

# Malawi: Social Support for Resilient Livelihoods Project

Linking Disaster Risk Financing with  
Social Protection Systems



Disaster Risk Financing  
& Insurance Program



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# TODAY'S **Agenda**

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Opening Remarks



Speaker Introductions



Technical Presentation



Audience Q&A



Closing Remarks

# Meet Our Speakers

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**Evie Calcutt**

Financial Sector Specialist  
| The World Bank



**Mulder Mkutumula**

Disaster Risk Finance Specialist  
& Scalability Coordinator  
| NLGFC Malawi



# Evie Calcutt

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**Financial Sector Specialist**  
World Bank



# Executive Summary

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**Government of  
Malawi scalability  
mechanism and  
financing plan enables  
the Social Cash  
Transfer Program to  
scale-up in response  
to shocks**



# Scalability Mechanism

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## Background:

Making the SCTP shock-responsive is a key pillar of the government's Disaster Risk Financing Strategy. Support to develop the SCTP scalable mechanism was provided by the World Bank through the **Social Support for Resilient Livelihoods project (SSRLP)**, with additional grant finance from the Global Shield Financing Facility.

## Coverage:

Designed to protect around **600,000 people** in six districts at the onset of drought. It monitors rainfall and food insecurity, to deliver payouts before the lean season.





# Financing Plan

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## **Estimated cost:**

Estimating the average annual cost (currently around USD\$ 2.8million), enabled the government to design a financing plan that had enough funding to meet their needs in a cost-efficient way.

## **Risk retention and risk transfer:**

A contingency fund is used to cover regular funding needs, and a risk transfer instrument to cover the cost of larger scale-ups.



# Impact

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## Experience to date:

The mechanism was first implemented during the 2021/2022 rainfall season and the government made payouts to protect 400,000 people in 3 districts following drought triggers being met. In 2022/2023 transfers are currently being delivered in 1 district, protecting 65,000 people experiencing drought.

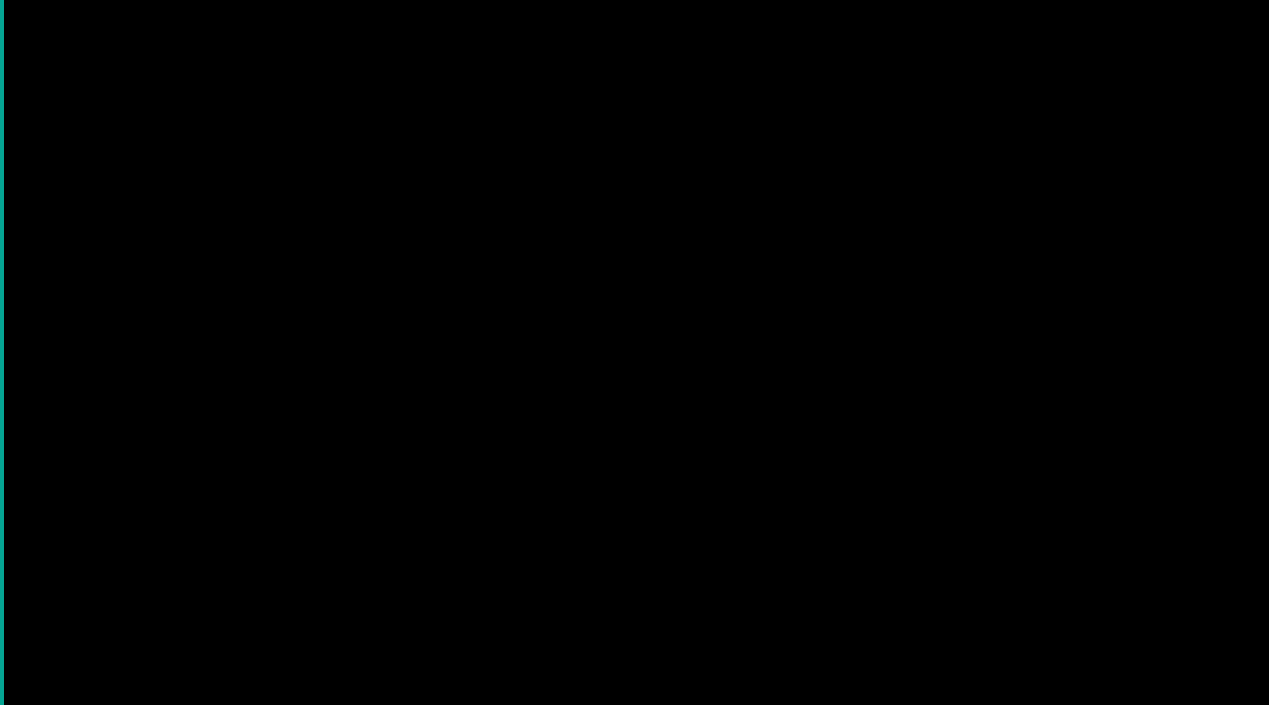
## Lessons:

Whilst pre-established rules and financing helps to speed-up response, it requires time and investments to build up the finance expertise and delivery systems.



# SSRLP Video

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# Disaster Context

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**Malawi is acutely prone to disasters, including floods, droughts, and storms putting the government under enormous liquidity challenges**



# Disaster Context

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- Disasters have significant economic consequences, impacting infrastructure, agriculture, housing, and livelihoods. Contributing to the high and persistent poverty.
- Malawi's high dependence on rainfed agriculture contributes to volatile agriculture performance.
  - In 2014, floods affected over one million people at damage costs c.US\$335 million, or 5.2 percent of GDP (PDNA 2015).
  - In 2016, drought related damages and losses to the economy amounted to US\$ 370 million, which was equivalent to 5.6 percent of GDP and 50 percent of population at risk of severe food insecurity.
  - In 2023, **Cyclone Freddy** resulted in over 600 deaths, half a million people displaced, and 300 health facilities destroyed.





# Historically Reactive Disaster Response

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- Vote for Unforeseen Expenditures not adequate.
- Large reallocation of budgetary resources from productive budget lines required.
- Development partner assistance has normally been fragmented and slow to come.
- No provision of pre-arranged funds.
- The Government want more proactive measures to reduce the overall impact of the disasters.
- Being able to channel resources to poor households in times of crisis is also a focus.



# Disaster Risk Financing Strategy 2018–2023

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Mission to proactively  
manage economic and fiscal  
risks as well as protect public  
finances against disasters

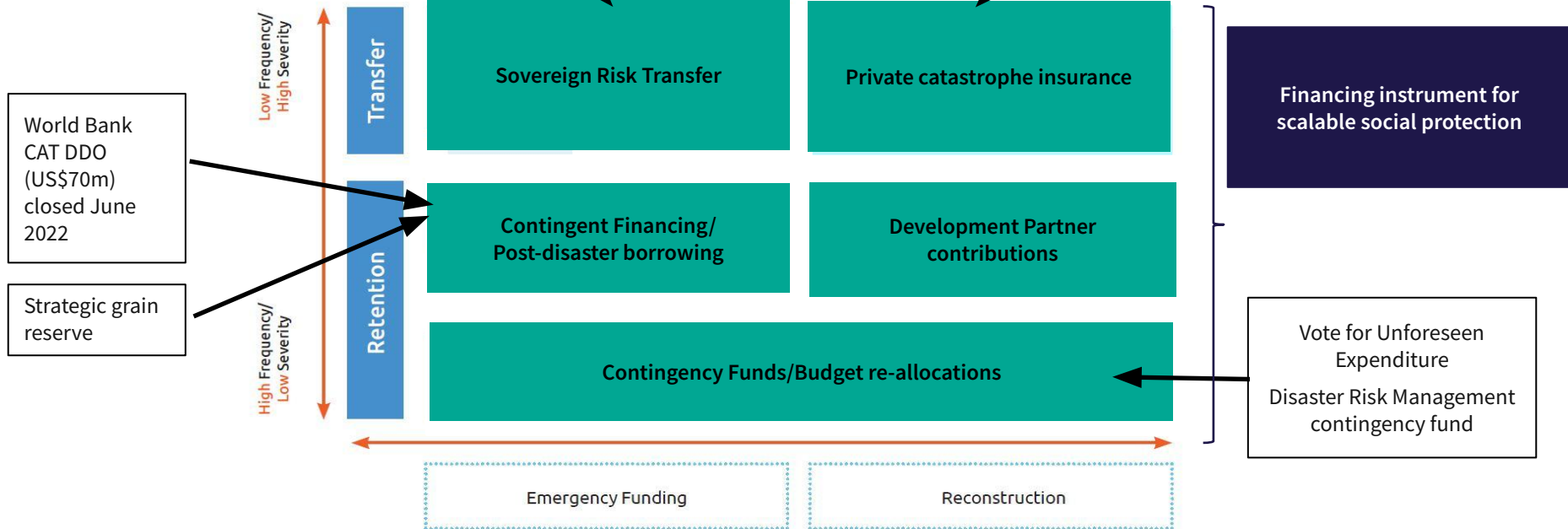


# Risk Layering Strategy

Five-year document for developing and putting in place financial mechanisms to anticipate, prepare and better respond to disasters. Envisaged instruments:

- Sovereign drought coverage has been purchased with African Risk Capacity
- Going, forward alternative sovereign risk transfer mechanisms will be explored
- Work towards public asset insurance

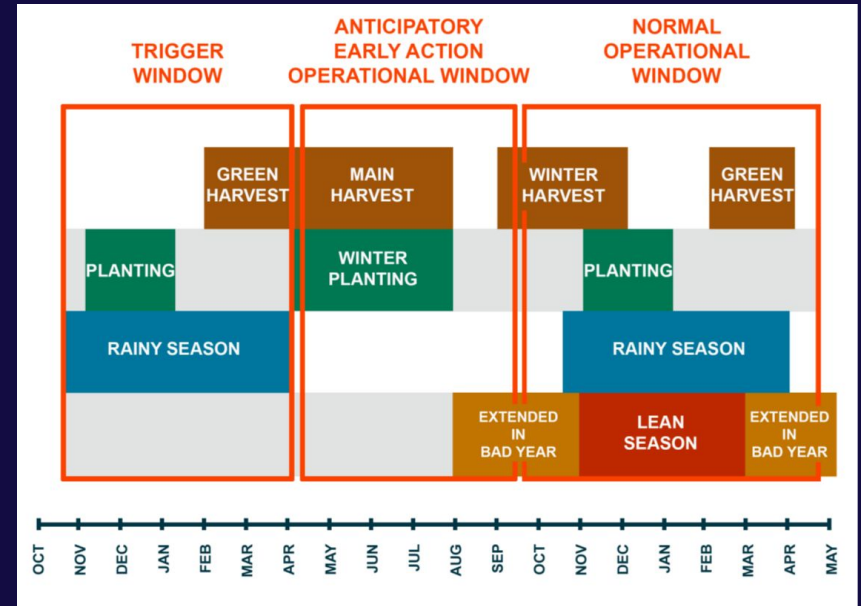
- Development of agricultural insurance mechanism to transfer risks from farmers
- Work towards catastrophe insurance for households and businesses





# Status Quo

- GoM responds to food insecurity crisis through lean season response, which is fragmented and can be too late to prevent negative impact
- Food insecurity shocks result in an **extended lean season**, starting sooner after the harvest and extending beyond the typical lean season
- Historically when disasters occur this has forced the Government to **scramble available project financing and national budget** to finance emergency social protection responses.
- Organising this can take time and amount available is uncertain. Most likely unable to meet the extended need.
- Ultimately, if a scale-up was triggered earlier, assistance could reach households in need during the anticipatory early-action operational window and **before the lean season commences when risk management decisions are made.**





# Mulder Mkutumula

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**Disaster Risk Finance Specialist  
& Scalability Coordinator**  
National Local Government  
Finance Committee



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# Social Support for Resilient Livelihoods Project

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Includes financing support for  
scalable safety nets  
(2020-2025)



# Social Support for Resilient Livelihoods Project

## Project Development Objective

To improve resilience among the poor and vulnerable population and strengthen the national platform for safety nets in Malawi.

## Project Components

**1**  
Improved social  
economic inclusion

**1.1**  
Enhanced  
core  
programs

*SCTP*

*CS-PWP*

*Livelihoods*

**1.2**  
Financing  
Scalable  
safety nets

**2**  
Strengthening  
harmonized delivery  
systems

*E-payments*

*UBR*

*MIS*

*GRM/CM*

**3**  
Capacity  
building and  
institutional  
strengthening

**4**  
Contingency  
Emergency  
Response  
Component



# Financing scalable safety nets

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Clearing defining the rules of  
scale up important to  
allocating budget



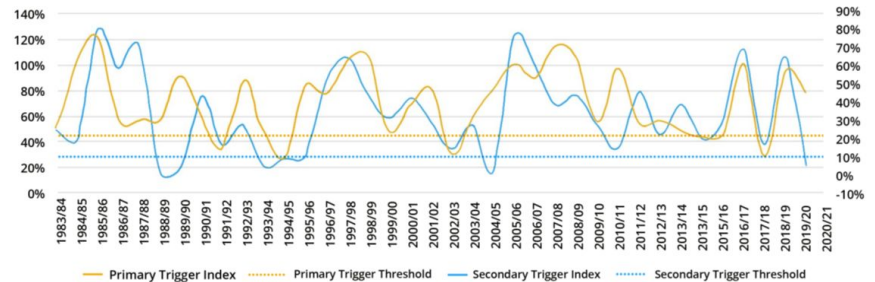
# Deciding when to trigger a scale up

- Essential to understand the links between livelihoods, food security, and drought shocks
- **Review available drought data sources in Malawi**, including satellite data as well as more subjective and local sources such as food insecurity, crop yields, and market prices.
- **Review drought risk models** that have been used in Malawi and the region to develop an index
- **Develop a framework** for a triggering mechanism in drought-prone districts.

## Timeline for scale up



## Early / Full season historical trigger performance

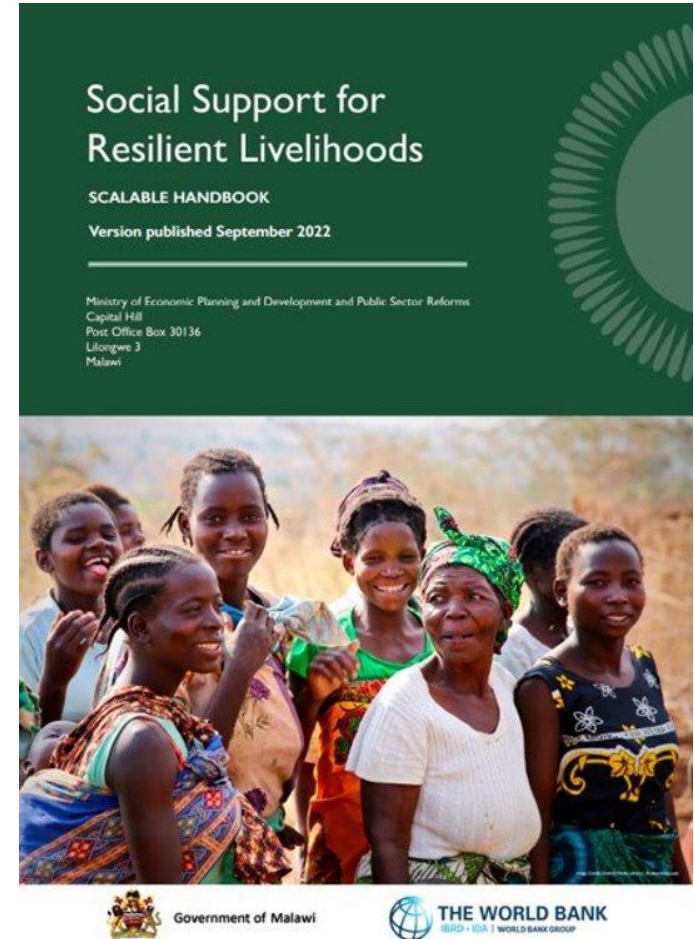


# Scalability Mechanism

The operational handbook  
defines the rules and processes  
to follow

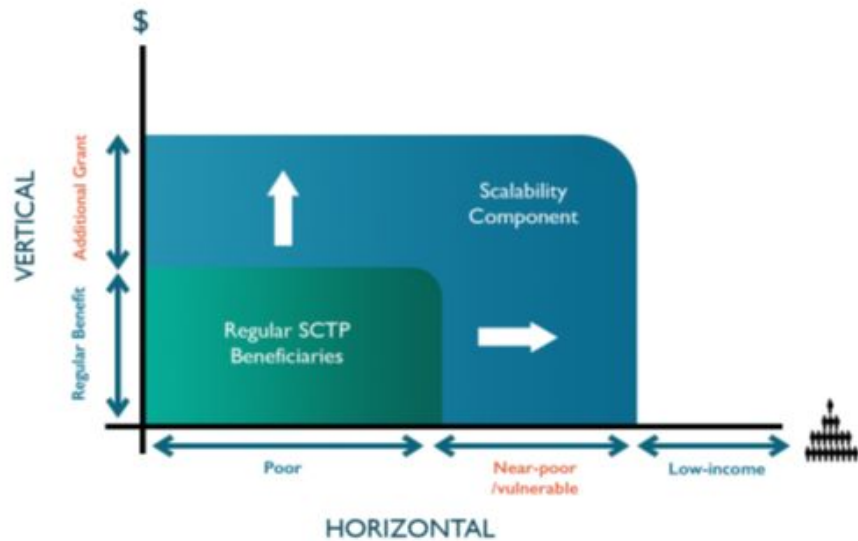
To download, follow this link:

<http://www.nlgfc.gov.mw/index.php/the-star/documents/file/135-scalable-handbook-updated-january2023>





# Parameters for Scale-Up



# Parameters for Scale-Up

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## Districts

Blantyre, Ntcheu, Thyolo,  
Chiradzulu, Nkhotakota,  
Karonga

Rural household coverage

17%

Transfer amount

MWK 25,000 (~US\$24)

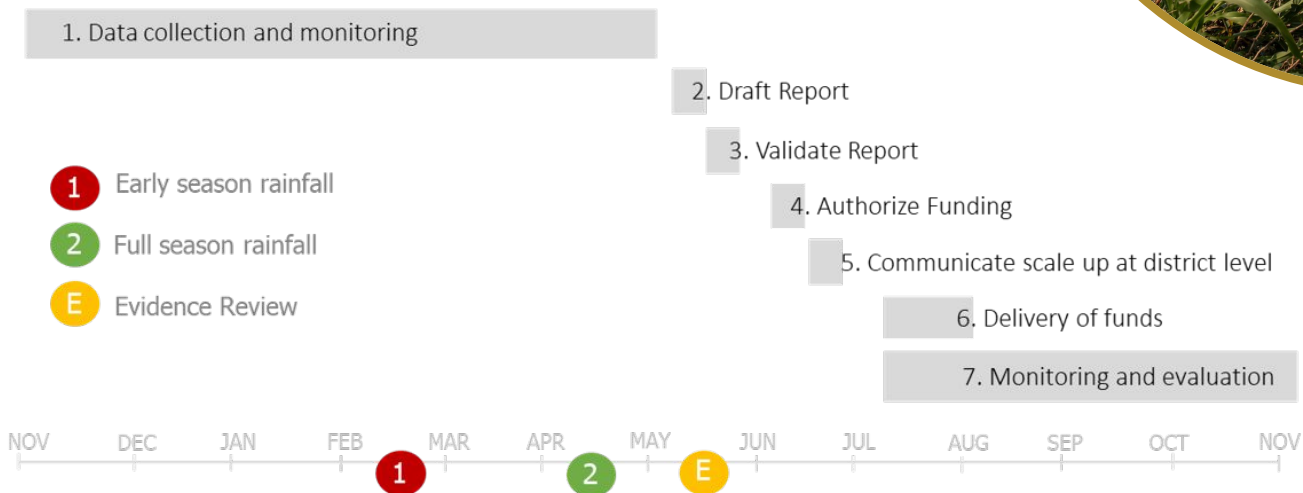
Duration

3 months





# Timeline for Operationalizing



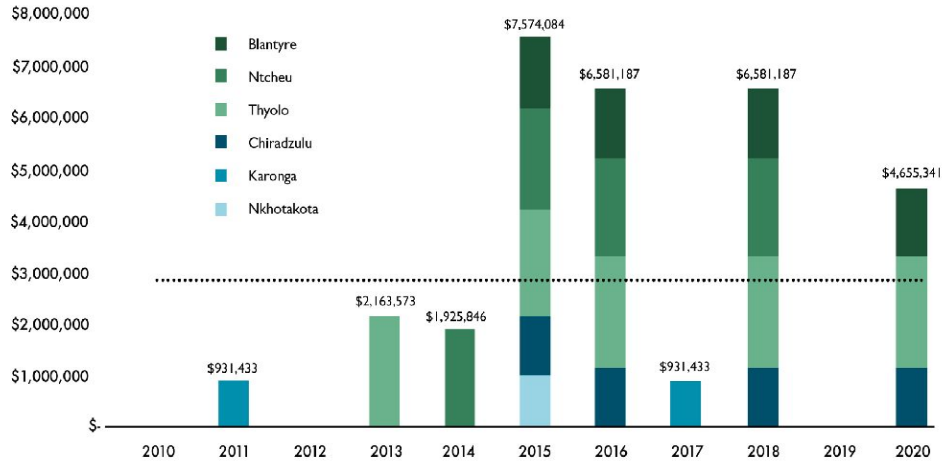
# Financing Plan

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GoM procured a risk transfer product that directly matches their triggering mechanism, with a contingency fund acting as a deductible



# Risk Layered Financing Plan



## Insurance

Insurance procured for 2023/2024 and 2024/2025 seasons to cover years where multiple districts trigger.

Global Shield Financing Facility provided US\$10 million in grant support to GoM to match their IDA commitment to contingency fund.

## Contingency Fund

Flexible contingency finance will be used to cover scale-ups in years where 1 or 2 districts trigger. This can also be used to fund scale ups beyond drought in these six districts



# Experience to date

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- 400,000 in 3 districts covered by payouts following failed 2021/2022 season
- 65,000 in 1 district following 2022/2023 drought in the north



# 2021/2022 Season

2021/2022 season	Ntcheu	Blantyre	Thyolo
Scale-up for Early Season	Yes	No	No
Scale-up for Full Season	No	No	No
Evidence review trigger	N/A	Yes	Yes
Overall Scale-up	Yes	Yes	Yes

- **Thyolo and Blantyre were recommended for scale-up given**
  - They were very close to meeting the primary index threshold (45.2 percent and 46.6 percent respectively, against a trigger of 45.0 percent)
  - The evidence review showed that livelihoods were affected by drought, three cyclones Ana, Dumako, and Gombe and macroeconomic factors over the agricultural season.
- **USD\$6.3 million was disbursed from the contingency fund to make the transfers.**
- **Delay with the social registry and payments contracts with the banks delayed the payments.**

# 2022/2023 Season

2022/2023 season	Ntcheu	Blantyre	Thyolo	Karonga	Chiradzulu	Nkhotakota
Scale-up for Early Season	No	No	No	No	No	No
Scale-up for Full Season	No	No	No	No	No	No
Evidence review trigger	No	No	No	Yes	No	No
Overall Scale-up	No	No	No	Yes	No	No

- **Karonga was recommended for scale-up given**
  - Despite the rainfall triggers not being met, further inspection showed unusual distribution of rains which resulted in droughts followed by floods.
  - There were also macroeconomic factors over the agricultural season, which increased food insecurity significantly in this district.
  - The flexible contingency funding is vital for this type of scenario.
- **USD\$0.9 million is being disbursed from the contingency fund to make the transfers.**
- **Due to issues with data registration, existing SCTP and public works participants will be targeted.**



# Lessons

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Pre-established rules and financing help speed-up response, but significant investments needed to build delivery systems





# Strong government ownership

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A GoM dedicated task force comprising officials from different ministries and supported by a full-time coordinator. To further improve government ownership, the team to engaging more closely with senior government officials.



# Pre-established rules and financing helped speed response

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A GoM pre-agreed rules and processes made triggering scale ups very fast. It took around two weeks after the season end for all the relevant information to be compiled for approval.



# Investments in delivery systems needed

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The social registry and payment systems are still nascent. Despite scale-up decisions being made quickly, the 2021/2022 payouts were delayed due to weak infrastructure.





# Procuring the insurance product required time and extra support

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First time an insurance product procured to directly back GoM's SP triggers. This was challenging: it took time for government to build up the expertise to review the bids and complete this atypical procurement. To support this, the government strengthened their procurement team alongside working closely with the WB DRFI team.



# Global Shield Funding a catalyst for change

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The project received funding for the Global Shield Financing Facility (previously known as the GRiF) for premium subsidies, systems building and for global expertise in the form of technical assistance.



# Thank You

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# Going Forward

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GoM targets expanding the mechanism further, with nationwide coverage and flood risk in mind



# Going Forward

1.

## **Nationwide**

Expand the mechanism from 6 districts to all 28.

Linking the trigger structure to other social protection programs (climate smart public work beneficiaries and/or graduation interventions).

2.

## **Flood Triggers**

The North and South of Malawi are flood/storm prone and look to develop a mechanism that will also address this concern.

3.

## **Fiscal Resilience**

Putting this alongside other DRF instruments builds financial resilience. Partners like GS-FF are fundamental, given macro-fiscal imbalances countries like Malawi experience in the face of many shocks.

4.

## **Payout Evaluations**

An evaluation of the payouts already made will be extremely helpful to learn what is working currently, and what opportunities there are for improvement.

# Program links closely to WB's Comprehensive Toolkit to Support Countries After Natural Disasters

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- Giving countries new flexibility to quickly redirect a portion of their funds for emergency response, so cash is immediately accessible
- Helping governments build advance-emergency systems, so they are ready to respond on day one
- Building enhanced catastrophe insurance for providing resources without adding to debt



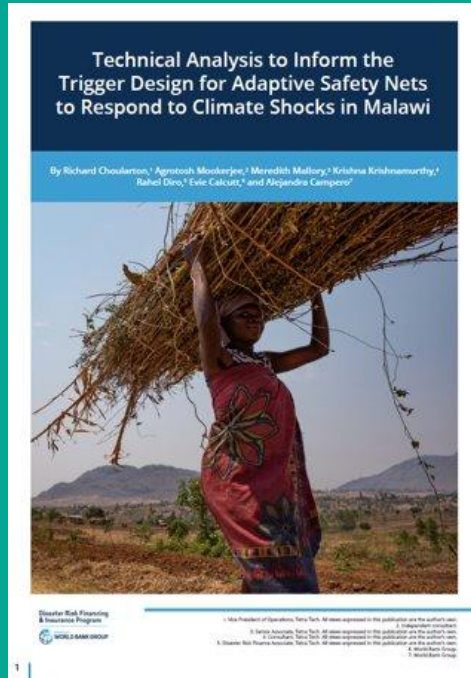


# More Information

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# Policy Papers



<https://www.financialstabilityforum.org/publication/technical-analysis-to-inform-the-trigger-design-for-adaptive-safety-nets-in-malawi-2023/>



<https://www.financialstabilityforum.org/publication/using-disaster-risk-financing-to-build-adaptive-social-protection-for-climate-shocks-in-malawi/>

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