of natural disasters: to maintain sound fiscal health necessary to support long-term rehabilitation and reconstruction needs; to develop sustainable financing mechanisms for local government units, necessary to provide immediate liquidity at the onset of a disaster; and to reduce the impact on the poorest and most vulnerable and prevent them from falling into a cycle of poverty, while also shielding the near-poor from slipping back into poverty.



- 3.5 Section 53 of the 2016 Revised IRR of RA 9184 provides that any procuring entity has the option to undertake an initiative through negotiated procurement as defined in Article XVI Section 48(e) of RA 9184 "when time is of the essence arising from natural or man-made calamities or other causes where immediate action is necessary to prevent damage to or loss of life or property, or to restore vital public services, infrastructure facilities and other public utilities."

#### 4.0 Institutional Arrangements

- 4.1 To ensure the smooth implementation and flow of funds, the TWG shall i) oversee the implementation of this JMC; ii) recommend the updating of its provisions, as necessary; iii) provide overall policy guidance and operational oversight on matters covered by their respective mandates, including but not limited to the payment of premium and use of payouts; and iv) review the progress of implementation of reconstruction of infrastructure facilities in the areas covered by this JMC for the purpose of monitoring.
- 4.2 Specifically, the roles and responsibilities of each agency are defined as follows:
- 4.2.1 The BTr shall serve as the Policyholder. In the event of a Payout, it shall facilitate release of proceeds to appropriate NGAs, and/or administer the direct transfer of proceeds to appropriate LGUs.
- 4.2.2 The COA shall audit the use of payout proceeds subject to the rules and procedures of this JMC. It shall also ensure that such audit to be undertaken by any local auditor will be in accordance with this JMC.
- 4.2.3 The DBM shall ensure the timely issuance of budget release documents for Premium payment, and release and/or transfer of Payout proceeds.
- 4.2.4 The DILG, in partnership with the Union of Local Authorities of the Philippines, shall ensure smooth coordination with the LGUs.
- 4.2.5 The DOF shall lead the TWG. It shall also ensure that the proposed Policy design is consistent with the principles under the DRFI Strategy, and the provisions of this JMC.
- 4.2.6 The GSIS shall be the Insurer. It shall design the structure of the Policy pursuant to Section 6.0 of this JMC.
- 4.2.7 The NEDA shall participate in the monitoring of the use and implementation of Payout proceeds pursuant to Section 8.0 of this JMC.

4.2.8 The OCD shall conduct rapid damage and needs assessments (RDNA) to inform the allocation of Payout proceeds. It shall also provide early recovery and post-disaster needs assessment with gender analysis vis-à-vis the LGU or agency prepared local disaster risk reduction and management plan; and will participate in the monitoring pursuant to Section 8.0 of this JMC.

## 5.0 Definition of Terms

- 5.1 "Philippines Catastrophe Risk Model" refers to the tool developed from a natural catastrophe risk assessment study of the Philippines for the purpose of informing the key initiatives under the DRFI Strategy, including but not limited to the structuring of a risk transfer mechanism.
- 5.2 "Allocation Report" refers to the document prepared by the TWG that details the allocation for each NGA, and/or each LGU when there is a Payout.
- 5.3 "Calculation Report" refers to the document that details the eligible claims against each of the set insurance covers.
- 5.4 "Covered Area" refers to the territory insured under the Parametric Insurance Contract.
- 5.5 "Disaster Event" means a Typhoon event or an Earthquake event for which a Payout is due to the Policyholder.
- 5.6 "Earthquake" means the vibration, sometimes severe, of the Earth's surface (including the ocean bottom) that follows a sudden displacement in the outer rigid shell of the Earth.
- 5.7 "Insurer" refers to the entity that, through the Parametric Insurance Contract, undertakes to provide compensation for the Emergency Losses incurred by the Policyholder in the form of a Payout.
- 5.8 "Modeled Emergency Losses" are calculated as 23% of the asset losses attributed to a Typhoon event, and 16% of the asset losses attributed to an Earthquake event. These are estimated using the Philippines Catastrophe Risk Model.
- 5.9 "Modified Disbursement System (MDS)" refers to government payment scheme described under DBM Circular Letter (CL) No. 2013-16; DBM CL No. 2013-16 A, and DBM CL No. 2013-16 B.
- 5.10 "Parametric Insurance Contract" refers to contract to be entered into by the government for the purpose of availing a risk transfer mechanism based on parameters agreed upon by the TWG. Also referred to in this JMC as "Policy".



- 5.11 "Payout" refers to the amount due to the Policyholder corresponding to the claims from an insurance cover.
- 5.12 "Policyholder" refers to the owner of the Parametric Insurance Contract.
- 5.13 "Premium" refers to the amount to be paid for the Parametric Insurance Contract.
- 5.14 "Typhoon" refers to weather phenomenon, which is accompanied by torrential rain and maximum sustained wind speeds (near the center) exceeding 119 kilometers per hour.

## **6.0 Parametric Insurance Contract**

- 6.1 The Parametric Insurance Contract shall be made and entered into between the GSIS as the Insurer and the BTr as the Policyholder.
- 6.2 The perils covered under the Policy are Typhoon and Earthquake events. The Covered Area shall be a group of provinces as identified by the TWG based on vulnerability measures to such hazards, including but not limited to maximum wind speed for Typhoon, maximum peak ground acceleration for Earthquake, and average annual loss.
- 6.3 The Policy shall provide insurance covers for the whole Covered Area, and for individual provinces in the Covered Area. A Payout is triggered based on the Modeled Emergency Losses attributed to a Disaster Event, as estimated using the Philippines Catastrophe Risk Model.
- 6.4 Any Payout from the insurance cover for the whole Covered Area shall be released from the BTr to relevant NGAs through the MDS framework. On the other hand, any Payout from any of the insurance covers for individual provinces shall be transferred from the BTr to the relevant LGU's bank account.
- 6.5 The earmarked funds amounting to one billion pesos (PhP 1,000,000,000) pursuant to Special Provision 1c of the National DRRM Fund Section of RA 10924 shall be used for Premium payment of the Policy. The Premium shall be split between the insurance covers and perils according to an allocation determined by the TWG based on the risk profile of the Covered Area.
- 6.6 The amount of the full Payout shall depend on the best terms GSIS can offer without the transaction being detrimental to its business operations. The Policy shall include provision for partial Payouts corresponding to a Disaster Event with Modeled Emergency Losses lesser than that which would trigger a full Payout.

## **7.0 Procedures**

- 7.1 Upon the request of the BTr, the DBM shall issue the pertinent Special Allotment Release Order and corresponding Notice of Cash Allocation (NCA) to allow the BTr to transfer funds to GSIS for the purpose of Premium payment. The Policy becomes effective thereafter.

- 7.2 In case of a Disaster Event, the GSIS shall provide within ten (10) business days the Calculation Report. In parallel, the OCD shall provide the RDNA to the TWG. Subsequently, the TWG shall determine the percentage allocation across beneficiaries of any possible Payout from any insurance cover. The TWG shall prepare the Allocation Report as basis for the DBM to issue the NCA to the NGAs for the release of Payout proceeds. The Allocation Report shall also provide basis for the DBM to issue the NCA to the BTr for the transfer of Payout proceeds to the LGUs' bank accounts.
- 7.3 The GSIS shall release any triggered Payout to BTr. This process shall take six (6) business days. The proceeds shall be recorded as trust receipts.
- 7.4 The BTr shall issue the pertinent Certification of Availability of Funds. Thereafter, the DBM shall issue the corresponding NCA to the NGAs, and/or to the BTr for the transfer of Payout proceeds to LGUs. Upon issuance, the Payout proceeds shall be made available to the NGAs through the MDS, and/or transferred to the LGUs' bank accounts. This process shall take five (5) business days.
- 7.5 Payout proceeds shall be used solely for post-disaster activities relating to government infrastructure, and facilities needed to restore operations and immediate delivery of basic services, including but not limited to:
- 7.5.1 Repair or reconstruction of transport infrastructure such as roads, bridges, ports, airports and support facilities;
  - 7.5.2 Repair or reconstruction of flood control and drainage facilities;
  - 7.5.3 Repair or reconstruction of hospitals, and replacement of damaged equipment;
  - 7.5.4 Repair or reconstruction of school buildings to support immediate resumption of classes;
  - 7.5.5 Repair or reconstruction of facilities that serve as evacuation centers;
  - 7.5.6 Repair or reconstruction of public administration and other local government buildings to facilitate resumption of government services;
  - 7.5.7 Rehabilitation of agricultural infrastructure; and
  - 7.5.8 Restoration of utilities and network infrastructure such as power and water.
- 7.6 The emergency procurement guidelines under RA 9184 and its 2016 Revised IRR will apply to NGAs and LGUs use of Payout proceeds.



### 8.0 Monitoring and Reporting

The TWG shall monitor the use and implementation of Payout proceeds by the beneficiary NGAs while the relevant Regional Project Monitoring and Evaluation Team of the relevant OCD Regional Office shall monitor the use and implementation of Payout proceeds by the beneficiary LGUs.

### 9.0 Separability Clause

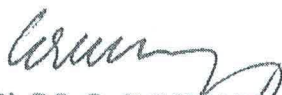
If any clause, sentence, or provision of this JMC shall be invalid or unconstitutional, its remaining parts shall not be affected thereby.

### 10.0 Repealing Clause

All orders, rules, and regulations inconsistent with or contrary to the provisions of this JMC are hereby repealed or modified accordingly.

### 11.0 Effectivity

This JMC shall take effect immediately.

  
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Secretary of Finance



  
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