Social Protection Approaches to COVID-19: Expert Advice

Summary Brief

What are future financing options for shock responsive social protection?

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Introduction

Awareness of the need for shock-responsive social protection (SRSP) has grown rapidly over the past few years, as part of a broader effort by humanitarian and development partners to both reduce risk, and transfer and address existing and new risks as they arise. However, the diverse aspects and potential financing for SRSP remain under-explored, and shock-responsive elements in social protection systems and programmes are rarely institutionalised or adequately funded.

Utilising and scaling up SRSP has been a key strategy implemented by governments and international partners around the world to address the effects of COVID-19. This has included providing additional support through routine social protection systems, utilising existing social protection systems to inform different programmatic responses, and aligning with the disaster risk management or humanitarian sectors to enhance the provision of support to the most vulnerable (Gentilini et al, 2020).

Beyond mortality and morbidity risk, the COVID-19 pandemic has impacted national economies, hit the global poor and vulnerable the hardest, exacerbated pre-existing vulnerabilities and created new vulnerabilities, particularly around gender equity and social inclusion. The effects of the pandemic have demonstrated the need to expand coverage and strengthen routine and shock responsive social protection systems, at a very challenging time for decision makers facing tough decisions on where to prioritise investment.

This paper, and the longer Technical Primer that accompanies it, are designed to inform discussions around financing SRSP. It starts by clarifying terms and providing a framing to guide approaches to SRSP financing. It then provides a high-level overview of current and potential sectoral financing sources for SRSP, as well as specific financing instruments, their applicability and limitations for SRSP, and how they can be better institutionalised. It ends with a series of reflections for a broad policy and programme audience. Along the way, the Technical Primer signposts the reader to useful resources through footnotes, a recommended reading list, bibliography, and a glossary.

A conceptual framework for financing shock responsive social protection – money-out / money-in

The way in which programmes are financed fundamentally shapes their ability to manage risk and address need in an efficient, effective, economic and equitable manner. The relationship between financing, policy and programming is symbiotic – programming follows the boundaries and pre-requisites set by financing sources and instruments, and financing is limited or enabled by the context, planning, capacity, and flexibility of the systems and programmes in-country. Understanding this interplay is crucial to improving how SRSP is designed and delivered, and increasing the range of financial sources and instruments available.

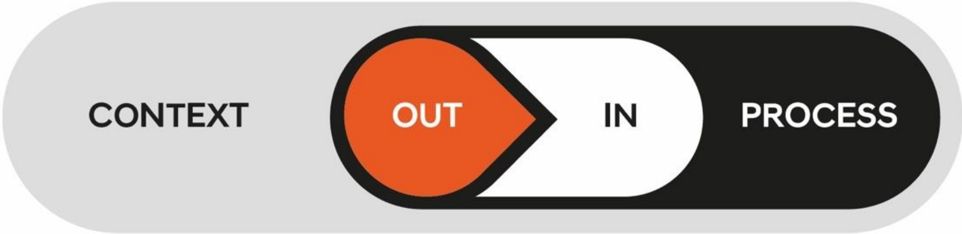
Whilst there is no common definition of financing for SRSP, it is in effect a potential combination of financing sources and instruments from different sectors that address different aspects and layers of risk. It includes disaster risk financing, a system of budgetary and financial mechanisms arranged before a shock to pay for a specific risk (Centre for Disaster Protection, 2020a), but financing for SRSP (like adaptive social protection) is broader and can also cover the whole spectrum of interventions across the risk cycle, including investing in longer-term, risk-aware routine social protection and resilience programmes, or connecting to other forms of financing such as humanitarian assistance and climate finance. Acknowledging this broad remit, this paper focuses particularly on financing linked to shock preparedness, response and recovery.

Beyond definitions, what matters are the principles that enable SRSP policy and programmes to address the multi-dimensional risks posed by covariate shocks more coherently. Fundamentally there is need for a balance of investments to both reduce as well as transfer risks. This is why we suggest a **'money out / money in'** framework to guide practitioners (Figure 1 below), reflecting the relationship between financing, policy and programming mentioned above.

Figure 1: Conceptual framework matrix for financing SRSP

Context – the underlying risk, need, and wider factors to consider when developing risk financing-based approaches to financing covariate shocks.

Money-in instruments – the SRSP financing instruments in place to supply the right amount of money at the right time.



Money-out systems – the systems, plans, and capacities in place that use money to reduce the impact of disasters on people e.g. SRSP systems in country.

Project management processes – practical considerations, including project implementation processes, costs, contingencies, communications with beneficiaries, and monitoring and evaluation.

Source: Adapted from Centre for Disaster Protection, 2020a

This framework is intentionally designed to highlight that getting financing for SRSP right requires that first we look at ‘money-out’ factors before ‘money-in’:

- **Understand context, and prioritise risks** - this means considering (1) whom the SRSP system should protect and (2) what they should be protected against (World Bank, 2014). Factors include the expected impact of certain risks on certain population groups, their financial cost, and overarching political objectives (Lung, 2020). Also important is understanding the current or future capability of the social protection system to scale for covariate shocks, and its connections with other systems and programmes to do this.
- **Address ‘money-out’** - regardless of instrument chosen, financing must find its way to the right target groups through well-functioning, planned and coordinated delivery systems (partners, modalities, targeting criteria, monitoring and evaluation, etc.) with capacity to scale, with appropriate coordination mechanisms, action plans, and decisions around how / when funds can be disbursed (ideally built around triggers for rules-based disbursement). Investment is needed in areas such as reviewing data needs, estimating shock impact, and inclusive participation and multi-dimensional assessments of vulnerability.
- **Design ‘money-in’** - following from the above, designing ‘money in’ options from pre-arranged financial instruments so that plans are backed by the right amount of funds that come at the right time (see more below).
- **Ensure good process management** - lastly, ensuring approaches are supported by effective project management processes including practical considerations such as programme costs and plans, communications with beneficiaries, role clarification and contingency planning, and monitoring and evaluation.

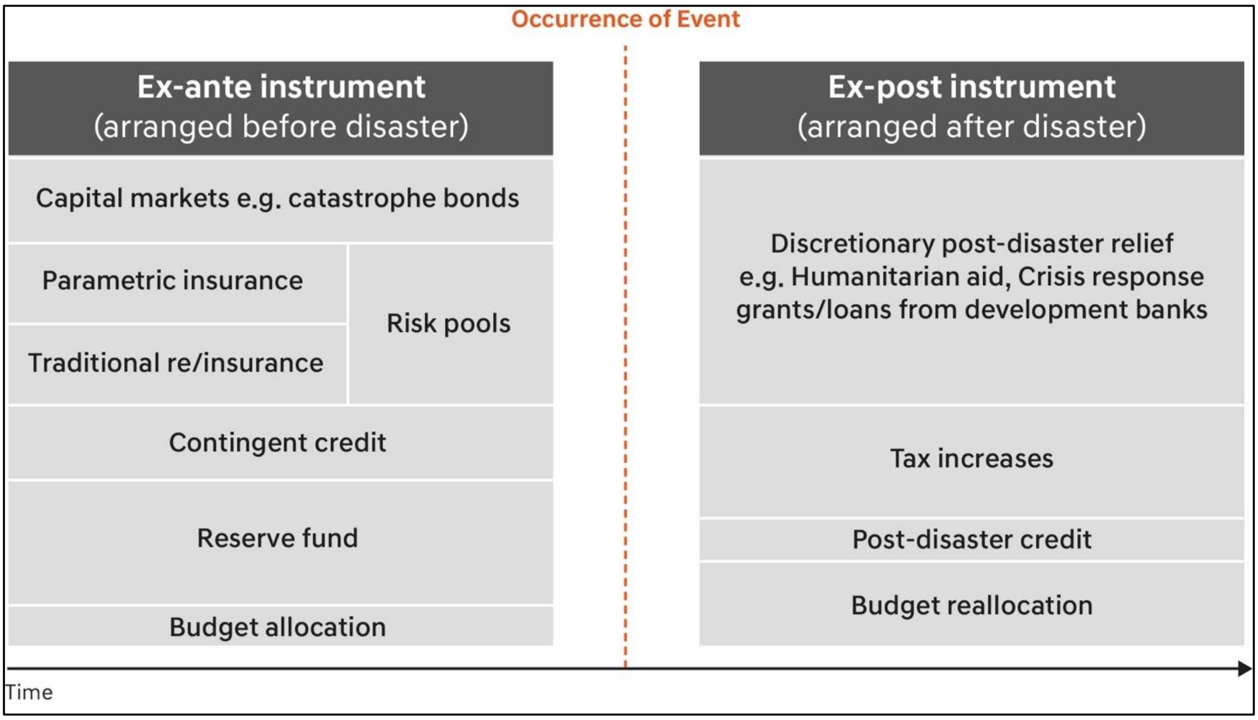
Money-in

Financing for SRSP comes from a mixture of sectoral sources and actors, yet in overall terms it is low and hard to track, and there are a limited number of institutions that offer risk-finance instruments. The increased focus on introducing a wider range of instruments from international financial institutions (IFIs), including in fragile and conflict-affected situations, offers potential new inroads for poorest countries to access finance. See the full paper for a break down analysis of these actual and potential sectoral sources of finance for SRSP.

Each financial instrument offers certain advantages, but also comes with distinct challenges and prerequisites that need to be considered carefully. Context is king, as not all SRSP systems can be designed to address the same needs or shocks, nor are they all targeted to meet every need of their beneficiaries. Whilst some financing instruments are quite restrictive, others like parametric insurance, are highly flexible. Sometimes only one instrument can work, or none at all.

Identifying risk-ownership at different levels of government is critical. Instruments can be financed from different sectoral sources and actors, but are predicated on a range of decision points, including fiscal constraints, political will, opportunity costs and reputational risk. There is a need to address essential questions on who ‘owns’ the risk before the shock occurs and needs are generated – aligning the actions of governments with IFIs and other international actors.

Figure 2 – Potential financial Instruments for shock responsive social protection



Source: Centre for Disaster Protection (forthcoming)

As presented in Figure 2 above, potential financing instruments for SRSP may be broadly separated into two categories: (1) money agreed and in place before the shock (ex-ante); and (2) or money arranged after (ex-post). The table below groups potential financing instruments for SRSP along these lines, and summarises their pros and cons for SRSP as well as the type of risk they are most suited to (see full paper for more extensive analysis):

Instrument	Pros	Cons	Best suited to
Ex-Ante			
Contingency / reserve / dedicated disaster funds: set aside as a financial buffer (e.g. Philippines National Disaster Risk Reduction and Management Fund is financed through an allocation in the annual budget).	Fast, encourages forward-planning, well-documented, strong government control, high potential for early action measures.	High opportunity costs, fiscal discipline required, no risk-transfer element, funds exhaustible, and discretionary.	**Low risk layer: frequent low-impact events,** e.g. annual flooding or localised drought or conflict.

Instrument	Pros	Cons	Best suited to
Triggered contingent finance (humanitarian anticipatory action): using objective triggers to receive grants from a pre-arranged fund released in advance of the shock to incentivise risk-reduction activities (e.g. CERF in 2017 released USD106m in response to signs of famine in Northeast Nigeria, South Sudan, and Somalia).	Fast, flexible, objective triggers, pools resources, increasingly anticipatory, no repayment, fewer conditions.	Little mainstreaming or coordination, issues of 'acting in vain' (triggering support for a shock that does not materialise), high degree of technical input required.	**Low risk layer: frequent, low-impact shocks,** or those that exceed the capacity of national actors; also as a pre-cursor to larger shock-responsive efforts.
Triggered contingent finance (credit lines): pre-arranged loans which can be drawn-down rapidly after pre-identified shocks (e.g. World Bank IDA CAT-DDOs to all IDA-eligible countries meeting criteria).	Fast, encourages forward-planning, cheap, can incentivise risk-reduction pro-activity.	Conditional, adds to debt-burden (possibly prohibitively for some countries), potential for less political scrutiny (if normal processes are bypassed in a disaster).	**Mid risk layer: higher-magnitude events that occur less frequently** but with overwhelming impact e.g. widespread flooding or hurricane.
Parametric risk-transfer instruments: pre-agreed financing arrangements where a third party agrees to assume the costs associated with the occurrence of a certain event (e.g. insurance, such as the African Risk Capacity.	Cheap, fast, incentivises planning and fiscal discipline, transfers some risk, objective triggers.	Expensive for frequent shocks, vulnerable to political criticism, requires risk literacy / technical input.	**High-severity, low-frequency events,** e.g. severe droughts, hurricanes, or earthquakes.
Catastrophe bonds (cat bonds): that transfer catastrophe and natural disaster risks from a risk owner to global capital markets (e.g. USD225m cat bond to protect against earthquake and tropical cyclones in Philippines).	Can be cost-effective for catastrophic risk, transfers some risk, incentivises transparency, planning and fiscal discipline.	Can be expensive for frequent shocks, higher development / transaction costs, requires risk literacy / technical input, often focuses on money-in rather than targeting vulnerable.	**High-severity, low-frequency events** with otherwise overwhelming economic and human impacts.
Ex-Post			
Budget reallocations: diverting existing government funds away from public services and ongoing projects and towards disaster response effort (1993 Cyclone Kina - Fiji launched a rehabilitation programme equivalent to 5.3% of total expenditure).	Easy and quick to implement.	Re-directs funds from other projects, limited transparency, limited resources.	**Frequent stop gap** whilst accessing additional financing, but unsustainable long-term option for financing disasters.
Conventional humanitarian finance: provided by donors after the impact of a shock has been experienced.	Flexible, can respond to need and doesn't have to be repaid.	Can be slow so the hazard impact increases, unreliable, and can undermine planning.	**Used for different shock types** but unsustainable long-term option for financing disasters.
Post-disaster borrowing financing additional expenditure through taking on additional debt (e.g. IMF's Rapid Credit Facility (RCF) and Rapid Financing Instrument (RFI), which provide rapid financial assistance to countries facing an urgent balance of payments need).	Last resort can be cost-effective.	Slow to arrange, adds to debt-burden, conditional, costly.	**Unpredictable and infrequent disasters**, regardless of scale.

Recommendations

Big picture focus

1. **Disasters are political, and so are the decisions about financing them.** Shifting from a more ex-post to ex-ante model requires discussions on who owns risk and who pays for it, with governments taking more ownership over time. Governments may need a more convincing business case to invest and deepen ownership of shock responsive approaches, demonstrating how SRSP complement, not entirely replace, existing response mechanisms, and how risk finance can ensure benefits actually reach the poorest (as currently many DRF mechanisms do not have this explicit link).

2. **Risk finance can be used to leverage policy and programmatic reform, but actors must speak with one voice.** Instruments can deliver more than just money, they can improve systems strengthening for SRSP, encourage better risk ownership and management, and institutionalise stronger fiduciary discipline. They can also support efforts in other policy areas, such as climate change or agricultural development. Yet institutional and fiscal reform is lagging behind programmatic innovation, with more effort needed in areas of relevance to SRSP. Disaster risk finance strategies are a key vehicle for such advocacy.

3. **A balance of investments is necessary to both reduce and transfer risk, with more transparency needed around value for money.** Reducing the size of the risks to be transferred also reduces the cost of transferring the risk (Hobson, 2020), and risk transfer should be considered a last resort. Without investing in risk reduction and prevention, interventions can become more efficient at responding to shocks, but not necessarily more effective in reducing risk and caseloads over time. More transparency is also critical, including reporting of expenditure, to better track investments and instrument value for money and increase accountability, advocacy and investment in SRSP. Addressing this comes down to questions of politics and coordination rather than technicalities such as which financial instruments to use.

4. **Climate finance, especially adaptation finance, has significant potential to fund SRSP, but barriers exist.** Stronger advocacy is needed for the use of climate funds to support routine and SRSP, and to climate proof the sector, including through international adaptation and loss and damage finance and Nationally Determined Contributions. Global climate funds need to resolve how climate finance can be used for SRSP. The 2021 United Nations Climate Change Conference (COP26) and the momentum created by the COVID-19 crisis, offer significant opportunities to advocate for such a shift in thinking (Aleksandrova, 2021).

5. **Enhance the role that humanitarian actors and financing instruments can play in financing SRSP.** Currently, several humanitarian partners are funding SRSP initiatives, with growing use of global pooled funds for anticipatory and forecast based action (Pichon, 2019). Risk pooling, such as ARC, offer humanitarian agencies the opportunity to 'replicate' their coverage to reach additional households, enabling humanitarian actors to also access market risk capital to cover costs related to humanitarian action in specific countries (Hobson, 2020). Greater discussion and joint planning are required to link humanitarian actors and financing mechanisms to the broader SRSP picture.

6. **Increase investment in approaches to financing SRSP that that are responsive to gender equality and social inclusion issues.** Resources need to not only get out at the right time, but reach the right people, differentiated by inter-sectional needs. Increased investment is necessary across components of the system to ensure responses a) reach women, girls and diverse groups, and b) contribute to longer-term empowerment and transformative objectives (beyond the immediate shock response).[1] This can be further advanced by investing in local organisations led by or representative of women, persons with disability etc., to help ensure SRSP resources are channelled directly to women, girls and diverse groups as part of shock response.[2]

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[1] See SPACE Strengthening Gender Equality and Social Inclusion (GESI) During the Implementation of Social Protection Responses to COVID-19

[2] See SPACE Programming Guidance: Embedding Localisation in the Response to COVID-19

7. **Research expanding financial protection strategies from climate- and weather-induced covariate shocks to cover other complex risks.** More evidence is needed on how to finance SRSP in fragile and conflict affected situations, which in contexts of insecurity is quite different. Likewise, more could be learned from other shock-responsive systems, such as health response systems, building on the multiple lessons learned through the COVID-19 response.

Technical focus

8. **Risk financing mechanisms offer huge potential, but addressing skills and affordability deficits is essential.** Risk financing in the development sector is relatively new, and technical expertise is at a premium. A shift of expertise is needed from private enterprises and international financial institutions towards the public sector. The affordability of certain instruments such as risk transfer is still out of reach for many countries, which is preventing risk regional pooling mechanisms from achieving scale. The international community needs to consider smart subsidisation of the costs of DRF and SRSP in the short term to make risk financing more affordable (Hobson, 2020).

9. **The range of existing financial products for SRSP should be consolidated.** Innovation in areas such as catastrophe risk modelling and parametric insurance instruments has revolutionised the cost-effectiveness of DRF mechanisms, and made it possible to transfer larger volumes of natural hazard risk to global markets (Hobson, 2020). However, few countries have successfully developed and sustained a coherent set of DRF instruments, and more investment could be made in helping country-based stakeholders to scrutinise the options available, enabling wider government uptake.

10. **Disaster risk financing instruments need to consistently be attached to downstream delivery vehicles such as SRSP.** Successful examples of effective disaster risk finance linked to SRSP are hard to find. Where a multitude of risk financing approaches are in effect, they may not be working around the same contingency plans. Coherent yet differentiated investments are needed in systems and various forms of capacity development (human, financial, material), regardless of context, levels of fragility, or the maturity of existing social protection systems.

11. **Investing in risk-aware systems, data driven processes and systems for SRSP benefits everyone.** Investing in risk-aware systems and tools that can be used or interconnected to serve a wider community of actors and beneficiaries, and can address a multitude of shocks, forms the backbone to good risk finance and good SRSP. Place more focus on a systemic approach to risk management, designed around core and commonly agreed principles, for the benefit of the users.

12. **Review the proposal for a global social protection fund from the angle of financing shock responsiveness.** The fact the proposal includes shock responsiveness as part of its core mandate is welcomed. Naturally many questions remain, including how shock responsive investments would be planned and managed alongside those to extend routine social protection in an integrated manner. More expertise could be provided so that both ‘money in’ and ‘money out’ factors could be integrated into the design and governance of the fund. Interaction between a global fund for social protection, and others such as the Green Climate Fund, as well as global health funds also merits discussion.

As we move into a post-COVID-19 world, the case for financing approaches to SRSP remains strong, yet the availability of both resources and political will may be at a premium. Enhancing investment requires enlarging the business case for SRSP in ways that demonstrate the potential scale and diversity of sources and instruments, and the fundamental relationship between improved financing, systems building and programming. We hope this paper contributes to making that case.

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