

Financial Protection for Resilient Livelihoods

Increasing the resilience of poor households to disaster events



Why is financial protection important to reduce poverty and increase shared prosperity?



Financial losses from natural disasters continue to rise. Developing countries and their low-income populations experience the greatest impacts.



The Disaster Risk Financing and Insurance Program (DRFIP) leads the dialogue on financial resilience as part of the World Bank Group's effort to support vulnerable countries in better managing disasters and climate shocks.

How we support governments

Disasters—and their economic and social impacts—are on the rise. While disasters do not discriminate, they tend to have the greatest impact on the poorest. These households have limited assets and limited capacity to absorb shocks, so disaster impacts can have long-lasting consequences for them. Furthermore, women and girls often bear brunt of direct (mortality rates higher among women) and indirect (negative impacts on nutrition and school performance are disproportionately high among girls) impacts of di-

sasters¹. A growing body of evidence shows that rapid assistance during a crisis is essential to build the resilience and protect the welfare of poor and vulnerable households². Disaster Risk Finance (DRF) can play a role in ensuring that disaster response mechanisms react and respond quickly.

The development objective of our work on Resilient Livelihoods is to increase the resilience of chronic and transitory poor households to disaster events, focusing on **three main outcomes**:



1. Governments better understand the fiscal costs, as part of the broader macro economic framework, of delivering assistance to the poor during crisis events.



2. Financial/actuarial analyses and tools are used to design both the rules of response and the risk financing strategies (including for example a risk layering approach) to support scaling up of safety nets.



3. Financial strategies are monitored and evaluated to develop a more robust evidence base, and support the global knowledge agenda in this new and evolving area of work.



¹ Baez, de la Fuente, and Santos 2010.

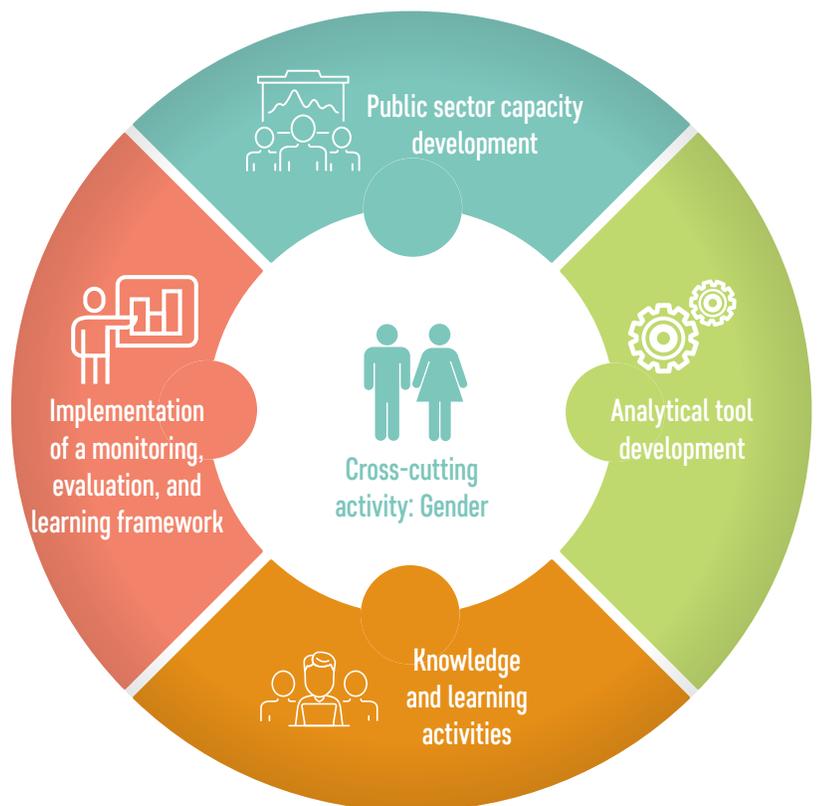
² Hill, Ruth; Skoufias, Emmanuel; Maher, Barry Patrick. 2019. The Chronology of a Disaster: A Review and Assessment of the Value of Acting Early on Household Welfare. Washington, D.C.: World Bank Group. <https://hubs.worldbank.org/docs/imagebank/pages/docprofile.aspx?nodeid=31059677>

What we do

Developing shock-responsive safety nets requires multi-sectoral expertise from the Disaster Risk Financing and Insurance Program (DRFIP) and strong collaboration within the World Bank Group as part of our cross-cutting, sectoral approach. Our work with Social Protection and Labor experts enables the World Bank Group to build systems, processes and procedures for delivering critical resources to households. We combine our efforts with World Bank Group initiatives on Social, Urban, Rural and Resilience to strengthen the national disaster risk management agenda and collect essential risk information that underpin our technical dialogue with governments.

The Disaster Risk Financing and Insurance Program (DRFIP) contributes technical expertise and brings together critical partnerships from across the World Bank Group. Our technical work on Resilient Livelihoods is implemented through four finance-related activities and one cross-cutting activity:

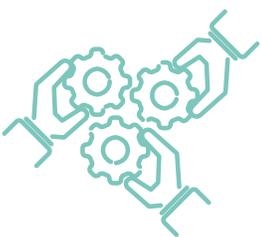
- 1. Public sector capacity development** aims to increase client governments' understanding of the financial impact of disasters on the poor, and the potential costs of response mechanisms, through analytical outputs.
- 2. Analytical tool development** enables client governments to (i) develop criteria for implementing crisis responsive post-disaster safety nets; and (ii) make informed decisions about how to finance the safety net's costs, such as a contingency budget, reserves, insurance, or contingent credit.
- 3. Knowledge and learning activities** add to the growing and rapidly evolving knowledge base on this function.
- 4. Implementation of a monitoring, evaluation, and learning framework** facilitates the gathering of evidence on how disasters and rapid response impact the financial resilience of poor households. Learning will be critical for this effort, given its beginning stage of development.
- 5. Gender is a cross-cutting theme** that is mainstreamed across each of the four financial activities. Compared to men, women tend to experience increased insecurity after a disaster and must work harder to support their basic household needs, so it is important to ensure that financial planning for disaster response takes gender into account.



The World Bank Group's Disaster Risk Financing and Insurance Program (DRFIP) is within the World Bank's Finance, Competitiveness and Innovation Global Practice. As a leading provider of analytical & advisory services on disaster risk finance, it helps governments, businesses, and households manage the financial impacts of disaster and climate risk without compromising sustainable development, fiscal stability, and well-being.

Partnership with the Swedish International Development Cooperation Agency

In December 2016, the Swedish International Development Cooperation Agency and the Disaster Risk Financing and Insurance Program of the World Bank, through the Global Facility for Disaster Reduction and Recovery (GFDRR), signed a partnership on DRF for Resilient Livelihoods to increase the resilience of chronic and transitory poor households to disaster events.



Impact

KENYA

Background. In Kenya, over 75 percent of farmers are smallholder subsistence farmers or pastoralists who are highly vulnerable to the economic effects of drought, flooding, and other natural disasters. According to the Kenyan government, damages from drought amounted to US\$12.1 billion (approximately 5% of GDP) between 2008 and 2011, with the livestock sector accounting for 70 percent of these damages. To assist poor families affected by drought, the government of Kenya looked to develop a mechanism for scaling up its safety net programs in response to drought, starting with the Hunger Safety Net Program (HSNP), a cash transfer program in the four poorest counties of northern Kenya.



Our engagement. The DRFIP were involved in the initial thought process for establishing the HSNP scalability mechanism, and developed financial tools to estimate the potential cost of response.

With the program now maturing, the DRFIP led the design of a US\$72m shock-responsive component of the Kenya Social and Economic Inclusion Project, which has the objective of strengthening the HSNP scalability mechanism. Working with GoK on this component, the HSNP is expected to protect over 315,000 households (1.5 million people) from the impacts of drought over the five years of the project. The component will also support GoK develop a risk layering approach to financing HSNP scalability, potentially including a sovereign drought risk transfer product.

Impact. Between November 2012 and March 2018, HSNP Phase 2 spent over 160 million dollars on regular and emergency transfer to households. About 28 million dollars (approx. 22.6 million pounds) was disbursed to households who received ad hoc financial support in the event of a drought emergency through a new “emergency scale-up” mechanism.

UGANDA

Background. Uganda’s rural population is predominantly smallholder farmers and pastoralists who are subject to several production constraints and have limited capacity to cope with recurrent shocks. Vulnerable households in Uganda face considerable climatic risks, primarily related to drought.



Our engagement. The US\$130 million Northern Uganda Social Action Fund (NUSAF) III project has a US\$12 million disaster risk finance component. Led by DRFIP, this component provides additional post-disaster support to vulnerable households through an automatic expansion of the NUSAF III Labor Intensive Public Works (LIPW) activities. The component seeks to develop and test a system for rapidly scaling up LIPW in response to shocks in order to build the resilience of beneficiary households.

The DRF component was initially piloted in Karamoja, where households are acutely vulnerable to drought. The World Bank Group team worked closely with the government of Uganda to (i) streamline data collection and analysis to help officials better understand drought conditions in Karamoja and develop an appropriate index to monitor drought; (ii) establish clear triggering rules for disbursement of funds from the DRF mechanism; and (iii) establish a US\$10 million reserve fund (using project resources) that can be drawn down to finance the expansion of LIPW.

Impact. Since project effectiveness, the DRF mechanism has triggered a response in three of the subsequent years, disbursing over US\$9m to over 50,000 households (250,000 people) in the Karamoja subregion. The largest scale up was in 2016, where El Niño caused widespread drought in the Karamoja region. The parametric index developed under the NUSAF project captured the drought and triggered a scale-up of LIPW. As a result, US\$4.1 million was disbursed to finance disaster assistance to approximately 30,000 households, or 150,000 people, in Karamoja.

Olivier Mahul
omahul@worldbank.org

Barry Patrick Maher
bmaher@worldbank.org

DRF Community of Practice / Capacity Building
Kaavya: kashokkrishna@worldbank.org

www.worldbank.org/drfi
www.financialprotectionforum.org

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