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Linking disaster risk financing with social protection

An overview of concepts and considerations

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Linking disaster risk financing with social protection: an overview of concepts and considerations.
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Over fifty reports and studies were included in the literature review from across the disaster risk financing (DRF), social protection, anticipatory action and humanitarian sectors. Preference was given to recent published material, but some internal WFP documents and interim guidance were also included, as well as draft reports where they were from a reputable organisation. Literature was provided by WFP staff as well as sourced via internet searches.

Interviews were conducted with fourteen people from across the organisation, including from Headquarters, Regional Bureaux and a selection of Country Offices. Interviewees were selected to give a range of expertise across geographies and sectors. Both social protection and DRF experts were included, as well as individuals working on relevant topics such as anticipatory action, engagement with international financial institutions, and partnerships.

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Contents

Acronyms

AA	Anticipatory Action
ARC	African Risk Capacity
BMZ	German Federal Ministry for Economic Cooperation and Development
CAT-DDO	World Bank Catastrophe Deferred Drawdown Option
CCRIF	Caribbean Catastrophe Risk Insurance Facility
CERF	Central Emergency Response Fund
COP	United Nations Climate Change Conference of the Parties
DRF	Disaster Risk Financing
NGO	Non-governmental Organisation
PCRIC	Pacific Catastrophe Risk Insurance Company
PFM	Public Financial Management
PSNP	Productive Safety Net Programme
R4	R4 Rural Resilience Initiative
SPC	Segregated Portfolio Company
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations International Children's Fund
V20	The Vulnerable Twenty
WFP	World Food Programme

1. Introduction

Disaster risk financing (DRF) has been defined as 'the system of budgetary and financial mechanisms to credibly pay for a specific risk, arranged before a potential shock.'[1] The Centre for Disaster Protection goes on to state that 'this can include paying to prevent and reduce disaster risk, as well as preparing for and responding to disasters.' Definitions for DRF typically emphasise that a critical element is that it is 'arranged in advance.'[2] Some actors prefer to use the term 'pre-arranged financing' which refers to 'DRF that has been approved in advance of a crisis and that is guaranteed to be released to a specific implementer when a specific pre-identified trigger condition is met'.[3] Any type of organisation can develop their own DRF instruments, including governments, international non-governmental organisations, humanitarian agencies and local groups.

As the global understanding of DRF has evolved, a more comprehensive approach has emerged. It now goes beyond the establishment of financial protection instruments against disasters, progressing towards considering context and the effective channelling of financial resources to policies and programmes aimed at mitigating the impacts of shocks.

According to the Centre for Disaster Protection,[4] DRF can be structured in terms of four major elements:

1. Context – understanding the specific needs, risks, and factors to be taken into consideration in a specific country-context; and what to prioritize ('who should be protected and what they should be protected against')
2. Establishing 'money-out' systems and processes – including assessing the pre-existing systems and programmes in place, so that funds provided by financing instruments can be effectively used to reduce the impacts of a shock
3. Set-up 'money-in' instruments – designing/setting-up financial tools, so that resources needed to prevent and reduce disaster risk, prepare, and respond to shocks are available in a timely manner
4. Project management – processes and practical considerations that should be in place for an effective implementation.

Within this framework, it is possible to identify important intersections between disaster risk financing and social protection systems. Social protection is considered as a key set of policies and programmes that prevent shocks from impacting people and protect them, especially the most poor and vulnerable, against poverty, vulnerability, and social exclusion throughout their life.[5] In recent years, leveraging national social protection systems as a key part of strategies to respond to covariate shocks (events that affect a large proportion of the population simultaneously) have been increasingly explored by governments and international partners to protect livelihoods, ensure food security, and enhance resilience so every segment of the population can adapt and cope with the effects of a hazard. These actions are broadly referred to as shock-responsive social protection or adaptive social protection, which specifically address the linkages between social protection and other sectors, including disaster risk management, climate change adaptation and humanitarian assistance.

While there is an imminent need to further invest in evidence generation and feasibility assessments on the cost-effectiveness of coordinating DRF instruments with social protection systems, there is a growing recognition that relying solely on ex-post funds, such as humanitarian assistance budgets or ad-hoc budget allocations, to support hazard-affected populations is not sustainable, especially in the context of increased risks and exposure provoked by climate change.[6] Emerging debates are also highlighting the potential benefits of forecast-based financing to support individuals and communities in advance of a shock by strengthening early warning systems and setting up anticipatory action (AA) mechanisms to respond to or minimize the impacts of an impending crisis, including through social protection.[7]

Against this background, calls for increasing financial protection against shocks (especially in countries highly exposed to climate change) are gaining momentum and have been placed at the centre of international attention during the most recent United Nations Climate Change Conference of the Parties (COP27), when the G7 (under the German Presidency) and the V20 ('the Vulnerable Twenty') launched the Global Shield against Climate Risks (see Box 1).

This brief contributes to the debate on the benefits of strengthening the linkages between DRF and social protection systems. In addition to this introduction, the document also provides information on the key DRF instruments in place, and which actors commonly use them, with examples that illustrate the potential of stronger coordination with DRF for financing shock-responsive social protection (section 2); operational considerations when matching DRF instruments with social protection systems, (section 3); and key reflections on what should be considered when moving forward towards a greater alignment between the two (section 4).

BOX 1 - Global Shield coordination mechanism and its contribution to the DRF agenda[8]

With the launch of the Global Shield against Climate Risks, donors made new commitments of US$200 million to scale up support and increase access to pre-arranged finance to lower the impact of disasters and protect lives and livelihoods of the most poor and vulnerable people. Along with other climate-related funds, the Global Shield aims to provide and facilitate greater access to DRF, especially for low and middle-income countries.

Launched in 2022, the Global Shield is expected to leverage the key role of national social protection systems in preventing or reducing the negative impacts of disasters on vulnerable populations. The details are yet to be finalised, but this major initiative is expected to comprise three financing facilities to channel funds for DRF, including to build social protection systems to support the timely delivery of funds to affected households.

Shock-responsive social protection, as well as early and anticipatory action mechanisms (including through cash transfers) are considered in the Global Shield concept document as important 'money-out' systems that can be used to support affected populations (especially the poor and vulnerable) facing losses and damages due to climate change.[9]

The initiative strengthens efforts from International Financing Institutions, UN agencies and national governments working to increase communities' climate and financial resilience, especially in the most vulnerable countries. In November 2022, an agreement was signed between the World Bank and WFP, in which US$20 million from Germany and the United Kingdom was allocated through the World Bank´s Global Shield Financing Facility. Funds will be used to support WFP to expand climate and DRF activities in 23 countries, with potential to protect up to 4.6 million people over the next two years.[10]

2. Understanding disaster risk financing and how it can link to social protection

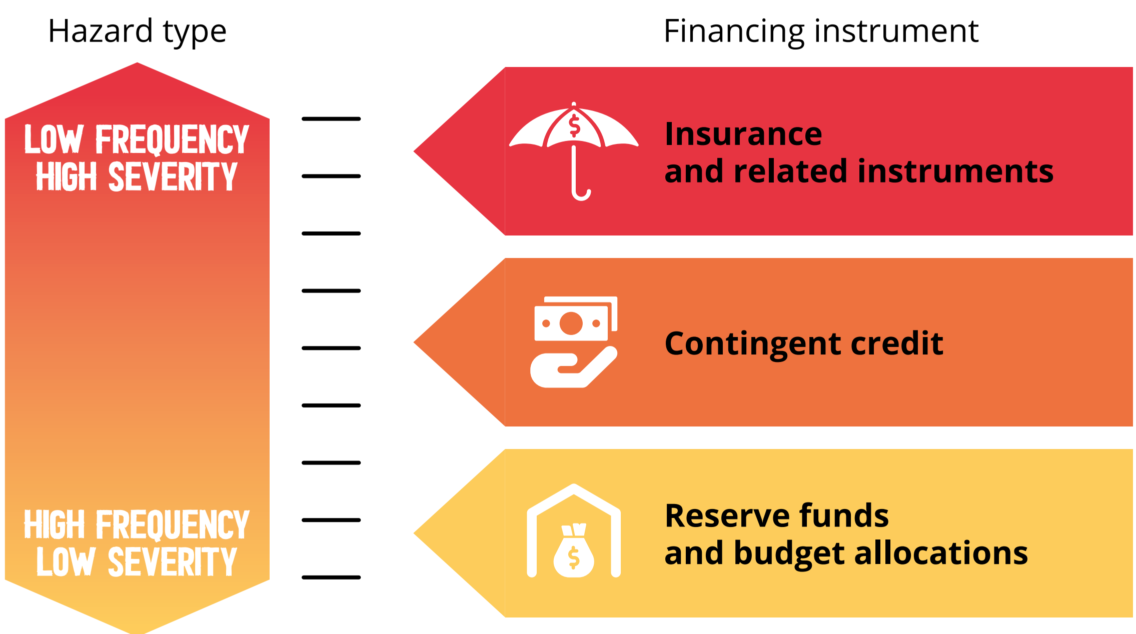
2.1 AN OVERVIEW OF DRF INSTRUMENTS

DRF instruments can be broadly grouped into three major categories: (i) contingency budgets and reserve funds, (ii) contingent credit, and (iii) risk transfer solutions, such as insurance. These tools are often available to governments as well as to non-government actors, including humanitarian agencies and international organisations.

There is no 'silver bullet' when discussing DRF and no single financial instrument can efficiently cover all types of risk. For this reason, a range of partners, such as the World Bank, WFP and UNICEF, are working with governments to invest in the development of financial protection strategies that incorporate a 'risk-layered approach' – in which both risk retention (e.g., reserve funds and contingent credit) and risk transfer instruments (mainly insurance) are combined and set up in advance of an emergency to provide more comprehensive coverage against different types of hazards based on their severity and frequency – as illustrated in Figure 1 below:

Generally, the different instruments are more appropriate for different types of frequency and severity of risk. It is possible therefore to 'layer' the instruments together so that, for example, a reserve fund would trigger some money for a lower category storm or very localised disaster when less funding is needed, with an insurance policy covering a higher severity for the same hazard. Yet, the set-up of a comprehensive risk financing strategy largely depends on the existence of enabling systems within governments, especially Public Financial Management (PFM) (see Box 2).

Risk-layering approach



Source: Adapted from Arsht Rock (2022)[11]

BOX 2 - Importance of PFM systems for Disaster Risk Finance

Within governments, DRF instruments are intrinsically linked to the larger PFM system – regulated by institutions, laws, and processes and that set up the structure in which public resources are planned and managed. The maturity level of domestic PFM systems determines the extent to which a country will be able to incorporate DRF instruments into its disaster risk management cycle, as funds disbursed via government systems (regardless of the source) often require as a prerequisite a good level of organization and transparency of domestic financing functions.

The text below details key actors usually involved, main characteristics of each instrument, the types of shock they are most appropriate for, and the existing or potential linkages with social protection. Despite not being considered as a budgetary tool per se, anticipatory action is also discussed, given its relevance to DRF and its potential linkages with social protection systems. Moreover, WFP's work on climate risk insurance and relevant links with social protection are also presented.

Finally, Table 2 summarises information provided, debates the benefits and limitations of each instrument, and presents key insights on how well suited they are as sources of funding for social protection in a crisis, along with selected examples.

2.2 CONTINGENCY BUDGETS AND RESERVE FUNDS

Contingency budgets and reserve funds are specific budget lines or funds created by governments and non-government actors with pre-allocated resources that can be triggered under specific circumstances. These instruments usually reserve low amounts of funds, as the cost-effectiveness of saving larger amounts (vis-à-vis funding needs of recurrent programmes) tends to be limited. They are usually considered for less severe events, for funding low-cost and small-scale projects and response programmes.

Relevant examples include the National Disaster Risk Reduction and Management Fund in the Philippines, the Disaster Risk Management Fund in Mozambique and the Natural Disaster Response Fund in Peru.

In other countries, there have been attempts to link pre-arranged ex ante funds with social protection schemes. For instance, in Ethiopia, the Productive Safety Net Programme (PSNP) has a specific contingency budget line.[12] In Kenya, the Hunger Safety Net Programme (HSNP) counts on resources from the Drought Contingency Fund to be temporarily expanded in severe droughts, based on triggers linked to the Vegetation Condition Index which uses remote-sensing satellite imagery.[13]

2.3 CONTINGENT CREDIT

Contingent credit is usually provided by international financial institutions and regional development banks (often at below-market rates) to governments. They are pre-arranged loans made available when a specific event occurs. Bilateral agencies can also offer credit lines, e.g., the Stand-by Emergency Credit for Urgent Recovery by the Japan International Cooperation Agency (JICA).

Unlike other types of loans, resources can be released to the government very quickly following a shock because arrangements were made in advance

- for example World Bank Catastrophe Deferred Drawdown Options (CAT DDOs) can release funding within 72 hours.[14] Loans are usually triggered on or after the shock, meaning they have not been used for anticipatory action.

Importantly, credit lines can have prior approval criteria in place (e.g., a DRM policy or a programme plan) or a set of pre-requisites (e.g., PFM reform, improvement plans with key performance indicators for system strengthening), and the money must be paid back after the emergency. As of today, international finance institutions can offer very concessional terms for low-income countries, making contingent loans relatively cheap.

This type of credit can be useful for a mid-risk layer of medium frequency and severity. Credit lines can be large, for example previous contingent credit lines have been for US$100 million. There are not yet clear examples of contingent credit being channelled through social protection schemes. Instead, funds are typically provided to the government as budget support, meaning there is not necessarily a clear or direct impact on affected people or vulnerable households. However, a pre-condition of the loan could theoretically be the creation of standard operating procedures to use a social protection system to channel support to households, thus giving a greater line of sight to beneficiaries.

In Dominica, CAT DDO prior actions specifically included key performance indicators for the government that related to working with WFP on social protection system-strengthening and facilitating WFP's premium support to top up the government's existing insurance policy from the Caribbean Catastrophe Risk Insurance Facility (CCRIF) Segregated Portfolio Company (SPC).

2.4 INSURANCE-RELATED RISK TRANSFER SOLUTIONS

Insurance arrangements serve as a 'risk transfer' mechanism, as a 'premium' is paid by a government or non-governmental actor to an insurance provider (e.g., private or public insurance companies). Premium payments occur periodically (usually annually) to cover specific shocks, and 'payouts' (payments to compensate) are only released if/when the shock occurs. Climate risk insurance (CRI) refers to products that transfer climate-related risks. One type of CRI that is increasingly being used is parametric insurance. With parametric insurance, the policies cover the probability of a predefined event happening with contracting parties pre-agreeing when an objective event parameter or an index will be met or exceeded (e.g., linked to weather or crop yield data), and on the level of funding to be released by a payout trigger - according to shock severity. Importantly, there is no need to conduct a loss assessment or damage observation.

Risk transfer solutions can be provided to governments (macro-level), institutions, local governments and aggregator groups (meso-level) and individuals, with microinsurance specifically targeting households or individuals (micro-level).

At the macro-level, regional risk pools are emerging as a joint effort between governments and financial institutions to offer CRI to governments in low and middle-income countries. Yet, despite progress over the last decade, coverage varies significantly across regions and the types of hazards covered, and access is still limited compared with the increasing severity of shocks and rising humanitarian needs – especially for highly exposed countries. As Table 1 shows, not all regions and hazards are covered by regional risk pools, and the potential to link with social protection also varies across regions.

Frequently, there is no requirement for insurance payouts from risk pools to have specific spending or response plans. The macro insurance policies offered through the African Risk Capacity (ARC) Group – mostly focused on providing macro insurance against extreme droughts and, more recently, tropical cyclones - require countries to develop contingency plans before a policy is purchased, including detail on how a payout will benefit vulnerable people. Some countries covered by ARC have included social protection as 'money-out' mechanisms stating that all, or a portion, of a payout can go through social protection systems.

Importantly, ARC offers macro-insurance for both governments and humanitarian organisations via ARC Replica. WFP has also been able to join efforts with national governments to 'top up' national insurance policies from the Caribbean Catastrophe Risk Insurance Facility (CCRIF SPC) – extending coverage and being given a share of payouts if a shock occurs– detailed in box 3.

At the micro and meso levels, risk insurance can also protect vulnerable households from different types of shocks. Policies can be taken out and premiums paid directly by farmer associations and/or individuals, and payouts are made using a pre-determined set of thresholds agreed with insurance policy holders. However, these risk transfer products (when available) can be prohibitively expensive and when combined with a lack of awareness or understanding of the benefits of insurance coverage can result in the poorest and most vulnerable smallholder farmers not being able or willing to access these protection mechanisms. Therefore, interventions are required to adapt micro and meso-insurance to the specific needs of smallholder producers and vulnerable communities - which can be done, for example, by subsiding premiums or adapting existing social protection programmes to facilitate beneficiaries' access to risk insurance - see box 3 for more details and examples, including how WFP is working to strengthen the linkages between micro-insurance solutions and national social protection systems.

Catastrophe bonds (Cat Bonds) are another type of risk transfer instrument that have been used to protect against climate hazards such as hurricanes. Cat Bonds allow entities exposed to natural disaster risk to transfer a portion of that risk to bond investors and work in a similar manner to insurance, paying out when a disaster event meets certain pre-defined criteria.[15] Bonds are sold to a wide range of investors and if the crisis occurs, the money they have invested becomes available for emergency response. Depending on the severity of the crisis, the investors lose a portion of their money and interest payments. If the disaster does not occur in the agreed timeframe, the investors get their money back, plus an additional payment.

Table 1 - Regional risk pool characteristics and opportunities to link to social protection.

Risk Pool	Hazards covered	Clients	Opportunity for link to social protection
ARC	Mainly drought, now expanding coverage to tropical cyclone, flood and epidemics	Offer policies to governments or directly to NGOs / Humanitarian agencies (termed Replica). Considering meso-level clients.	Huge opportunity to link to social protection, as contingency plans must be developed prior to a policy being purchased detailing how payouts will reach vulnerable groups.
CCRIF SPC	Tropical cyclone, earthquakes, and excess rainfall	Offer policies to governments. WFP has provided resources to governments to extend or top-up their policies but have not yet bought policies directly.	Governments could choose to channel their payments through a social protection programme but there is no requirement for this, and contingency plans are not required.
Pacific Catastrophe Risk Insurance Company (PCRIC)	Tropical cyclone and earthquake, launching drought and excess rainfall	Offer policies to sovereign governments but looking to potentially expand to humanitarian agencies in 2023.	No links currently – payouts are paid to governments as budget support. Governments could choose to channel their payments through a social protection programme but there is no requirement for this, and contingency plans are not required.
Southeast Asia Disaster Risk Insurance Facility	Flood	Myanmar, Laos PDR, and Cambodia current members but only Laos PDR purchased a 3-year policy.	No links currently – payouts are paid to governments as budget support. Governments could choose to channel their payments through a social protection programme but there is no requirement for this, and contingency plans are not required.

BOX 3 - WFP's linkages with social protection in climate risk insurance programmes

WFP has integrated insurance-related risk transfer solutions into its programmes to provide financial protection from climate-related risks such as extreme weather events that include droughts, floods and storms, through its climate risk insurance (CRI) programmes. CRI enables more timely financing for quicker and more predictable action and assistance for populations at risk, helping governments and WFP to better manage the impacts of the climate crisis on food security and stimulate faster recovery, while offering protection from loss and damages.

When CRI is effectively linked with social protection, the impacts of pre-arranged financing are amplified through the potential benefits of improved targeting for payouts, quicker distribution, increased access to insurance for vulnerable households and greater cost-effectiveness, among others.

While there is strong international interest in linking DRF and social protection, there are few examples in practice. As a global organisation with operational expertise both in the application of DRF instruments and in the strengthening of social protection systems, WFP is well positioned to facilitate a shock-responsive protective layer for beneficiaries through CRI to scale up social protection when it is needed most.

WFP-supported CRI programmes are growing steadily, and the total premiums paid by WFP across its portfolio of countries positions it as one of the main organisations purchasing climate risk insurance globally. WFP has reached 3.8 million vulnerable people (1.8 million people protected by macro insurance and 2 million protected by microinsurance) in 21 countries in 2022, with financial coverage totalling US$360 million (US$54.9 million in macro-insurance and US$305 million in micro-insurance).[16]

At the macro level, WFP has experience in leveraging insurance from regional risk pools for its operations in Africa and the Caribbean, including ARC Replica and adopting a 'top-up model' in the Caribbean, whereby WFP funds a top-up to the premium of government-held policies, extending coverage or being given a share of payouts if a shock occurs. Examples of these policies being linked to social protection include:

1. WFP has been purchasing annual ARC Replica policies in Mali directly from ARC Ltd. since the 2019/20 season; WFP is the policy holder, and any payouts finance its drought response operations. A payout was triggered in 2021 and another US$8 million payout was received for the 2022 season. WFP has deliberately followed an 'alignment' approach where key elements of the government social protection system are copied - including targeting, modalities, periodicity and transfer values to deliver assistance (despite the use of a different payment mechanism). The response was designed to be implemented in close coordination with national authorities. A portion of the payout was also distributed through WFP's cash-based transfer and nutrition support.

2. In the Caribbean, with Belize and Domenica, WFP provides top-ups to the tropical cyclone / excess rainfall policy from CCRIF SPC to increase the number of people covered by the governments' purchased policies, with a proportion of the payouts (if triggered) to be channelled through the government-led social protection programmes with WFP support.
   In Nicaragua, the government purchased a tropical cyclone policy offered by CCRIF SPC, with a premium top-up (US$100,000) paid by WFP that could result in a maximum US$2 million of payout being received by WFP to respond to an extreme weather event.
   In the aftermath of Hurricane Julia (end-2022), CCRIF disbursed a US$8.9 million payout, out of which WFP received US$640,000 (proportional to the top-up)., WFP used the CCRIF payout for the creation and improvement of school gardens and delivering fruit trees to farming families to improve the food security of students in 600 rural and urban schools of the impacted areas This contributed to the Government-led recovery programme to reinforce communities' resilience to climate shocks.[17]
   This was in addition to WFP's immediate response which included an additional school meal for children for 60 days as well as take-home rations for their families for a total of 150,000 people in 12 municipalities.

At the microinsurance level, WFP has implemented country specific programmes in Bangladesh, Ethiopia, Fiji, Madagascar and Zambia, which included linkages to social protection systems that supported and scaled-up access to microinsurance for vulnerable people.[18] In Fiji, WFP partnered with the United Nations Capital Development Fund and Fiji's Department of Social Welfare to provide microinsurance coverage against cyclones and windstorms for households that were social welfare beneficiaries.[19]. In Ethiopia, WFP targets households that are enrolled in the Productive Safety Net Programme to participate in the R4 Rural Resilience Initiative, an integrated climate risk management approach that includes access to index-based microinsurance products.[20]

As mentioned above, WFP´s work on CRI is rapidly evolving, with positive prospects for future years. One of the first activities of the World Bank's Global Shield Financing Facility (see Box 1) has been a transfer out of US$20 million to WFP to subsidise climate insurance. This is expected to enable WFP to expand its macro insurance coverage in Africa, Latin America and the Caribbean, Asia and Pacific.[21]

2.5 ANTICIPATORY ACTION AND SOCIAL PROTECTION

DRF instruments are often referred to as ex ante, meaning that the arrangements for where money will come from are all made in advance. However, this does not necessarily mean that the money will arrive before the shock. Anticipatory actions are pre-defined interventions in the form of assistance taken ahead of a forecasted extreme weather event to reduce its impact on vulnerable populations, save lives and protect livelihoods. For an action to be considered 'anticipatory', not only the funding but also the assistance should reach recipients before the impact of the hazard. The essential components of an anticipatory action system are forecast triggers and thresholds; pre-agreed anticipatory action plans; and pre-arranged financing.[22] Anticipatory action (regardless of the source or user of the funding) always requires pre-arranged, triggered finance and so it sits within DRF.

AA needs a mixture of types of funding. This can be referred to as 'build' and 'fuel' funding, where the 'build' money is needed to fund on-going activities such as developing protocols, building risk models and training; and DRF instruments can provide the 'fuel' money, or the triggered finance that flows once pre-agreed thresholds have been met and a forecast crisis is imminent. To date, AA has been paid for primarily using small windows within humanitarian funds.[23] For example, since 2022, WFP's Immediate Response Account (IRA) can be accessed as anticipatory action 'fuel' money. WFP also has complementary 'fuel' funds in its Hunger and Climate Change Trust Fund, managed by the Climate and DRR Programmes Service. Several humanitarian actors have AA windows within their emergency response funds, for example there is a Forecast-based Action window within IFRC's DREF and UN-OCHA has been experimenting with an anticipatory action window within the CERF since 2019.

Governments have not yet used their own finance for AA on a large scale. Countries like the Philippines and Mongolia have made some national and local budget available for AA, but most governments have not used their own budgets or contingent credit to date, and count on international support to fund and pilot AA interventions. Political barriers to AA remain strong in many countries, particularly a lack of trust in forecasts and a fear that misfires will reflect badly on government and waste scarce resources. In addition, considerable prior PFM and legislative work is required to socialise the idea and ensure the supporting systems, policies and processes are in place to implement AA, including through social protection.

There is much discussion over using insurance for anticipatory action, with actors like WFP, UN-OCHA and ARC trialling approaches to push insurance payouts as early as possible. However, these are at preliminary stages and whilst there is promise in using forecasts to make response earlier, there are not yet examples of insurance funding responses that are entirely distributed ahead of a shock. This may be because increasing uncertainty by relying on forecasts may drive up the cost of premiums. Furthermore, insurance can trigger large amounts of money, whereas AA has mainly been implemented at small, pilot scale to date.

WFP pioneered AA together with the German Red Cross. Many AA projects are underway within WFP, and there is enthusiasm within the organisation for these to be more integrated with social protection. Support being provided includes technical assistance to governments to foster links, as well as actual activations using the social protection system (see Box 3). Also, an Interim Guidance on how to link anticipatory action and social protection has been recently released.[24]

BOX 4 - WFP activities integrating anticipatory action and social protection – country examples

WFP has identified two main ways of integrating anticipatory action and social protection (not mutually exclusive): [25]

- The implementation of anticipatory actions leverages elements of the social protection architecture such as coordination platforms, targeting, payment and delivery mechanisms to rapidly and adequately reach large segments of vulnerable people at risk of imminent climate-related hazards. For example, WFP delivering anticipatory cash transfers to recipients of the government's social safety net programmes, based on a forecast trigger activation; and
- The social protection system integrates the core components of anticipatory action for instance, when the social protection ministry uses the anticipatory action forecast trigger to provide temporary cash transfers to people at risk of imminent climate hazards whether or not they are regular recipients of social protection.

In Somalia, with the forecast of the fourth failed rainy season in early 2022, WFP delivered the anticipatory cash transfers to 206,874 people – regular beneficiaries of the social protection Baxnaano programme that were identified as the most likely to be severely affected by the predicted drought, using the programme's delivery system. Early warning information was also disseminated to 1.2 million people with US$7.9 million in pre-arranged financing.[26] It is one of the few examples globally where a social protection programme was scaled up to provide support in anticipation of a forecasted climate hazard rather than flexing post-shock.

In the Dominican Republic, WFP has been supporting the government to make their social protection system anticipatory, by producing an AA annex to the guidelines for the emergency cash transfer programme.[27] This support was requested by the government who, having passed a decree in 2021 to enable the use of social protection in response to disasters, see the importance of moving to anticipatory social protection support for floods and drought.

In Mozambique, WFP is supporting the integration of AA into the National Contingency Plan, the National Financial Protection Strategy and the National Social Protection Strategy as a first step towards developing standard operating procedures including social protection and associated budgetary allocations for anticipatory action.

In the Philippines, as part of the UN-OCHA/CERF anticipatory action framework, UNICEF has been collaborating with the Department for Social Welfare and Development (DSWD) to provide anticipatory typhoon coverage to 22,000 households.[28] In the event of a typhoon, triggerable anticipatory finance will be released from the CERF for unconditional cash transfers to be disbursed in three regions via the country's flagship programme, the Pantawid Pamilyang Pilipino Programme, three days before the forecasted landfall of a Category 4 typhoon. WFP has also been working in the country to support DSWD with technical inputs for operationalization of the national Adaptive and Shock Responsive Social Protection Roadmap, which include recommendations on how to flex and scale up social protection programmes in response to predicted or actual extreme weather events based on the AA systems and available knowledge.[29]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2.6 HUMANITARIAN AND DEVELOPMENT PARTNERS ENGAGED IN LINKING DRF TO SOCIAL PROTECTION

As referenced along this brief, there are several international organisations working on DRF and social protection. This sub-section provides a quick overview of the major areas of work covered by each:

- **WFP** is a key actor on DRF and is now a major purchaser of insurance globally, primarily focusing on insurance products that transfer climate-related risks. WFP is supporting countries, primarily in Africa and the Caribbean, by purchasing coverage for its operations or contributing to premiums of governments for macro-level climate risk insurance products. WFP is also a key actor and pioneer in anticipatory action, which always requires finance to be pre-arranged and can therefore also be classified as a DRF tool. WFP has also been working with other development partners (e.g., the World Bank) on DRF-related projects, and providing technical assistance and support to national social protection systems to better manage risks and shocks and contribute to resilience building objectives.[30]
- **The World Bank** are arguably the most active international organisation working on both DRF and social protection, providing technical assistance and finance to many governments. In some countries WFP has responded to World Bank requests for support, providing technical assistance to government or direct implementation of social protection or emergency responses, including building early warning capacity, databases or community feedback and payment systems.
- **UNDP**'s work on DRF focuses on providing technical assistance support to governments, for example through fiscal space analysis and the creation of DRF strategies. They have relevant expertise in PFM and insurance, particularly at micro level, and have a Tripartite Agreement[31] in place with the Insurance Development Forum and the German government (BMZ) to collaboratively increase macro and meso-level climate insurance in vulnerable countries.
- **UNICEF** are also developing their DRF capacities in relation to PFM, with an emphasis on insurance and applying a child-centred focus. At COP27, UNICEF announced the Today and Tomorrow initiative, which is piloting macro-insurance policies for cyclones in eight countries (in Africa, South Asia and Latin America and the Caribbean). These policies are going to be specifically focused on providing financial support for children post-disaster. The organisation also has expertise and capacity in relation to social protection, working in over 140 countries, including on how to use social protection for shock-response.
- **The UN Office for the Coordination of Humanitarian Affairs (OCHA)** continues to build up its expertise on triggered finance and risk pooling, and has been a major player in attempts to scale up anticipatory action via their Central Emergency Response Fund (CERF)-funded pilots.

Table 2 - DRF instruments: key information for understanding what they are and potential links with social protection

Instrument	Benefits/Limitations	When is it suitable?	Who is involved?	Examples	Links with social protection
Contingency budgets and reserve funds	Benefits: normally low-cost to set up, can be very flexible and funds should be quick to access if needed. Limitations: it can be difficult to protect money allocated in a government budget for a potential disaster when there are other pressing needs. Reserving large amounts of money is often not possible, politically desirable or a cost-effective use of funds. Once depleted then it can be challenging to replenish funds.	Less severe events/ funding low-cost and small-scale projects	Governments, including national PFM authorities and DRM agencies Humanitarian agencies and international organisations can also set-up reserve funds.	National Disaster Risk Reduction and Management Fund (Philippines) Disaster Risk Management Fund (Mozambique) Natural Disaster Response Fund (Peru)	Social protection programmes can embed contingency lines into annual budgets (e.g., PSNP in Ethiopia) and AA is usually paid for with funds.
Contingent credit	Benefits: funds do not need to be tied up in advance and credit can be made available very quickly following a shock. International finance institutions can offer very concessional terms for low-income countries, making contingent loans relatively cheap. In addition, conditions can be placed on the loan prior to it being finalised to support risk reduction. Limitations: The loan amount plus interest must be paid back and an upfront arrangement fee may be required. Loans contribute to the debt burden on countries and will not be available to heavily indebted countries. Funds are typically provided to the government as budget support, meaning there is not necessarily a clear or direct impact on affected people or vulnerable households. It also needs to be accompanied by adequate PFM to ensure that the sudden inflow of cash is appropriately handled.	Considered for medium frequency and severity risks.	Offered by multilateral and regional development banks to governments.	World Bank (CAT-DDO); Inter-American Development Bank (Contingent Credit Facility for Natural Disaster Emergencies); Stand-by Emergency Credit for Urgent Recovery by JICA	Prior actions/ conditions can be requested by contingent credit providers to incentivise/ promote social protection system-strengthening, thus giving a greater line of sight to beneficiaries.
Insurance-related risk transfer solutions	Benefits: The risk is transferred to a third party. Since a detailed contract is in place, insurance offers some reliability. Large lumpsum payments can be made. Insurance has a long history of being used to support behaviour change or incentivise preventative investments in exchange for premium reductions. Insurance also encourages helpful thinking around risk, for example, a named party assumes 'ownership' of the risk, arrangements are clearly documented, risks are assessed, quantified and communicated. Limitations: Insurance can be expensive, especially in situations where data availability is limited. Premiums have to be repeatedly paid, usually annually, and a payout may never be made which can leave some feeling that their money has been 'wasted'. It can be difficult to agree when a payout should be made, although the rise of parametric insurance, where payouts are made based on a pre-determined index and set of thresholds rather than based on a post-event assessment of losses, can help to ease this problem. However, even with parametric insurance there is 'basis risk': the risk that there is a difference between the index or model used and the actual situation on the ground. Both insurance and catastrophe bonds are highly regulated, complex risk transfer instruments which require substantial upfront investment and a considerable amount of technical capacity for their implementation and design. The policy terms have to be carefully communicated to ensure all parties understand what is, and is not, covered by the policy.	Least frequent/ high severity risks – e.g., extreme droughts and tropical cyclones.	National governments (macro-level), local governments and/or aggregator groups (meso-level) and individuals (micro-level), Offered by private or public insurance companies. Macro-insurance can also be available to international agencies (see Box 3 on WFP CRI Programmes).	Macro-level: regional risk pools (e.g., ARC, CCRIF SPC, PCRIC and SEADRIF – see Table 1)	Macro-level: payouts can be channelled through social protection systems (for examples from Africa and the Caribbean, see Box 3 on WFP CRI Programmes). Meso and micro-levels: design adaptations and incentives can be promoted to increase insurance coverage to social protection beneficiaries.

3. Operational considerations when matching DRF instruments with social protection systems and country examples

In contexts where social protection schemes are already reaching the most vulnerable, with distribution mechanisms in place, the use of their systems to channel DRF resources to affected populations (´money-out systems´) seems very consistent with the potential to increase the speed and cost-effectiveness of operations and to reduce the impact of losses and damages provoked by disasters on people (especially when compared with using parallel/ad-hoc systems).[32]

Overall, potential benefits of linking DRF with social protection systems are mutual, and might include better targeting of payouts, improved design and enhanced mechanisms for ex-ante design and planning (see Table 3).

Table 3 - DRF and social protection mutual benefits

Potential benefits from using social protection systems for DRF	Potential benefits from DRF to social protection
• Ensuring better targeting of payouts to the poor and vulnerable • Quicker distribution • Greater cost-effectiveness/ value for money • Improved design • Increased government ownership	• Provision of faster finance • Predictable finance • Creates incentives and structure for ex ante design and planning • Provides access to emergency resources beyond humanitarian funding

Yet, governments and organisations need support to help understand the full range of DRF instruments available to them, their pre-conditions and limitations, and their suitability for financing social protection in a crisis. Not all instruments will be available in a particular country, and some may not ultimately be able to deliver adequate levels of finance, in the right timeframe, for the priority hazards, at a reasonable cost.

When aiming to link DRF and social protection, it is crucial that the plan for how money will be spent is matched well with the financial instrument – ideally the two would be developed in tandem so that an appropriate amount of money is triggered at the right time for the programme and the type of support it provides. DRF best practice suggests that the money-out systems should be designed first, or at least in tandem with money-in instruments. There has been a tendency within DRF for the emphasis to be placed on the design of innovative, triggered financial instruments, without consideration of how payouts will reach affected people until the very end of the process, if at all.

Collaboration between disaster risk management and social protection stakeholders is imperative to ensure that the social protection programme will be able to reach people affected by the type of disaster that will trigger the finance. For example, if the DRF instrument being used is parametric insurance for floods, you do not want to link with a social protection programme that can only operate in areas that are not at risk of flooding. Similarly, if you want to get money to people ahead of a disaster, for example so they can purchase additional seed prior to a drought or protect livestock ahead of a flood, the finance will need to be designed so that it triggers early enough for the money to flow through the social protection system and reach beneficiaries in time.

If a DRF instrument is already in place, using a social protection scheme will not always be the best option for distributing a payout to affected communities. Programmes can have very different levels of coverage, and the underlying systems may be weak. If a programme has flawed targeting or unreliable payment mechanisms, using them for post-emergency transfers risks ‘scaling up’ these underlying weaknesses. Baseline assessments and analysis will be needed.[33] Even if the programme is well-run with strong underlying systems, it may be that there are design elements that make it a less appropriate channel for DRF payouts, for example, if its target group only represents a small percentage of those likely to be affected by a disaster or if the modality is deemed inappropriate for the particular crisis context.

WFP guidance, drawing on O'Brien et al. (2018),[34] proposes the following factors to consider when assessing the suitability of a social protection system to support emergency response:

1. **Meeting needs** – what type and quantity of support best meets needs, while minimising protection concerns?
2. **Coverage** – How to reach the most people, or reduce the numbers needing assistance?
3. **Timeliness** – What support is fastest, or provides early and / or timely response?
4. **Predictability** – of funding for agencies and of assistance for households
5. **Minimising duplication and gaps** in systems and processes, recognising other agencies' activities
6. **Sustainability**, due to organisational and financial capacity, and / or political acceptability
7. **Cost.**

WFP has developed a set of tools to assess the maturity and preparedness of the social protection system to respond to emergencies. A social protection programme is unlikely to score better than other types of emergency response across all or most of the above factors. For each one it will be important to consider risks and trade-offs. Clearly, the stronger the programme in terms of coverage, comprehensiveness and quality, the more likely that it will prove best, when compared with alternatives.

Social protection advisers working to make their programmes scalable in emergencies should consider DRF instruments. If a social protection programme is identified as a potential channel for future emergency support (i.e., it is suitable for scale-up), it will always make sense to link it to a DRF instrument to help meet the additional costs. Pre-arranging finance means that if a disaster happens, funds can flow quickly into the social protection system. Many social protection programmes were used for COVID-19 emergency response, but as these were not linked to DRF instruments, the money had to be found from budget reallocations and international appeals after the pandemic had started, slowing down response times while needs skyrocketed.

In theory, any DRF instrument could be used as a source of funding for a scale-up of a social protection programme, but some will be more appropriate than others, depending on the context. For example, when time, technical capacity and resources are limited to set up a more comprehensive DRF strategy, then prioritizing some instruments (for instance, starting with low scale/contingency funds to ensure regular social protection schemes are maintained in the aftermath of a shock) might be appropriate. When focus is on extreme events with severe impacts then insurance may be appropriate, but if social protection programmes have a limited coverage, other systems will be needed to horizontally expand assistance if a large payout is received. Geography also plays a significant part in the availability of some DRF instruments. For example, there is currently no climate insurance risk pool for Central Asia, although insurance products have been purchased directly from the private sector at macro and meso levels. Therefore, while any DRF instrument can theoretically be linked to a social protection programme, there are a number of practical considerations to take into account.

The 'Considerations Checklist' in Table 4 below can be used to help ascertain how well matched a DRF instrument may be to a social protection programme. This checklist has not yet been tested and only provides generalised information on each instrument. It cannot substitute for in-depth analysis – instead it is intended to outline high-level considerations and provide a rough guide to social protection and DRF advisors seeking to work together.

Table 4 - DRF instrument Considerations Checklist

Instrument	TYPE OF CRISIS: Is the hazard you are trying to protect beneficiaries from frequent or infrequent? Are impacts likely to be high or low severity?	PAYOUT AMOUNT: Will the instrument pay out an amount that is well-suited to the costs of the scale up? Will it provide too little for a meaningful response?	TIMING: Will the instrument trigger a payout at an appropriate time for the type of scale up you want to do?	SET UP: Do you have the money, time and technical capacity to set up the instrument?	AVAILABILITY: Is the instrument available in the country / region?
Contingency budgets and reserve funds	Likely to be most cost-effective and best suited to high frequency / low severity crises	Typically suitable for smaller payouts	Can be triggered before or during a crisis, has been used for AA	Low cost and can be quick and easy to set up	Depends on fiscal space and donor priorities. Some global AA funds but still small in size
Contingent Credit	Likely to be most cost-effective and best suited to medium frequency and severity crises	Typically able to trigger medium to large payouts	Typically triggers on a crisis, not before	Some negotiation and prior actions needed, macro-economic analysis essential	Depends on the region and the country's indebtedness. Available to governments rather than humanitarian agencies
Insurance-related risk transfer solutions	Likely to be most cost-effective and best suited to low frequency / high severity crises	Typically triggers large or very large payouts Catastrophe bonds typically trigger very large payouts	Typically triggers on a crisis, some work underway on potential for AA but no strong examples yet Catastrophe bonds typically trigger on a crisis and are unlikely to be appropriate for AA as very large amounts of money triggered for very extreme events	High technical capacity required, actuarial analysis needed to ensure cost-effectiveness, premiums can be expensive For catastrophe bonds very high technical capacity required and high cost to set up. Typically take a long time to take to market	Not available everywhere for all hazards There are very few examples of catastrophe bonds in place globally

CHALLENGES TO LINKING DRF WITH SOCIAL PROTECTION

A key challenge to greater use of social protection systems to channel DRF to households is a lack of well-implemented, high-capacity programmes with the ability to quickly reach a high proportion of hazard-affected households. Highly exposed countries tend to have a lower social protection coverage, and nascent social protection systems. Over half the global population is not covered by a statutory social protection benefit. For some regions the situation is much worse, for example, 83 per cent of Africa's population are not covered by any statutory social protection programme.[35] Even if a programme is operational, there may be serious problems with the underlying systems. For example, there may be challenges in obtaining accurate and updated data in a timely manner, whether from a registry or other source; or the infrastructure needed to deliver payments may not be in place. Clearly, if a social protection programme is not effective, then using DRF to scale up for emergency response risks also scaling up the underlying weaknesses and inefficiencies.

Governments often face political constraints or lack fiscal space to pre-arrange finance. Even if there is a strong social protection system, there may be a number of barriers on the DRF side. For example, there can be a tendency within government to 'wait and see' if a disaster arises, rather than arrange finance in advance, owing to perceptions that money spent in the absence of a shock could waste resources. The PFM system may require reform, or legislative and policy changes may be needed before DRF can be attempted, such as to smooth the swift release of insurance payouts that are disbursed to government treasury accounts. Governments and organisations may well lack the fiscal space to set up and replenish funds, access and repay credit, or cover the premiums for insurance and related instruments.

Trying to act before a crisis, in an anticipatory way introduces further barriers. For example, faith in anticipatory risk finance may be even lower due to lack of trust in forecasts and fear of 'misfires', where the finance triggers but the disaster does not occur, or vice versa, both of which can undermine political will. In addition, there are operational difficulties when activating a system ahead of a crisis, particularly for rapid onset disasters where there may only be 72 hours warning.

Overall, linking DRF and social protection works best when siloes across relevant government entities are minimised: it requires collaboration between multiple ministries and agencies within government, including Ministries of Finance, Ministries of Social Welfare, National Disaster Management Agencies and potentially a wide range of other sectors, for example Agriculture or Climate. These actors all have different institutional perspectives, priorities, ways of working and administrative structures which creates a challenge for collaboration and joined-up solutions. Mechanisms that encourage collaboration can help, such as multi-sector Technical Working Groups or joint learning exercises. For example, WFP produced a lessons learned report on work in Dominica as a way of sharing knowledge across ministries and encouraging reflection.

A lack of suitable DRF instruments and related technical capacity hinders progress. Organisations may lack the technical skills to explore and evaluate DRF opportunities, and there may be low trust in instruments like insurance or forecast-based approaches. As explained above, not all instruments are available to all countries, for all types of hazards – this differs considerably by region. Finally, some DRF providers do not require any line of sight to beneficiaries or have an explicit focus on the poorest and most vulnerable people, meaning that pushing for a link with social protection may require extra effort to change institutional norms and processes.

4. Looking to the future

The international community is increasingly committed to pre-arranging emergency finance and delivering earlier support. There is still a very long way to go before finance is pre- arranged as much as it could be – studies suggest only 2-3 percent of crisis financing is arranged in advance.[36] However, some donors have pledged to increase this, for example, the German Federal Foreign Office announced a target for at least 5 per cent of their humanitarian aid to be allocated to anticipatory action by 2023, approximately EUR 100 million.[37] Growing risks due to climate change, as well as increasing calls for a Loss and Damage Fund to provide finance to vulnerable countries, suggest that providing effective support for climate risks will remain high on the political agenda for some time. Social protection has been continuously referred to throughout the development of the Global Shield concept as noted in Box 1 above and is highlighted in the consultation documentation as an important route to climate resilience.[38]

Donor support for sovereign insurance as a DRF instrument, including providing premium subsidies for vulnerable countries, shows no sign of abating. In recent years, donor countries like Germany, the United Kingdom and the US have pledged support in the form of premium subsidies for insurance from the regional risk pools. ARC, for example, announced the creation of a Premium Support Facility to collect and channel subsidies in 2021. Premium support is expected to continue,[39] including to humanitarian agencies and NGOs, as well as directly to governments.

There is a risk that rapidly growing funding increases amounts of money channelled through DRF instruments, without sufficient improvements to 'money-out' planning and mechanisms. Donors and implementers alike must be cognisant of ensuring that 'money-out' planning improves, in order to deliver genuine change for vulnerable people and at-risk communities, improving impact and a line of sight to beneficiaries. As more money is channelled through DRF instruments, there must complementary growth in capacities and systems to ensure quality and efficient 'money-out' processes.

WFP is well-placed to engage with these initiatives and expand its innovative work as an implementer of social protection and DRF. WFP's work on linking DRF and social protection is therefore timely and supports global ambitions.

ENDNOTES

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2 See also the Risk-informed Early Action Partnership (REAP) Glossary (2022) for definitions of several associated terms.

3 Ibid

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5 Considering the Social Protection Interagency Cooperation Board (SPIAC-B) definition - 'policies and programmes aimed at preventing, and protecting people against, poverty, vulnerability and social exclusion throughout their life [...with] a particular emphasis on vulnerable groups'

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25 WFP 2022 Interim Guidance on Anticipatory Action and Social Protection (internal document).

26 WFP, 2023. Scaling up anticiatory actions for food security. Anticipatory Action Year in Focus 2022.

27 WFP, 2023. Scaling up anticiatory actions for food security. Anticipatory Action Year in Focus 2022.

28 See Typhoon vulnerable areas to benefit from DSWD-UNICEF anticipatory action agreement

29 WFP, 2023. Scaling up anticiatory actions for food security. Anticipatory Action Year in Focus 2022.

30 World Food Programme Strategy for Support to Social Protection - 2021

31 The IDF, UNDP & BMZ Tripartite Programme: Increasing insurance protection in climate-exposed countries - Insurance Development Forum (insdevforum.org)

32 Scott, Zoe (2021) How disaster risk finance can link with social protection: maximising the effectiveness of shock response

33 Various resources are available online to help with the analysis of social protection programmes and systems to assess their readiness for scaling up in response to shocks, for example: 'Stress Testing Social Protection: A Guide for Practitioners' published by the World Bank (2021) and 'Shock-Responsive Social Protection Systems Toolkit' published by Oxford Policy Management (2018).

34 See O'Brien, C., Holmes, R. and Scott, Z. (2018), 'Shock-responsive social protection systems toolkit: Appraising the use of social protection in addressing large-scale shocks', Oxford Policy Management; and O'Brien, C. (2020), '10 things you wish you'd always known about shock-responsive social protection', World Food Programme (wfp.org)

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For further information, do get in touch with us at **socialprotection@wfp.org.**

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