

# How disaster risk finance can link with social protection: maximising the effectiveness of shock response

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# Introduction

Disaster Risk Finance (DRF) focuses on arranging finance in advance so that appropriate levels of funds will reliably get to the people who need it most, when they need it. Whilst the financial instrument to be used is important (e.g. insurance, contingent credit or contingency budgets to name a few options), it is also critical to think through how to get the money efficiently and effectively to affected communities. For this reason, DRF is best when it is linked to a pre-agreed plan of how the money should be spent. Because of this, those working in DRF are increasingly considering Social Protection as a means to distribute emergency support, sometimes called 'Shock-Responsive Social Protection' (SRSP).

This brief<sup>1</sup> provides some initial guidance for those wanting to deepen their understanding of SRSP from a financing perspective; it is suitable for those involved in the design or funding of DRF instruments and approaches, who want to explore options of how to increase its impact and cost-effectiveness, for example through improved contingency planning. Given spiralling needs and the rising frequency and severity of climate disasters, it is imperative to make sure that every dollar of DRF support has the maximum possible impact on the lives of vulnerable people. SRSP offers some potential to help realise that aim.

## Social protection and disaster risk financing

Social protection covers a wide range of initiatives<sup>2</sup> that provide transfers to poor and vulnerable people to protect their livelihoods. Many programmes are focused on reaching the poorest people or are targeted at specific vulnerable groups e.g. women with children, older people or people with disabilities. Given that disasters have a disproportionately negative impact on poor and vulnerable people, including women, channelling DRF through an existing social protection programme makes sense. There is a wealth of evidence demonstrating that, when implemented well, social protection programmes can contribute to a wide range of benefits, including poverty reduction, increased school attendance, improvements in health and nutrition and reductions in domestic violence.<sup>3</sup>

If social protection programmes are already reaching poor people, and distribution systems are already set up and well-run, then there are likely to be potential increases in the speed and cost-effectiveness of DRF using these to distribute payouts, rather than creating or using parallel structures. This leads to another potential benefit of SRSP: as most programmes are government-run, it can be a way of bolstering government awareness, capacity and ownership of risk.

One example of SRSP is adapting a programme so that there is a temporary increase in the size of the transfer that beneficiaries receive following a shock, to cover lost income or replace assets lost as a result of the disaster (this is called 'vertical' scaling up). Alternatively or additionally, a social protection programme could scale up 'horizontally' by adding in more people to the programme from affected areas.<sup>4</sup>

However, many low and middle-income countries do not yet have well-established social protection programmes, underpinned by robust systems for identifying people in need and delivering support. Over half the global population is not covered by any social protection benefit. For some regions the situation is much worse, for example, 83% of Africa's population are not covered by any social protection<sup>5</sup>, despite having an enormous need for such programmes. This reduces the likelihood of SRSP as many poor

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<sup>1</sup> This brief was written by Zoë Scott. It is informed by Quality Assurance reports conducted by the Centre for Disaster Protection, previous SPACE studies (particularly Costella, C. (2021) 'Synergies between African Risk Capacity and Social Protection in East and Southern Africa, SPACE Rapid Review, Social Protection Approaches to COVID-19 Expert Advice Service (SPACE), DAI Global UK Ltd, United Kingdom), online literature searches and interviews with selected experts.

<sup>2</sup> For more information and a useful taxonomy of social protection instruments, please see this [K4D Social Protection Topic Guide](#).

<sup>3</sup> See for example, this [Systematic Review](#) of evidence by ODI.

<sup>4</sup> For more detailed explanation of different options for scaling up Social Protection in response to shocks, please see this [DFID funded Research Report](#) or this [SPACE Expert Guidance](#) on options for rapid scaling for COVID-19 response.

<sup>5</sup> ILO World Social Protection Report 2020-22: [wcms\\_817572.pdf \(ilo.org\)](https://www.ilo.org/wcmsp5/files/publications/wcms_817572.pdf)

countries, who are most vulnerable to disasters and therefore most in need of DRF and premium support, do not have social protection programmes in place that have significant coverage or can easily be scaled up.<sup>6</sup> There may also be problems with underlying systems. For example, social registries that can be used to produce lists of eligible beneficiaries may be inaccurate or outdated, or the infrastructure needed to deliver payments may not be in place. If a social protection programme is not effective, then scaling it up for emergency response risks scaling up the underlying weaknesses and inefficiencies. A particular risk is entrenching exclusion errors, meaning that affected people would miss out on necessary support.

The current gaps in social protection in low and middle-income countries mean that DRF specialists or donors keen to utilise social protection as a means of distributing emergency support, whilst being on the right track, will ultimately need to be realistic about what is achievable in the short term. Lots of sovereign and sub-national governments, development and humanitarian actors are working on improving SRSP across many countries. COVID-19 accelerated government and humanitarian agencies' use of social protection programmes and systems as a way of quickly getting support to affected communities. For example, in Malawi, Nigeria and South Africa existing social safety nets were scaled up, and in the Philippines, Cambodia and Myanmar, governments funded SRSP for the first time. This has all firmly cemented SRSP as a 'hot topic', likely to grow in the coming years.

However, all the examples cited above of SRSP for COVID-19 were 'ex-post' – they were arranged after the pandemic had started, often funded by hasty budget reallocations. SRSP can be arranged after a disaster, but arranging it in advance, with clear financing that will trigger automatically, is preferable and more likely to lead to a well-considered emergency response.<sup>7</sup> DRF specialists, therefore, have much to add to this growing trend for SRSP by emphasising the value and importance of ex-ante action; bringing the two approaches together more would bring mutually reinforcing benefits.

## Linking disaster risk finance approaches and social protection

Below are three 'rules of thumb' for those who are interested in linking their DRF approach or instrument with social protection so that the opportunity to reach people effectively is maximised:

### 1. Be selective: think carefully about what to scale up.

As mentioned above, not every social protection programme is ready or appropriate to be scaled up following an emergency. As mentioned above, there are many types of social protection, with programmes and systems at very different levels of maturity and coverage. For example, if the underlying social protection programme has weak targeting, opportunities for corruption or inefficient payment mechanisms, then using them for post-emergency transfers risks 'scaling up' these underlying weaknesses. Baseline assessments and analysis will be needed<sup>8</sup>. 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. Other considerations include:

#### Cash versus food transfers

Social Protection programmes (like humanitarian relief) distribute support in different ways, including cash, food or other in-kind support. There is a consensus in the literature that cash transfers are more

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<sup>6</sup> The ILO World Social Protection Report 2020-22 states that 'countries with high levels of economic development and strong institutions have better developed social protection systems' (p.44).

<sup>7</sup> See for example, ['Early Action and the Climate Crisis: Could Social Protection be a Game Changer?'](#) by the Risk-informed Early Action Partnership (REAP).

<sup>8</sup> 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 in 2021 and ['Shock-Responsive Social Protection Systems Toolkit'](#) published by Oxford Policy Management in 2018.

cost-effective than in-kind assistance such as food in emergencies<sup>9</sup>. For example, Gentilini<sup>10</sup> found cash transfers to be at least twice more efficient than food-based interventions. This does depend on local prices, but markets are typically well-integrated enough for local supply shocks not to cause huge price increases. Cash can also be quicker to distribute than food, particularly if electronic delivery systems are available. On the back of the growing body of evidence of the multiple benefits of cash transfers, many humanitarians have been moving in the direction of cash over the last decade. For example, the Grand Bargain in 2016 called for increased use of cash in emergencies and the World Food Programme now provides 37% of its assistance as cash to give people greater choice and to support local markets.<sup>11</sup> Despite this, many governments prefer food transfers. For example, a review of government-led contingency plans for how future payouts from African Risk Capacity (ARC) insurance would be spent showed that three of the five plans included food transfers.<sup>12</sup> In some cases, for example if inflation is rampant, there may be a case for food transfers, but this should be the exception rather than the norm. Those designing DRF should therefore be careful to prioritise linking up with social protection programmes that distribute cash rather than food wherever possible, to be in line with international best practices.

### Public works programmes (PWPs)

Some governments are also keen on public works programmes (PWPs), where cash or food is given in return for work creating or renovating a public asset, for example, a piece of infrastructure. These kinds of 'cash/food for work' programmes tend to be popular with governments as they create public assets that can go on to generate an economic return, without creating a 'handout' mentality. However, there are several reasons to think that PWPs are ill-suited to emergency contexts. Working in exchange for emergency transfers may take people away from their livelihoods, and other resilience-building activities, at precisely the point when these are of utmost importance. Unless designed very carefully, PWPs can also discriminate against women who are disproportionately impacted by disasters, for example through unequal pay, lack of childcare facilities and exploitative and abusive working environments. Older people and people with disabilities may also be excluded.

In addition, PWPs are likely to have higher overhead costs than unconditional transfers. These costs, as well as other related costs, for example for building materials and equipment, would reduce the overall amount of any DRF or insurance payout that could be distributed to beneficiaries. They are also likely to take longer to set up than unconditional cash transfers, resulting in delays in cash reaching beneficiaries, despite them needing quick support following a disaster. For these reasons it makes sense for DRF to be channelled through PWPs only if opportunity costs are demonstrably low, timeliness of payments is ensured, people with limited labour capacity will be reached through other channels and the building costs will not materially reduce the number of beneficiaries or the level of support that can be provided to address acute needs.

## 2. Be collaborative: design the financing and the SRSP together

Often in DRF, more attention is put into the design of the financial instrument than is put into the plan of how funds will be spent and the two are typically considered separately. Different organisations and line ministries are involved in the design of the financial instrument from those involved in the design of social welfare programming, with few opportunities for collaborative design or joint technical work.

The plan for how money will be spent must be connected 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. Joint working is imperative to ensure that there is good overlap between the people likely to be affected by the disaster for which you are designing finance

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<sup>9</sup> For example, Hill, R. et al (2021) 'The Impact of Pre-Arranged Disaster Finance: Evidence Gap Assessment', Working Paper 7, Centre for Disaster Protection, London, UK.

<sup>10</sup> Gentilini, U. (2014) 'Our Daily Bread: What is the evidence on comparing cash versus food transfers?', Social Protection and Labour Discussion Paper no. 1420, World Bank Group, Washington D.C

<sup>11</sup> This does not necessarily mean that physical bank notes are distributed – 'cash' may be e-money, mobile money, distributed through debit cards or vouchers that are redeemable in local shops.

<sup>12</sup> Costella, C. (2021) 'Synergies between African Risk Capacity and Social Protection in East and Southern Africa, SPACE Rapid Review, Social Protection Approaches to COVID-19 Expert Advice Service (SPACE), DAI Global UK Ltd, United Kingdom.

and those that the programme can realistically reach. The examples below show why a joined-up approach is important:

- If you want to **get money to people ahead of a disaster**, for example so they can purchase additional seeds before a drought or move livestock ahead of a flood, the finance will need to be designed so that it triggers early enough for the money to work its way through the social protection system and reach beneficiaries in time.
- If you want to use a social protection scheme to **reach vulnerable people in a particular geographic area**, the finance will need to be triggered based on events or forecasts relating to that specific locality. For example, if you were expecting to channel a parametric insurance payout through a social protection programme, you would want there to be a high correlation between the area covered by the insurance's risk model and the geographic coverage of the social protection programme. Without this, there would be a risk of the programme beneficiaries experiencing a disaster, but the finance not being released, or vice versa.
- Finally, if you were planning to use DRF to **horizontally scale up a social protection programme** to reach additional households then it would be crucial to liaise with the programme to ensure those groups can be added and to negotiate the overall amount of finance needed, for example considering the usual transfer value and incorporating overheads so that the amount of finance released following a disaster would be adequate.

### 3. Be prepared to take baby steps: SRSP may be a longer-term goal

As mentioned above, many low and middle-income countries lack strong social protection programmes and systems, meaning that a straight-forward 'vertical' or 'horizontal' scale-up of a programme is not necessarily going to be the best way to ensure support reaches those most affected by a disaster. However, this does not mean that SRSP should be abandoned altogether. With some DRF (for example in the distribution of some payouts from the insurance provided by ARC), funds are distributed as emergency cash or food transfers by humanitarian delivery partners such as UN agencies through parallel systems, as would be done with the distribution of funds from a regular humanitarian appeal. However, even when humanitarian delivery systems are being used rather than social protection programmes, there is still scope to take a long-term perspective and aim to simultaneously build capacities for SRSP. For example, humanitarian actors could:

- Trial new approaches (e.g. e-registration or e-payments) and pass learning and infrastructure onto social protection schemes.
- Piggyback some government systems, to improve them through the process, for example share beneficiary lists or communication channels.
- Pilot transfers through social protection programmes in some districts, even if it is not possible everywhere.
- Seek to share information and align practice as much as possible. At the very least, transfer values could be aligned to avoid confusion and inequalities<sup>13</sup>, and M&E data could be collected and shared for mutual learning.

These steps would all help to build systems and capacities for government-led SRSP in the future, without necessarily having a negative impact on the speed or efficiency with which a humanitarian-led response could be implemented in the present.<sup>14</sup>

A precursor to this kind of long-term, strategic approach is to prioritise collaboration between those working on DRF and those working on social protection, as mentioned above. For example, joint technical working groups or contingency planning processes that incorporate government staff from across ministries responsible for social protection and DRF would help communication and joined-up thinking.

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<sup>13</sup> See this [SPACE report](#) for further discussion on the complexities of setting transfer values in emergencies.

<sup>14</sup> This [UNICEF report on Madagascar](#), for example, provides examples of government and humanitarian agencies working closely to scale up the social protection systems where possible and align their actions in response to COVID-19. This included aligning the value and duration of the transfer and using shared targeting criteria, M&E systems and a common communication strategy.

Recent experience shows that SRSP takes a long time to set up. In response to COVID-19, it took an average of 83 days to pay beneficiaries cash transfers from the day the first set of “stay at home” restrictions were implemented in the country.<sup>15</sup> This suggests that there is still much work to be done to realise the potential benefits of speeding up emergency response by using social protection. However, by incorporating even these ‘baby steps’ into DRF Operational Plans, the world gets collectively closer to providing reliable support to vulnerable communities via pre-arranged SRSP.

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<sup>15</sup> Beazley, R. and Marzi, M. (2021) [‘Drivers of Timely and Large-Scale Cash Responses to COVID-19: what does the data say?’](#), Social Protection Approaches to COVID-19 Expert Advice Service (SPACE), DAI Global UK Ltd, United Kingdom.

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