

Making Social Protection Shock-Responsive through Disaster Risk Finance Mechanisms: Synthesis Report

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EXECUTIVE SUMMARY

This study addresses gaps in evidence on the potential to integrate disaster risk finance (DRF) and social protection systems. The research includes three case studies – Jamaica, Malawi and Mozambique. Despite growing interest and a compelling logic for linking social protection and DRF these links exist primarily at the theoretical level and have few real-life examples. While the selected case study countries have experience with disaster risk financing and shock responsive social protection, only Malawi has attempted to use DRF to fund shock response delivered through the social protection system. Therefore, the case studies focus primarily on the theoretical potential of DRF to fund shock responsive social protection (SRSP). The study puts forward six lessons from the three country case studies and 12 recommendations for donors interested in supporting this agenda.

Lesson 1: The ability of national social protection systems to scale and deliver assistance at the right time is a significant limiting factor in realising the potential benefits of DRF. The existing social protection systems in each case study country were not designed to respond to shocks. They are at different stages on their journeys to become shock-responsive, and each has significant limitations in their ability to scale up and provide timely responses to shocks. Social registries, necessary for targeting, are limited in coverage and often static, and payment systems struggle to deliver timely responses, undercutting the value of timely financing. Continuing to invest in the coverage, inclusive targeting, and shock responsiveness of the social protection system would be a prerequisite.

Lesson 2: DRF should be seen as part of a medium-term shift towards funding shock response through government systems, where external financing will still be needed in the near term, particularly in low-income countries. Pre-arranging financing for shock response through government systems will, in many cases, continue to require external financing for the foreseeable future. In low-income and conflict-affected settings, it may not be realistic to expect governments to take on the costs of shock response through government systems in the near term. Even where DRF is in place, the available funds may be small compared to the needs. In the interim, given the operational limitations of social protection systems, particularly in low-income settings, to scale up in response to shocks, it is likely that future shocks will continue to require responses led by humanitarian actors.

Lesson 3: The costs and benefits of financing shock response with different DRF instruments should be considered carefully. DRF instruments are often combined, with different types of instruments matched to other frequencies and volumes of risks and financing needs. Notably, risk retention instruments, such as contingency funds, are typically used to cover more frequent risks and market-based risk transfer instruments are reserved for less frequent and, in some cases, high-impact shocks where large volumes of funds are required. The cost-effectiveness of instruments should be a significant decision point when selecting financing instruments.

Social protection cost-effectiveness is often assessed as the cost per unit of transfer delivered to households. This cost can be calculated for shock-responsive transfers as the product of two numbers: the annual average cost of financing one unit of shock-responsive budget and the amount of shock-responsive budget required to fund one unit of shock-responsive transfer. Understanding the cost-effectiveness of DRF instruments is challenging, and it is even more so when donors supporting these mechanisms also do not disclose the full costs.

Lesson 4: Integration of DRF and SRSP requires many different actors to align, when they often have different objectives. Connecting financing instruments to SRSP systems is not only a technical challenge but also cuts across government policy and resource allocation priorities, and the interests and priorities of a range of government, development and humanitarian actors. Delivering DRF-backed SRSP relies on a broad collaboration of government and international partners. The interests and capabilities of actors may vary significantly. Political appetite from Ministries of Finance for macro-fiscal resilience to disasters typically drives the disaster risk financing agenda, not political appetite to ensure that a disaster leaves no one behind.

Lesson 5: Off-the-shelf pre-arranged finance instruments that pay out as general budget support are unlikely to meet the needs of shock-responsive social protection systems, particularly those in low-income countries. DRF tools are typically designed to pay out as unearmarked direct budget support. The absence of onward pre-commitment means that no clarity is provided to those delivering

social protection systems, nor the population at large, over what support people would receive from the government in the event of a disaster. Dedicated instruments and earmarking for social protection may be necessary. The scalable mechanism developed under the World Bank-supported Social Support for Resilient Livelihoods Project (SSRLP) in Malawi is a rare example of DRF instruments that are not simply 'linked to' the social protection system; they are specifically designed to support it as part of a bespoke integrated system.

Lesson 6: Shock-responsive social protection and disaster risk finance are relatively new agendas without strong domestic political backing. Both SRSP and DRF are heavily promoted and financed by international donors. Domestic political support for poverty or vulnerability-targeted shock response through social protection systems is often weak, and significant shifts in government commitment to social protection and DRF tend to have been linked to circumstances and political opportunity or necessity. Therefore, the whole scope of action is vulnerable to domestic political and donor support shifts. This vulnerability may lessen with every year of experience gained as public expectations and confidence are built. However, international partners should remain alert to the contingent nature of domestic support for SRSP and DRF. They must be mindful of the need for multi-year commitments to both build and provide funding to fuel the system. Donors also risk bringing incoherence and fragmentation with many competing agendas and timelines.

Recommendations for donors:

1. Ensure that investments in pre-arranged finance earmarked for social protection are complementary to investments in shock-response systems—investments in one increase the social rate of return of the other, and underinvestment in one can radically reduce the returns from investments in the other.
2. Assess the readiness of shock-responsive social protection systems to deliver timely and effective responses before designing financing instruments.
3. Support reforms and investments in enabling conditions – such as early warning systems, dynamic registration capacity, internal funding mechanisms and rapid transfer procedures - with realistic timelines and metrics to monitor progress in responsive capabilities.
4. Sequence investments to ensure that the benefits of timely and reliable financing that DRF can deliver are not lost in delivery systems that cannot reach the right people at the correct times, with scaling of pre-arranged finance as delivery capacity increases.
5. Assess the government's ability and willingness to take on the costs of financing systems for shock response and develop realistic multi-year financing packages.
6. Expect to maintain support for multiple strands of investment in the medium term, including continued humanitarian and development financing support for shock response, alongside investments in building up shock-responsive social protection systems and DRF instruments.
7. Estimate the costs of scaling up and responding to shocks under a range of risk scenarios to analyse likely future financial needs.
8. Assess the cost-effectiveness of various financing instruments that could meet these financial needs. Such analysis should be conducted by an impartial expert, not by an organisation offering such instruments. Where not possible, an impartial expert should at least review it.
9. Instrument providers must be transparent about the instruments' financial terms, including triggers and costs.
10. Define and monitor progress against a shared value statement with core constituencies, including finance and social protection ministries, which identifies the purpose of DRF-backed SRSP. This statement may be about what you want to achieve or the future you collectively want to avoid.
11. Consider DRF earmarked for social protection rather than instruments that provide general budget support. This can provide more predictability to social protection implementers, improve incentives for preparedness, and, when combined with investments in shock-responsiveness, increase the returns from such investments.
12. Assess who will pay for shock response through social protection in the medium term and try to ensure that they are politically bought in. In situations without medium-term political buy-in, investments in shock-responsive social protection systems or pre-arranged finance are likely to provide poor value and sustainability.

INTRODUCTION

Shock-responsive social protection and disaster risk financing are beginning to converge, at least in theory. While around half the world’s population still lacks access to social protection, social protection systems in low—and middle-income countries have expanded dramatically since the early 2000s.¹ Many social protection systems have been designed to reduce poverty and vulnerability to idiosyncratic shocks. However, in the context of growing humanitarian caseloads and exposure to climate-related shocks, the potential to use social protection as a mechanism to respond to covariate shocks—that is, shocks that affect a large proportion of the population at the same time—has rapidly emerged as a policy priority for international aid actors.²

Disaster risk financing, which emerged as a technical field and set of instruments established by multilateral development banks in the mid-2000s, has been elevated to a key focus of international climate policy since the UNFCCC COP 27 meeting in November 2022, with the formal launch of the G7—and V20-backed Global Shield against Climate Risks and the landmark agreement among the Parties to establish a fund to respond to Loss and Damage.³

Policy guidance increasingly points towards the potential benefits of connecting shock responsive or adaptive social protection and DRF.⁴ For example, the World Bank’s guidance on Adaptive Social Protection (ASP) identifies financing as one of the key building blocks and notes that “for ASP programs to become more responsive to shocks, risk financing strategies will need to be developed with appropriate risk financing instruments prepositioned and linked to responsive safety net programs.” (Bowen et al., 2020).

International humanitarian organisations, meanwhile, have shifted policy and practice towards the use of unconditional cash transfers,⁵ and are beginning to shift financing and programming approaches towards early action to predictable shocks. The latter emerged from a series of linked policy drives and programmatic innovations. These include a drive to reform international crisis financing models in the wake of ‘system-wide failure.’⁶ Of international actors to respond to repeated early warnings of impending crisis in the Horn of Africa in 2010 and 2011 that ultimately led to famine in Somalia that killed over a quarter of a million people.⁷ A key focus of the post-2011 reforms was shifting humanitarian financing models away from discretionary ex-post resource mobilisation in favour of early action, which was backed with compelling arguments for greater cost efficiency and improved humanitarian outcomes.⁸

Forecast-based financing, or anticipatory action, combines early actions to shocks with financing agreed upon before a crisis, which is guaranteed to be released to a specific implementer when a pre-identified trigger condition is met. It was pioneered by the Red Cross in the early 2000s,⁹ and promises a range of cost-efficiency benefits and improved humanitarian outcomes.

Disaster risk financing can potentially increase the predictability, speed and effectiveness of responses to shocks, reducing the human and financial costs. In principle, there are three main potential benefits to committing to more DRF for social protection. First, disaster risk can substantially

¹ Niño-Zarazúa et al 2022.

² Costella et al (2023) note that the first academic article on ‘adaptive social protection’ was in 2008. The concept likely emerged at or around this time.

³ Poole and Plichta 2023.

⁴ Note that while there are no commonly agreed definitions and both terms are used widely and often interchangeably, there are some important distinctions between ASP and SRSP. SRSP typically focusses on ensuring timely scale ups in response to shocks. ASP recognising the long-term risks associated with climate change has a broader scope and looks to build adaptive capacities through preparing for, responding to and building resilience aftershocks. See Cornelius et al (2018) for discussion on this topic. In this report, we refer to shock responsive social protection, which is the more widely used terminology and type of programming.

⁵ The use of cash for humanitarian response reached acceptance as a policy priority following the 2015 High Level Panel on Cash. See ODI 2015. Use of cash as a modality has increased year on year since 2015 and in 2022, US\$10 billion of aid was directed to cash and voucher assistance, 21% of international humanitarian assistance (CALP Network 2023).

⁶ As described in Darcy 2012.

⁷ Oxfam and Save the Children 2012.

⁸ See for example the influential UK government commissioned study on the Economics of Early Response and Resilience (Cabot-Venton 2013).

⁹ The Red Cross Climate Centre and German Red Cross developed the concept of forecast-based financing for humanitarian action in 2000. https://www.climatecentre.org/priority_areas/fbf-ibf/

reduce productivity, whether a shock occurs or not.¹⁰ Where DRF is combined with communications to people over what they can rely on from social protection systems in a disaster, it can allow them to plan better in advance and give them the confidence to invest in their future, relaxing these risk constraints to investment.

Second, converting unreliable to reliable public policy can reduce the cost of line ministries in delivering shock-response. If line ministries know what they will be asked to deliver in the event of different kinds of shocks, they are more likely to be able to invest in the right types and amounts of preparedness. For example, some international organisations have started providing anticipatory support to households a few days before a hurricane or flood hit. This kind of anticipatory action seems to provide good value for money, allowing vulnerable households to finance last-minute preparedness and risk-reduction investments.¹¹ Social protection systems will find it extremely challenging to deliver such responses if they are not properly planned in advance and if decision-making and financing are discretionary.

Third, suppose the government takes an inclusive approach to planning for social protection in the event of a disaster. This can allow greater participation and co-creation of solutions with at-risk communities than would be possible if planning was left until a disaster had already hit.

In short, while retaining financial discretion over what disaster response to the fund can be politically attractive, earmarking some DRF for social protection has the potential to lead to more efficient risk management decisions by individuals, better, more targeted investments in preparedness by the government, and possibly even empower people facing risk.

Box 1 Definitions

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Adaptive social protection aims to build the resilience of poor and vulnerable households to the impacts of large covariate shocks, such as natural disasters, economic crises, pandemics, conflict, and forced displacement, by providing transfers and services directly to affected households. ASP supports their capacity to prepare for, cope with, and adapt to the shocks they face—before, during, and after these shocks occur (Bowen et al., 2020).

Anticipatory action refers to actions taken before a crisis hits to prevent or reduce potential disaster impacts before a shock or before acute impacts are felt. The actions are based on forecasts or predictions of how the event will unfold (IFRC 2023).

Disaster risk financing covers the system of budgetary and financial mechanisms to credibly pay for a specific risk arranged before a potential shock. This can include paying to prevent and reduce disaster risk and prepare for and respond to disasters (CDP 2023).

Pre-arranged financing is financing 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 (CDP 2023)

Social protection is a set of policies and programmes aimed at preventing and protecting all people against poverty, vulnerability, and social exclusion throughout their life cycle, with a particular emphasis on vulnerable groups (SPIAC-B 2019:2).

Shock-responsive social protection refers to the increasing attention on the role that social protection can play in advance of, and in response to, covariate shocks (i.e., shocks that affect a large proportion of the population simultaneously) for immediate, medium- and longer-term support— alongside other sectors” (UNICEF, 2019:3).

Trigger A trigger is a predefined threshold of an index underlying a risk finance mechanism which, if exceeded, prompts a payout. A trigger may also leave an element of discretion to a designated party about whether to launch a response activity (CDP 2023).

Despite growing interest and compelling logic in linking social protection and DRF, these links exist primarily at the academic level, with few real-life examples.¹² Recent research in East Asia and the Pacific, for example, found that while all countries had relatively advanced disaster risk management capabilities, only one country had pre-arranged risk transfer financing in place, and all had either little or no experience of shock-responsive social protection prior to the COVID-19 pandemic.¹³

¹⁰ Hill et al. 2021.
¹¹ Pople et al 2021.
¹² Costella et al 2023.
¹³ UNICEF 2023a.

This study addresses gaps in evidence on the potential to integrate disaster risk finance and social protection systems. This study is conducted by the Centre for Disaster Protection through the Social Protection Technical Assistance, Advice, and Resources (STAAR) Facility. Commissioned by the United Kingdom’s Foreign Commonwealth and Development Office (FCDO) and United States Agency for International Development’s (USAID) Bureau for Resilience and Food Security Center for Resilience, the objective of this assignment is to support USAID, FCDO and other key players in identifying opportunities to further engage in the DRF and Social Protection spaces by providing a rapid overview of efforts to link DRF and social protection and deliver insurance and other DRF instrument pay-outs via social protection systems, developing a set of case studies of countries where existing systems have enabled pay-outs to take place, identifying enablers and blockers to pay-outs being made through social protection systems.

The research collates lessons from three case studies – Jamaica, Malawi and Mozambique. This paper presents the synthesis report of the three country case studies and offers lessons based on these examples. Therefore, it should not be considered a comprehensive assessment of experiences but a contribution to an early emerging field of policy and practice. Among the case study countries selected, each has experience with DRF and shock responsive social protection. Still, only one (Malawi) has attempted to use DRF to fund shock response delivered through the social protection system to date. Therefore, the focus of the case studies is primarily on DRF's theoretical potential to fund SRSP.

Table 1: Key characteristics of case study countries

	Malawi	Mozambique	Jamaica
Income group status ¹⁴	Low-income	Low-income	Upper-middle-income
Population size ¹⁵	20.4 million (2022)	33.0 million (2022)	2.8 million (2022)
Poverty headcount ratio at \$2.15 a day (2017 PPP) (% of population) ¹⁶	70.1 (2019)	74.4 (2019)	1.2 (2014)
GDP per capita ¹⁷	USD 645.2 (2022)	USD 558.3 (2022)	USD 6,047.2 (2022)
Risk of debt distress ¹⁸ (LICs only)	In debt distress	High-risk	N/A
Population covered by at least one social protection benefit ¹⁹	21.3%	13.4%	30.8%
Sovereign DRF instruments	Parametric sovereign insurance, contingent credit, contingency/ reserve funds	Parametric sovereign insurance, contingent credit, contingency/reserve fund	Catastrophe bond, parametric sovereign insurance, contingent credit, contingency/ reserve funds

The methodology for the case studies combined quantitative and qualitative data gathered through a desk-based evidence review and key informant interviews (KIs) with actors working on social protection, disaster risk management and humanitarian assistance. A major limitation of this study was the availability of key informants, particularly from government ministries. The case studies rely heavily on published literature, particularly for the Jamaica and Mozambique studies. In addition to the findings from the case studies, this paper also draws from global evidence from other relevant studies on SRSP, DRF and anticipatory action.

The following discussion presents a synthesis of common lessons, conclusions and recommendations from the case studies.

¹⁴ <https://data.worldbank.org/country>

¹⁵ <https://data.worldbank.org/country>

¹⁶ <https://data.worldbank.org/country>

¹⁷ <https://data.worldbank.org/country>

¹⁸ List of LIC DSAs for PRGT-Eligible Countries as of November 30, 2023. <https://www.imf.org/external/Pubs/ft/dsa/DSAlist.pdf>

¹⁹ ILO World Social Protection Data Dashboards

LESSONS

1. The ability of national social protection systems to scale and respond is a major constraint on the timely and effective delivery of DRF

In each case study country, the existing social protection systems were not originally designed to respond to shocks. They are at different stages on their journeys to becoming shock-responsive, and each has major limitations in their ability to scale up and provide timely responses to shocks.

Social protection systems designed to address poverty and idiosyncratic shocks at the individual or household level often target relatively small population sub-sets by design. This type of targeting may not map readily to populations impacted by covariate shocks, which might be large parts of the population across geographical areas affected by cyclones or flooding or certain economic groups, such as subsistence farmers affected by drought. To rapidly identify those at risk or affected, universal social registries that include information on key dimensions of vulnerability would be needed.

While Jamaica's social protection system has the potential to respond to shocks in principle, it is not set up to do so in practice. The Programme of Advancement Through Health and Education (PATH) is a proxy-means-tested safety net programme providing conditional transfers to around 350,000 people. Targeting is designed to identify and reach the chronically poor, who currently have limited capacity to capture the effects of shocks.²⁰ Delivery systems are manual—often paper-based—and small-scale, limiting their ability to deliver rapid payouts.²¹

In Malawi, the central social protection system has some demonstrated capacity to scale up the lean season response. Still, it cannot yet respond in a timely fashion to unforeseen and rapid-onset shocks.

Coverage is limited: the Social Cash Transfer Programme (SCTP) aims to include the poorest 10% in each district. Eligible people are not reached in districts where more than 10% of the population is ultra-poor and labour-constrained.²² A Unified Beneficiary Registry (UBR) was introduced in 2016 and currently aims to assess and record the household characteristics of 50% of households in rural areas. The UBR should allow the rapid identification of households for inclusion in scale-ups. The UBR is updated through mass 'census sweeps' every 4-6 years and was last updated in 2019. It is not, therefore, a dynamic tool which can respond to changing circumstances. Households that become vulnerable will not be included in the UBR; thus, until the next update and recent analysis, estimates that 20% or more of new eligible households will be created between census sweeps.²³ This poses a significant limitation for horizontal expansion in response to shocks, and it is estimated that transfer programmes reach fewer than 5% of households affected by shocks.²⁴

In Mozambique, government and development partners have prioritised building the social protection system's shock-responsive capabilities since 2016, including creating Programa de Acção Social para o Desenvolvimento—Post Emergencia (PASD-PE) in 2018 to respond to large-scale shocks with unconditional cash transfers. However, the social protection system overall has major limitations in coverage, with just 20% of poor households included in 2019.²⁵ Mozambique does not have a social registry and has low administrative capacity and ability to deliver payments.

Existing targeting and payment systems struggle to deliver timely responses, undercutting the value of timely financing. In Mozambique, efforts to respond to shocks through PASD-PE have faced severe delays in issuing payouts to beneficiaries for more than a year. Following Cyclones Idai and Kenneth in early 2019, PASD-PE was activated with swift registration. However, payments did not start until September 2020.²⁶ In response to the COVID-19 pandemic, PASD-PE was also activated. Payments

²⁰ UN Joint Programme 2022.

²¹ UN Joint Programme 2022; World Bank 2022.

²² UNICEF 2023b.

²³ UNICEF 2023b.

²⁴ Caruso et al 2022.

²⁵ World Bank 2021.

²⁶ Andrade 2022.

were not initiated until late 2020, and by the end of 2022, only around 68% of the target beneficiaries had received assistance. As of September 2023, payments were still being delivered.²⁷

DRF instruments can be designed and put in place relatively quickly, and they often have a good track record of providing rapid payouts. However, designing and setting up instruments for the first time may be costly, and loans and risk transfer products such as insurance and catastrophe bonds come with a fee. These additional costs may be justified if it means that a reliable and timely response can be delivered. The original value proposition of parametric drought insurance offered by the African Risk Capacity (ARC) risk pool, for example, was expected to exceed insurance costs and to be the sum of “improved risk financing and the benefits of early payouts to fund pre-agreed contingency plans.”²⁸ These benefits depended on a range of conditions, including that “there is a large-scale, well-targeted safety net or state-contingent scheme that can be scaled up quickly in times of hardship.”²⁹ However, if the delivery system cannot provide a timely and well-targeted response, pre-arranging financing can quickly become a costly endeavour that is difficult to justify.

A recent payout from Malawi’s ARC parametric drought policy illustrates this tension. The value proposition of purchasing parametric insurance through ARC is not only to provide access to financing. The parametric trigger is also calibrated to respond to early indications of drought in bad years to avoid negative coping strategies. This should enable national delivery systems to deliver responses earlier than regular lean season responses. The 2022/23 ARC policy was triggered before the lean season, but funds were not disbursed to beneficiaries any earlier than the regular lean season response. This was a more costly option than using regular donor or government budgetary funds and did not achieve the benefits of an early response; therefore, it did not provide a cost-efficient response compared to the alternatives.

Based on recent performance in scaling up to shocks, particularly in Mozambique, the value of responding through existing shock-responsive social protection systems that DRF could enable would likely not outweigh the costs. In such cases, continuing to invest in the coverage, inclusive targeting, and shock responsiveness of the social protection system would be needed as a prerequisite.³⁰



Recommendations for donors

1. Ensure that investments in pre-arranged finance earmarked for social protection are complementary to investments in shock-response systems—investments in one increase the social rate of return of the other, and underinvestment in one can radically reduce the returns from investments in the other.
2. Assess the readiness of shock-responsive social protection systems to deliver timely and effective responses before designing financing instruments.
3. Support reforms and investments in enabling conditions – such as early warning systems, dynamic registration capacity, internal funding mechanisms and rapid transfer procedures - with realistic timelines and metrics to monitor progress in responsive capabilities.
4. Sequence investments to ensure that the benefits of timely and reliable financing that DRF can deliver are not lost in delivery systems that cannot reach the right people at the right times, with scaling of pre-arranged finance as delivery capacity increases.

²⁷ Beazley, forthcoming; Hodges and Bischler, 2021.

²⁸ Clarke and Hill 2013.

²⁹ Ibid.

³⁰ The World Bank also argues in the context of shock responsive social protection in the Sahel that: “Establishing the capacity to respond to shocks is the priority before establishing funding mechanisms—without them, a DRF instrument would have little to finance.” (Lung, 2022).

2. DRF should be seen as part of a medium-term shift towards funding shock response through government systems, where external financing will still be needed, particularly in low-income settings

It may not be realistic to expect governments to take on the costs of shock response through government systems in the near term. Neither Malawi nor Mozambique, for example, have signalled that they are likely to take on the costs of scaling up their social protection systems.

Malawi's social protection system is likely to remain heavily donor-dependent. Since 2016/17, donors have provided an average of 95% of funding for Malawi's SCTP annually, with the government providing the remaining 5%.³¹ Historically, social protection in Malawi has been a heavily donor-driven agenda. The continued reliance on external discretionary funding raises serious questions about sustainability and country ownership.³² Scale-ups have also relied on supplementary donor contributions, leaving shock responsiveness highly vulnerable to unpredictable discretionary donor funding contributions. For the foreseeable future, both maintenance of the existing routine systems and scaling up in response to shocks will depend on donor support.

Malawi's ability to fund disaster response through DRF mechanisms from its own budget looks increasingly challenging. Malawi's contingent loans and sovereign insurance instruments are fully funded by donor grant funding. The African Development Bank (AfDB)'s support of Malawi's ARC premiums has very modest expectations of the government's capacity to take on the costs of premiums. The AfDB Africa Disaster Risk Financing (ADRFi) Program paid the full premium in 2021/22 and expects the government to provide 5% and 8% of the premium in the following two years.³³ This is a far higher level of premium support than would normally be permitted under ADRFi's own rules, where support is usually capped at 50%. A special case was made due to Malawi's fiscal constraints.³⁴

Regarding the overall outlook for the government's ambitions to pre-arrange financing for shocks, in 2023, the World Bank highlighted Malawi's very challenging fiscal environment, including high levels of inflation and debt assessed as unsustainable, noting "the uncertainty of future implementation, given limited fiscal space" (World Bank Group 2023b).

Where disaster risk financing is in place, the available funds may be small compared to the needs.

For example, in Mozambique, most support to the Government of Mozambique for response to Tropical Cyclone Freddy was arranged after the cyclone hit, for instance, with USD300 million of pure grant financing from the World Bank International Development Association (IDA)'s Crisis Response Window compared to a payout from a donor-supported insurance policy of less than USD1 million.

Therefore, it is likely that even with disaster risk financing mechanisms in place, substantial external financing will still be required in the short to medium term in low-income countries, particularly those with large debt burdens.³⁵

Parallel humanitarian responses may also still be required. Given the operational limitations of social protection systems to scale up to shocks and in areas of active conflict, it is likely that future shocks will also require parallel humanitarian response and support to scale-ups through working with third-party implementers. In Mozambique, large numbers of vulnerable, crisis-affected people are outside the scope of government social protection systems and are targeted instead by the internationally supported humanitarian response. In 2024, 1.7 million people will be targeted within the UN Humanitarian Response Plan, including 1.3 million people in conflict-affected areas. Humanitarian actors such as the World Food

³¹ UNICEF 2023.

³² Land et al 2022.

³³ AfDB 2022.

³⁴ Ibid.

³⁵ This has also been argued recently by the World Bank in the context of World Bank supported shock responsive social protection in the Sahel. For example: "Given the size of the need and current financial support, it seems unlikely that Sahel countries will be able to finance disaster-related social protection response costs by themselves in the short-to-medium term, even when using more effective, government-owned DRF systems. Donors will continue to play an important role in financing response efforts. DRF will not change this. This should not be discouraging to partners—also, countries with less exposure, greater public resources available, and more DRF instruments in place continue to have at least short-term needs for external assistance. For example, Kenya, which adopted a DRF strategy in 2018 and has established multiple instruments, also received, on average, US\$196 million per year in external humanitarian assistance from 2019–2021 (OCHA FTS)." Lung, 2022.

Programme are delivering cash assistance in coordination with the government and aligned with national targeting systems but funded and delivered by humanitarian partners.



Recommendations for donors

5. Assess the government's ability and willingness to take on the costs of financing systems for shock response and develop realistic multi-year financing packages.
6. Expect to maintain support for multiple strands of investment in the medium term, including continued humanitarian and development financing support to shock response, alongside investments in building up shock responsive social protection systems and DRF instruments.

3. The costs and benefits of DRF instruments should be considered carefully both by governments and aid financing partners

DRF instruments are often used in combination with different types of instruments matched to different frequencies and volumes of financing needs. The cost-effectiveness of instruments should be a major decision point when selecting financing instruments. Cost-effectiveness can largely be split into two issues: how much it costs to finance disaster response expenditures and how big the impact of the disaster response expenditures is.

To deliver value for money, the social impact of a disaster-contingent transfer would need to be greater than the costs of financing through regular budgetary or grant funding. The Jamaica case study considers three instruments—insurance from CCRIF, a cat bond intermediated by the World Bank, and a contingency fund held by the Government of Jamaica—and focuses on the cost of financing disaster response expenditure (See Box 2). Our analysis finds that if disaster-contingent expenditures are financed by CCRIF insurance, every \$1 of disaster-contingent expenditure would need to have a social impact at least 60% greater than the impact of regular transfers to be justified. The equivalent number for the World Bank cat bond is 190% greater impact. Calculating social impacts is challenging,³⁶ but even a simple cost multiple analysis can be instructive.



BOX 1: ANALYSIS OF THE COST EFFICIENCY OF DRF OPTIONS IN JAMAICA

One measure of the cost-effectiveness of different financial instruments for different segments of disaster risk is the opportunity cost 'multiple'.

For Jamaica's insurance policy and cat bond, the multiple is the amount you must pay to get 1 in the expected payout. Using information from World Bank project documents, we estimate that to finance \$1 of average expenditure, the Government of Jamaica has to pay a CCRIF premium of \$1.6.³⁷ Of course, for every \$1.6 in premium paid, the payout will be more than \$1 in some years and less in others, but for a premium of \$1.6, the average payout is estimated to be \$1.

A similar calculation for the World Bank cat bond yields a multiple of 2.9; the Government of Jamaica had to pay \$2.9 in risk margin (the equivalent of an insurance premium for a cat bond)

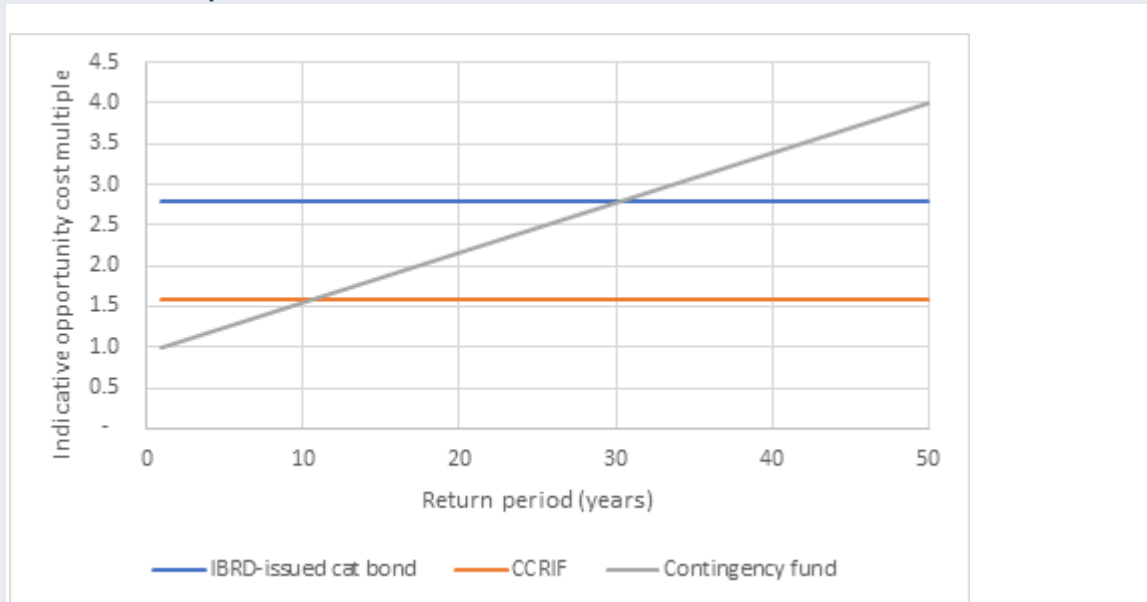
³⁶ Social impacts depend on the situation and nature of the disaster. There is strong evidence that fast actions taken to mitigate the impacts of income shocks where doing so protects child nutrition in the aftermath of disasters can have very high social payoffs, by reducing the risk of stunting, a condition that causes irrevocable harm by impairing brain development, leading to lower cognitive and socioemotional skills, lower levels of educational attainment, and hence lower incomes (Hill et al. 2019). The evidence base for disaster-contingent transfers having greater impact than regular transfers is weaker for other kinds of shock response however, and depends on the intensity and scale of the shock, as well as the nature of the response.

³⁷ World Bank (2022) estimates the CCRIF annual premium at US\$6.62 million, the coverage at US\$184 million, and the expected payout at 2.26 percent of the coverage.

for every \$1 of average payout from the cat bond.³⁸ This multiple suggests that financing contingent public expenditures through the cat bond was nearly twice as costly as through the CCRIF policy.

The opportunity cost multiple can also be estimated for a contingency fund using the formula in Clarke et al. (2017). This allows a simple comparison between these multiples and an indicative cost of financing the same cashflows through a contingency fund. Assuming an investment return on funds of zero and a marginal rate of sovereign borrowing of 6.5%³⁹ The (opportunity) cost of receiving an average disbursement from a contingency fund of \$1 ranges from \$1.06 for shocks expected to occur once every two years on average (i.e., at a return period of 2 years) to \$4.0 for shocks expected to occur once every fifty years on average (i.e., at a return period of 50 years) (Figure below).⁴⁰ Under these assumptions, a contingency fund would be cheaper than CCRIF insurance for losses more frequent than once every 11 years, and then CCRIF would be cheaper for financing more extreme, less frequent events.

Indicative opportunity cost multiples for three stylised risk financing instruments at different return periods



Opportunity cost multiples of financing contingent expenditures can be helpful when thinking through trade-offs between investing scarce public finance in maintaining the regular core caseload for a social protection programme or investing in disaster-contingent finance that would enable social protection to be temporarily scaled in the immediate aftermath of infrequent disasters. For example, suppose that the Government of Jamaica has an additional \$1.6m, which it could either invest in expanding regular transfers to additional households or in disaster-contingent transfers financed through CCRIF. For the former, \$1.6m would equate to \$1.6m of annual expenditure on regular transfers. For the latter, \$1.6m would equate to (much) more expenditure in disaster years and (much) less in non-disaster years, with an average expenditure of \$1m. When funding regular transfers, the average amount available is 60% more than when funding disaster-contingent transfers. So, for funding disaster-contingent transfers to deliver value for money, the social impact per \$1 of disaster-contingent transfer would need to be at least 60% greater than the impact of core caseload transfers.

³⁸ Plichta and Poole 2023.

³⁹ Taken as an approximation of the yield on Government of Jamaica sovereign fixed rate debt, using the estimated yield on sovereign bond with coupon 7.875% and maturity 28 July 2045, as quoted on the Frankfurt Stock Exchange on 29 February 2024, and rounded to the nearest half percentage point.

⁴⁰ Under these assumptions the Clarke et al. (2017) formula for the opportunity cost multiple for contingency fund financing is $(1+0.065 \times \text{Return Period})/1.065$.

Donors supporting these mechanisms also do not disclose the real costs or state what their assessment of value includes. The potential value may also include outcomes over and above the value delivered to the beneficiaries of the response or financing; for example, it could consist of experience and acceptance of the use of DRF, the discipline of analysing risk and planning for response, creation of new budgetary mechanisms and rules to allow receipt and management of DRF, and the creation of new markets for financing products. These potential benefits are rarely stated. The terms and costs of instruments are often not published.

Financial planning should also be able to accommodate changes in the cost of response.

Concerns were raised in Malawi that the value of cash transfers could no longer achieve the intended welfare benefits. Payment amounts were last adjusted in 2020 but are estimated to have been eroded in value by a quarter by rising inflation.⁴¹ In May and November 2023, the Malawian kwacha was also devalued, further increasing food prices and the cost of other basic commodities and thus limiting the impact of cash transfers.⁴² Assumptions that cash transfers will deliver welfare or social benefits that outweigh the costs of financing would need to be adjusted if the value of those transfers can no longer provide the same benefits.



Recommendations for donors

7. Estimate the costs of scaling up and responding to shocks under a range of risk scenarios to analyse likely future financial needs.
8. Assess the cost-effectiveness of a range of financing instruments that could meet these financial needs; where possible, such analysis should be conducted by an impartial expert, not by an organisation that themselves offers such instruments. Where not possible, an impartial expert should at least review it.
9. Instrument providers must be transparent about the instruments' financial terms, including triggers and costs.

4. Integrating DRF and SRSP requires many different actors to align, and they often have different objectives.

Connecting financing instruments to SRSP systems is not only a technical challenge; it also cuts across government policy and resource allocation priorities and the interests and priorities of a range of government, development, and humanitarian actors.

Delivering DRF-backed SRSP relies on a broad collaboration of government and international partners. At the very least, ministries responsible for public finances and the social protection system would need to be involved to secure and channel DRF for shock response through social protection systems. Design and validation of triggers for DRF mechanisms may also require the participation of meteorological and agricultural departments. In practice, since social protection systems have not been used to any great extent in responding to shocks in the three case study countries, the ministries or departments typically responsible for disaster response are also often involved in scale-ups, including with international humanitarian organisations supporting targeting and delivery.

In Mozambique, for example, clusters of international development and humanitarian partners are engaged with different parts of government, all working on different parts of shock-responsive cash transfer programming and financing. The World Bank, bilateral donors (UK, Sweden, the Netherlands), and UN agencies, including UNICEF and ILO, are engaged with the Institute of Social Action (INAS), a branch of the Ministry of Gender, Children, and Social Action on a range of support to the social protection system, including strengthening shock responsive capabilities. The World Bank is engaged with the Ministry of Economy and Finance (MEF) to implement financial preparedness measures against shocks.

⁴¹ UNICEF 2023b.

⁴² FEWSNET 2023.

The World Food Programme (WFP) is involved with the National Institute of Meteorology (INAM), the National Disaster Risk Management Institute (INGD), and the Ministry of Agriculture (MADER) to strengthen early warning for slow-onset disasters and anticipatory action programming to respond to early indications of shocks.

There are key areas of common interest and progress, including establishing a national disaster fund, sovereign risk transfer insurance cover against cyclone risk, and early warning protocols for drought. However, this does not yet add up to a coherent approach. Without a high-level vision and political commitment to SRSP backed by DRF, Mozambique is unlikely to organically arrive at a logically consistent and cost-efficient approach to shock responsive social protection backed by DRF.

The interests and capabilities of actors may vary significantly. In Jamaica, making financial provisions for shock response delivered through the social protection system has been part of Jamaica's DRF thinking and policy from a relatively early stage. Jamaica's 2021-26 National Natural Disaster Risk Financing (NNDRF) Policy includes under policy area 9: "Enhance management of implicit contingent liabilities related to social protection: (a) Strengthen the coordination system between social protection and DRM initiatives (b) Explore the feasibility of a disaster risk financing mechanism that targets SP." (GoJ 2021). This policy priority is not currently reflected; however, it is in current practice. This is because the lead ministries are at quite different stages in their journeys towards planning and preparing to respond to shocks and because their primary objectives differ.

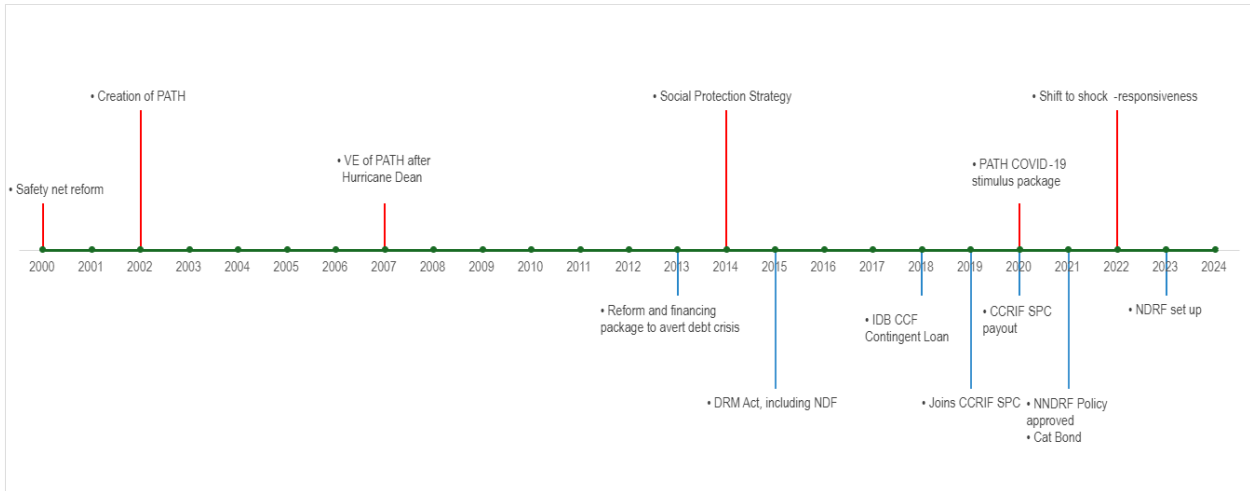
Jamaica began to build up its financial preparedness against shocks many years earlier during a period of major economic, fiscal and governance reform. Jamaica has put in place an advanced set of DRF mechanisms since 2018, including establishing new disaster-related contingency funds, signing up for a contingent loan from the Inter-American Development Bank, increasing insurance coverage from the Caribbean Catastrophe Risk Insurance Facility, and mobilising donor funding to pay for a catastrophe bond through the World Bank.

Despite the signal that pre-arranging funds for shock-responsive social protection should be a priority in Jamaica's DRF strategy, none of the instruments now in place include earmarking for social protection. This is consistent with Jamaica's original motivation to implement DRF, which is to protect Jamaica's public finances from major shocks.⁴³ Moreover, given Jamaica's risk profile, which includes exposure to hurricanes and flooding that cause costly damage to infrastructure, property and economic activity, and the particular economic vulnerabilities of small island developing states, this is a prudent approach to managing Jamaica's risks. In addition to increasing the financial resilience of Jamaica to disasters, this work has led to rare praise from credit rating agency Fitch Ratings,⁴⁴ It suggests that its financial resilience work may also positively impact its credit rating and, therefore, its cost of government borrowing, a substantial cost-benefit.

⁴³ Jamaica is an upper-middle income country (UMIC) Small Island Developing State (SIDS). Jamaica's relatively small, tourism and agriculture dependent economy is highly vulnerable to large-scale shocks, notably hurricanes and floods. An analysis from the World Bank estimates that hurricanes and floods cause average annual losses to government of USD 121 million (total damages), equivalent to 3 percent of total government expenditure, and for a 1-in-50-year event the Government of Jamaica is expected to have to cover losses USD 1 billion, equivalent to 27 percent of government expenditure (World Bank 2018). Hurricanes Ivan (2004) and Dean (2007) caused damages of USD 580 million and USD 329 million each (equalling 8 and 3 percent of GDP, respectively) (IMF 2023).

⁴⁴ Fitch Ratings 2021.

Figure 1: Key milestones in Jamaica’s disaster risk financing and shock responsive social protection capabilities



Similar to Mozambique’s DRF priorities, Mozambique's current priority is to ensure the Ministry of Finance has access to financial protection against cyclones, which have caused major fiscal shocks in the last five years, including extensive and costly damage to infrastructure.

Malawi, in contrast, has prioritised putting in place financial protection against peaks in cyclical drought, which impacts the economy and public finances in very different ways. Malawi faces a deteriorating climate for agriculture, which is increasingly understood as a critical threat to Malawi’s development. Drought does not impact Malawi’s physical infrastructure but affects individual households and the broader economy. Drought response is primarily funded by international donors and is not a major fiscal risk to the government. Therefore, the objective for Malawi and its development partners is to protect individuals, not public finances, in the first instance. There is far greater alignment between the SRSP and DRF objectives in this scenario. Malawi stands out among the three countries in demonstrating an integrated approach to designing DRF to match the scale-up priorities of a shock responsive social protection system.

i

Recommendations for donors

10. Define and monitor progress against a shared value statement with core constituencies, including finance and social protection ministries, which identifies the purpose of DRF-backed SRSP. This statement may be about what you want to achieve or the future you collectively want to avoid.

5. Off-the-shelf DRF instruments that pay out as general budget support are unlikely to meet the needs of shock responsive social protection systems, and particularly those in low-income countries

Many of the existing DRF toolkit instruments supported by international development financing were developed for middle-income countries.⁴⁵ These include contingent loans, cat bonds, and parametric sovereign insurance provided via regional risk pools. However, two important limitations exist in applying these tools to shock-responsive social protection in low-income countries.

⁴⁵ Plichta and Poole 2023.

The current DRF instruments are often unattractive and accessible to low-income countries. The largest volumes of DRF supported by international development financing are contingent loans. The World Bank’s Catastrophe Deferred Drawdown Options (Cat DDOs) were unavailable to low-income countries until 2018. The uptake of Cat DDOs is growing among low-income countries. Still, it remains low and notably, one of the few World Bank Cat DDOs in low-income countries, the Malawi Cat DDO, which paid out USD 30 million in response to Covid-19 in April 2020, was entirely grant financing.⁴⁶ Therefore, DRF is difficult for low-income countries to realise under the current financing offer from multilateral development banks.

Cat Bonds have been developed to provide financial protection against tropical cyclone wind and excess rainfall, earthquake and pandemic risk. They have typically been restricted to categories of risks which can be modelled and triggers designed that investors are familiar and comfortable with, notably triggers based on data, notably satellite, wind speed and seismic data, produced by trusted third-party providers. Cat bonds are also typically designed for relatively large volumes of protection, usually upwards of USD50 million. Cat bonds are, therefore, traditionally reserved for relatively remote or infrequent risks which have large fiscal impacts on governments. Premiums are also relatively costly, covering the costs of developing and structuring the product, the cost of the structure itself, and providing returns for investors.

Sovereign parametric insurance has far greater scope for tailoring risk types and frequencies, and the regional risk pools offer a growing variety of products, including drought and flood risks.⁴⁷ However, uptake in low-income countries remains relatively low and is frequently subsidised with support from donors to pay for premiums. In the 2021–22 ARC risk pool, for example, 73% of the USD30.4 million in premium income was paid for by donor premium support.⁴⁸

Disaster risk financing tools are typically designed to pay out as unearmarked direct budget support. The absence of onward pre-commitment means that no clarity is provided to those delivering social protection systems, nor the population at large, over what social protection systems would be asked to deliver and what support people would receive from the government in the event of a disaster—in terms of maintained and expanded social protection services. Providing such clarity to the population at large could allow people to plan better whilst giving them the confidence to invest in their future. Providing clarity to line ministries involved in social protection can help to avoid them under-investing in preparedness. The ARC bucks this trend by requiring and monitoring delivery against contingency plans. In practice, however, ARC payouts have rarely been channelled through social protection systems and have tended to use existing disaster response delivery systems, including providing in-kind relief and replenishing grain reserves.

Dedicated instruments and earmarking for social protection may be necessary. Prevailing policy orthodoxy suggests that governments should adopt comprehensive disaster-risk financing strategies and packages of instruments, and the DRF strategies in Jamaica, Mozambique, and Malawi follow this approach. However, it may be more practical in resource-constrained settings to adopt a more pragmatic, sectoral, and risk-specific approach and to ‘start small’ and be targeted.⁴⁹ The scalable mechanism developed under the World Bank-supported Social Support for Resilient Livelihoods Project (SSRLP) in Malawi is a rare example of DRF instruments that are not simply ‘linked to’ the social protection system; they are specifically designed to support it as part of a bespoke integrated system. The newly established instruments include a contingency fund within the SSRLP to cover less severe and more frequent drought responses and a risk transfer product to provide access to additional funding for more severe and less frequent droughts. The scalable mechanism also forces the discipline of costing response in advance and pre-agreeing response modalities, providing far greater predictability (see Box 2).

⁴⁶ World Bank Group 2023.

⁴⁷ Plichta and Poole 2023.

⁴⁸ OPM 2022.

⁴⁹ The World Bank’s Shock Adaptive Social Protection Programme (SASPP) in the Sahel for example argues that “For a given country in the Sahel, it may be more practical to start its DRF agenda by implementing a program-specific DRF strategy rather than a comprehensive national DRF strategy.” (Lung 2022).



BOX 2: MALAWI'S BESPOKE INTEGRATED DRF SUPPORT TO SHOCK RESPONSIVE SOCIAL PROTECTION⁵⁰

In determining DRF solutions to support the scale-up mechanism, the Government of Malawi had to decide the parameters of the scale-up. This included deciding the types of risk, the number of people covered, and the levels of payouts that would be provided. This provided planning figures on the costs of response and enabled value-for-money analysis of different financing options.

Scalable Mechanism selected design parameters

Parameter	Level selected
Rural household coverage	17% in each of 3 selected districts
Transfer amount per HH per month	MK 25,000 (USD 24.4)
Duration of transfers	3 months
Historical frequency of scale-up	1-in-3-year return period

The rules for activating and responding are described in a publicly available Scalable Handbook, and a two-step trigger mechanism initiates the release of funds. Building on lessons from existing indices, the trigger mechanism includes remote sensing data and evidence on conditions on the ground in a 'stepwise' structure. This staged payout structure reduces the financial risks of false positives while still enabling early response. It is thought to be preferred by commercial insurance providers and could reduce insurance costs. The 'failsafe' second step, whereby analysis from the indices is verified against observations from the ground, reduces the likelihood of basic risk events like that experienced with the Africa Risk View index in 2015.

The government decided on a contingency fund within the SSRLP to cover less severe and more frequent drought responses and a risk transfer product to provide access to additional funding for more severe and less frequent droughts. Both instruments use the trigger mechanism, response parameters, and processes in the Scalable Handbook. An ARC drought insurance policy was procured at the end of 2023 with GSSP funding to provide up to USD 10 million in coverage for two years. The contingency fund is resourced by the World Bank and Global Shield Financing Facility (GSFF) and acts as a deductible to the insurance policy.

The scalable mechanism clarifies future costs of response for planning and budgeting purposes and transparent rules around when and how responses can be expected. It is also designed to initiate a response to anticipated impacts of drought much earlier than the current lean season response. The trigger mechanism is designed so the government knows whether the SCTP will be scaled up and in which districts by mid-May. Payouts to beneficiaries are designed to arrive before the start of the lean season (June to August), when food prices are lowest, and before people resort to negative coping mechanisms. In principle, this would result in cost savings and avoided losses, which could also be factored into assessments of value for money.

It is too early to assess the scalable mechanism's efficiency, effectiveness and impact. However, there are early positive indications. The scalable mechanism was triggered during the 2021/22 rainfall season when rains arrived late, resulting in a failed planting season in several areas. This lack of rainfall was captured as the primary trigger, initiating a scale-up in the Ntcheu district. The index was close to the trigger threshold in Thyolo and Blantyre, and based on the secondary trigger evidence review that indicated worsening food security, the government decided to scale up in all three districts. USD 6.3 million was drawn from the contingency fund to scale up to 74,000 households. In 2024, significant payouts to 150,000 households are expected in July across 10 districts, funded by both instruments. Ultimately, the aspiration is to roll out a nationwide mechanism covering all 28 districts and additional risks, notably flooding - this will depend on securing financing.

Source: Poole and Plichta 2024

⁵⁰ Based on World Bank 2023 and Choularten et al 2023.



Recommendations for donors

11. Consider DRF earmarked for social protection rather than instruments that provide general budget support. This can provide more predictability to social protection implementers, improve incentives for preparedness, and, when combined with investments in shock-responsiveness, increase the returns from such investments.

6. Both shock-responsive social protection and DRF are relatively new agendas that have not yet achieved strong domestic political backing

There is strong demand from the government of Jamaica for disaster risk financing. Still, the shock-responsive social protection and disaster risk financing agendas in the other study countries and shock-responsive social protection in Jamaica have been driven by donor partners to a large extent. Therefore, the whole scope of action is vulnerable to domestic political and donor support shifts. This vulnerability to changes may lessen with every year of experience gained and public expectations and confidence built. However, international partners should remain alert to the contingent nature of domestic support for shock responsive social protection and DRF. They must be mindful of the need for multi-year commitments to both build and provide funding to fuel the system. Donors also risk bringing incoherence and fragmentation with many competing agendas and timelines.

Both SRSP and DRF are relatively new agendas with uncertain domestic political commitments.

Major shifts in government commitment to social protection and DRF are linked to particular circumstances and political opportunity or necessity. For example, political acceptance of social protection underwent a major shift in Malawi during the election campaign of Joyce Banda in 2012, for whom social assistance was a key electoral campaign issue (Hamer and Seekings 2017). Within two months of Banda assuming office, the government published a National Social Support Policy (NSSP) and introduced the Malawi National Social Support Programme (MNSSP) (Siachiwena, 2023). Government support for social protection has remained in place since this tipping point.

Mozambique began to implement cash transfer programmes in the late 1980s and 1990s in the context of a massive increase in poverty, exacerbated by the dismantling of many social programmes benefitting the poor under the terms of a structural adjustment programme agreed with the IMF in 1987 (de Camargo Penteado 2022). During the early 2000s, the UN led a new policy drive to address poverty through social protection (de Camargo Penteado 2022). International donors did not resume their support for social protection in Mozambique, however, until cuts to fuel subsidies in 2008 and 2010 led to rioting, and social protection became framed both by the government and international partners as a tool to ensure political stability (ibid; Buur and Salimo 2018).

While support for social protection to address poverty and idiosyncratic shocks has grown over decades, SRSP is still a relatively young agenda in each of the case study countries, and there has been no significant galvanising event or circumstances that have galvanised domestic political support. In Malawi, SRSP is the third pillar in Malawi's 2018-2023 Malawi National Social Support Programme II, and SRSP is included in Mozambique's 2016-2024 social protection strategy (ENSSB II). Jamaica has agreed to two large shock responsive social protection programmes with development partners since 2022. The use of government social protection systems to deliver social assistance in response to COVID-19 has expanded the policy space for development actors to work on shock responsive social protection with government partners. However, none of the study countries has yet backed these early policy signals in favour of shock responsive social protection with dedicated funding from their budgets, and it is unclear whether SRSP is considered a domestic priority.

DRF in Jamaica, in contrast, demonstrates strong domestic political commitment and demand. Since 2015, Jamaica has made a concerted shift towards putting in place financial planning and preparedness for disasters (GoJ 2021). This shift occurred within the context of a programme of economic stabilisation

and fiscal and institutional reform agreed with multilateral creditors beginning in 2013. On the brink of a debt crisis in 2012, and following many decades of low growth, increasingly unsustainable levels of public debt, and failed reform efforts, a package of financing (USD 1.8 billion) accompanied by a strict programme of fiscal consolidation and reforms to strengthen Jamaica’s macro-fiscal policy framework, transform the public sector, and improve the investment climate was negotiated to avert a debt crisis (World Bank 2020). Financial planning and disaster preparedness emerged as a priority within a political environment highly receptive to policy and institutional reform (Wigglesworth 2020). The political demand for DRF in Mozambique and Malawi, backed by donor grant funding, is unclear.

Donor behaviours have introduced high levels of fragmentation. Given the lack of a coherent vision and objectives, the involvement of multiple government ministries and departments, international actors and programmes, with varying objectives and timeframes of policy frameworks and programmes, fragmentation and incoherence are common. Donors often bring strong preferences, historical relationships and institutional siloes to their approaches to engaging with the government and each other.

In Mozambique, before the 2016 ‘hidden debt’ scandal that led to the suspension of budget support across the board, donors were split in their approaches to supporting social protection. A new donor division of labour has emerged since 2016, which has brought greater policy coherence. In 2017, the UK, Netherlands and Sweden shifted their support to a joint UN programme, which included a range of technical upgrades and reforms, including a new management information system, IT upgrades and a new child grant.⁵¹ The UK, Netherlands and Sweden also worked with the World Bank to establish a multi-donor trust fund (MDTF) to coordinate donor contributions and technical assistance in a new division of labour between the UN and the World Bank. The World Bank’s social protection programme, which includes support from bilateral donors through the MDTF, is now the main source of international development support for the social protection sector.

In Malawi, international partners have exacerbated existing fragmentation across government systems to a significant extent. This fragmentation is illustrated by the complex arrangements among donors and government to support Malawi’s Social Cash Transfer Programme (SCTP), where a geographical division of labour has been negotiated with responsibilities for supporting provinces allocated across the government (one province), bilateral donors and the World Bank. A new MDTF was created in 2023 to bring greater coherence among donors, which receives contributions from the US, Iceland, Norway, Ireland, and the UK and is managed by the World Bank. Notably, Germany, a major donor to social protection in Malawi, does not currently participate in the MDTF.

Humanitarian operations continue to be funded and delivered through parallel programmes coordinated by the Department of Disaster Management Affairs (DoDMA). Meanwhile, humanitarian anticipatory action frameworks are at risk of generating new forms of fragmentation, investing in short-lived parallel systems that are not well aligned with the longer-term vision and potential to deliver at scale that shock-responsive social protection supported by DRF may offer.

Efforts to integrate shock-responsive social protection and DRF mechanisms could, in principle, generate greater predictability and transparency by agreeing on the conditions under which they will respond and using common response tools and modalities. Common registries, triggers, and electronic payment systems should facilitate greater complementarity in responses and in practice. These agreements and tools could provide a common language that enables coordination but does not address the challenges of competing incentives and interests that need to be actively managed.



Recommendations for donors

12. Assess who will pay for shock response through social protection in the medium term and try to ensure that they are politically bought in. In situations without medium-term political buy-in, investments in shock-responsive social protection systems or pre-arranged finance are likely to provide poor value and sustainability.

⁵¹ FCDO 2019.

CONCLUSIONS AND RECOMMENDATIONS

This paper provides six overarching lessons and twelve donor recommendations based on the country's case studies of Jamaica, Malawi, and Mozambique.

One theme of the recommendations is that domestic political support for poverty or vulnerability-targeted shock response through social protection systems is often weak. In Jamaica, the political appetite for macro-fiscal resilience to disasters drives the disaster risk financing agenda, not the political appetite to ensure that no one is left behind by a disaster. In Mozambique, the political appetite for social protection is weak overall. In Malawi, national social protection systems and DRF are primarily funded by donors, and while political support may be present, both are likely to remain dependent on external financing for the foreseeable future. In all cases, there are opportunities for donors to invest in systems that deliver better outcomes for people affected by disasters. However, these may not be quick wins and require sustained support from development and humanitarian partners to get systems and finance ready to go in times of crisis.

Another theme is that stakeholders who are interested in shock-responsive social protection or disaster risk finance often have somewhat different objectives, with social protection actors, their development partners and humanitarian organisations prioritising protecting the welfare of vulnerable people, and ministries of finance and their development partners often prioritising protecting government budgets from fiscal shocks. This can lead to incoherence and unnecessary complexity on the ground. Where possible, multilateral action backed by a jointly agreed objective can lead to significant payoffs relative to more fragmented approaches.

Finally, we have a range of recommendations from the perspective of pre-arranged finance, including the importance of having instruments that provide earmarked finance for planned responses, not unearmarked finance that targets 'needs', as well as the importance of impartial financial advice for pre-arranged finance investments to ensure that all stakeholders understand what they are paying for and why. The complete list of recommendations for donors is as follows:

1. Ensure that investments in pre-arranged finance earmarked for social protection are complementary to investments in shock-response systems—investments in one increase the social rate of return of the other, and underinvestment in one can radically reduce the returns from investments in the other.
2. Assess the readiness of shock-responsive social protection systems to deliver timely and effective responses before designing financing instruments.
3. Support reforms and investments in enabling conditions – such as early warning systems, dynamic registration capacity, internal funding mechanisms and rapid transfer procedures - with realistic timelines and metrics to monitor progress in responsive capabilities.
4. Sequence investments to ensure that the benefits of timely and reliable financing that DRF can deliver are not lost in delivery systems that cannot reach the right people at the correct times, with scaling of pre-arranged finance as delivery capacity increases.
5. Assess the government's ability and willingness to take on the costs of financing systems for shock response and develop realistic multi-year financing packages.
6. Expect to maintain support for multiple strands of investment in the medium term, including continued humanitarian and development financing support for shock response, alongside investments in building up shock-responsive social protection systems and DRF instruments.
7. Estimate the costs of scaling up and responding to shocks under a range of risk scenarios to analyse likely future financial needs.
8. Assess the cost-effectiveness of various financing instruments that could meet these financial needs. Where possible, such analysis should be conducted by an impartial expert, not by an organisation that offers such instruments. Where not possible, an impartial expert should at least review it.
9. Instrument providers must be transparent about the instruments' financial terms, including triggers and costs.

10. Define and monitor progress against a shared value statement with core constituencies, including finance and social protection ministries, which identifies the purpose of DRF-backed SRSP. This statement may be about what you want to achieve or the future you collectively want to avoid.
11. Consider DRF earmarked for social protection rather than instruments that provide general budget support. This can provide more predictability to social protection implementers, improve incentives for preparedness, and, when combined with investments in shock-responsiveness, increase the returns from such investments.
12. Assess who will pay for shock response through social protection in the medium term and try to ensure that they are politically bought in. In situations without medium-term political buy-in, investments in shock-responsive social protection systems or pre-arranged finance are likely to provide poor value and sustainability.

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ANNEX: RESEARCH FRAMEWORK AND GUIDING QUESTIONS

Overall research question: What are the opportunities, potential risks, and benefits of channelling disaster risk instruments, including climate shock insurance payouts, through national social protection systems to impact people's lives?

Research sub-questions:

1. What are the opportunities for channelling these financial instruments through social protection systems?
2. What are the potential risks and benefits of channelling these financial instruments through social protection systems?
3. To what extent do these opportunities offer value for money (VfM), integrate gender equality and social inclusion considerations, and engage with local actors?

Sub-question 1 provides the focus of data collection questions. Analysis to respond to question 2 is expected to emerge from evidence collected to respond to question 1 and includes consideration of VfM. VfM, GESI and inclusion of local actors are treated as cross-cutting research lines of enquiry across the research framework.

To what extent would the risk profile benefit from DRF instruments and approaches?

- **Hazard** - What is the nature of the hazard the country faces? How well defined are the event and hazard types, and does this constitute a priority risk type for the most vulnerable people? How often is funding likely to be needed?
- **Exposure** - What is at risk, and is the exposure sufficiently defined?
- **Funding need** - What is the scale, frequency, and timing of funding need? Does the funding supplied cover the social protection needs? Is historical shock data used to analyse the predicted cost of future responses with social protection?
- **At risk** - Who is at risk, and who receives funds or support? What are the different – or heightened – risks and vulnerabilities that vulnerable groups face in the given context? What are the key drivers of these differential risks?
- **Data** - Are there functional early warning systems, and are these linked with SP? Is any of the data collected, analysed and reported disaggregated based on the intersecting and multiple risks and inequalities that people (age, sex, geography, etc.) face to inform decisions on DRF/AA/SP design and implementation?
- **Triggers** - Is there an agreed trigger to initiate shock response or to scale up social protection systems in shock response? To what extent are the triggers considered legitimate and credible? Are they anchored in local knowledge?

What is the SP system's state of 'readiness' to respond to shocks?

- **Programmes** - What kind of non-contributory cash/in-kind transfer programmes does the government operate? What are the objectives of the SP programme? What geographic areas does it target and reach? What is the coverage? What vulnerabilities does the programme seek to address?
- **Targeting and recipients** - Who are the programme's intended recipients, how have they been selected and enrolled, and is the approach appropriate to target and integrate poor and vulnerable households before and aftershocks? Are 'hard to reach' groups, including persons with disabilities and minority groups, targeted? Are social registries or databases used to target recipients for a shock response, and has the coverage been expanded within high-risk areas? Are the plans and targeting criteria openly available and accessible?
- **Local actors**—Are local actors involved in discussions regarding the setting of eligibility criteria and broader targeting design? Are local actors being consulted on the optimal design of the transfer type, level, frequency, and duration? Have local actors been involved in the design of delivery systems? Are resources dedicated to local actors' engagement? How else can local networks be used for effective targeting?

- **Benefits** - Does the number of benefits from the programme provided during shocks contribute to promoting increased savings and maintaining household consumption and welfare?
- **Communication**—How is information disseminated within at-risk communities (and including target recipients) to inform strategies and actions for household preparedness, coping, and adaptation in times of shock?
- **Grievances** - Can eligible people appeal/complain if interventions/ payouts are missing, sub-standard, or do harm? Are local actors engaged? If not, how can local actors be engaged to provide real-time information for rapid response and recipient feedback?

Preparation - Are SP programmes and payment platforms prepared to disburse available funds to recipients efficiently once released?

What is the capacity and willingness of risk owners to finance shock response?

- **Spending** - What percent of GDP does the government spend on social assistance and disaster response? How are social assistance and disaster response currently funded?
- **Plans**—Are there pre-agreed plans and instruments for using and delivering funds for different risks? Are these timely and appropriate?
- **Strategy** - Does the Government have a national strategy, policy or legislation setting out commitments to disaster risk financing or social protection? Do risk transfer instruments form part of a risk layering strategy to address risks of different frequency and severity? Is there any government policy or strategy that recognises the role of (shock-responsive) SP in disaster risk management? Were different stakeholder groups, including local actors and vulnerable communities, involved in the national policies/strategies?
- **Disbursement** - Are disbursement channels defined (flow of money or resources), and can these systems absorb and distribute the funds effectively?
- **Political will** - To what extent are DRF instruments, approaches, and social protection systems integrated? What are the motivating or limiting factors influence the decisions around whether there are links or no links?
- **Institutional capacity**—Is there capacity for delivering funds through SP? How are the capacities, skills, tools, and resources of local actors being engaged?
- **Collaboration** – Are core sectors collaborating? To what extent is there a collaborative, coordinated approach between government actors, development partners, local actors, and GESI-focused organisations? Are any key partners missing, and why?
- **Costs**—Are the costs affordable to stakeholders? Does the approach to delivering funds through SP represent good value for money relative to alternative options?
- **Gaps** - Where are major gaps and challenges currently experienced in financing shock response?
- **Investments** - What other investment areas are necessary to effectively deliver PAF/SP/AA within the given context?