Malawi: Social Support for Resilient Livelihoods Project

Linking Disaster Risk Financing with Social Protection Systems
TODAY’S Agenda

Opening Remarks
Speaker Introductions
Technical Presentation
Audience Q&A
Closing Remarks
Meet Our Speakers

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The World Bank

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Disaster Risk Finance Specialist & Scalability Coordinator  
NLGFC Malawi
Evie Calcutt
Financial Sector Specialist
World Bank
Executive Summary
Government of Malawi scalability mechanism and financing plan enables the Social Cash Transfer Program to scale-up in response to shocks
Scalability Mechanism

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

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

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

- 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

- 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

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

- World Bank CAT DDO (US$70m) closed June 2022
- Strategic grain reserve

Financing instrument for scalable social protection

Vote for Unforeseen Expenditure
Disaster Risk Management contingency fund
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

Disaster Risk Finance Specialist & Scalability Coordinator
National Local Government Finance Committee
Social Support for Resilient Livelihoods Project

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

2. Strengthening harmonized delivery systems
   - 1.2 Financing Scalable safety nets
   - E-payments
   - UBR
   - MIS
   - GRM/CM

3. Capacity building and institutional strengthening

4. Contingency Emergency Response Component
Financing scalable safety nets

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.
Scalability Mechanism

The operational handbook defines the rules and processes to follow.

To download, follow this link:

Parameters for Scale-Up
## Parameters for Scale-Up

<table>
<thead>
<tr>
<th><strong>Districts</strong></th>
<th>Blantyre, Ntcheu, Thyolo, Chiradzulu, Nkhotakota, Karonga</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rural household coverage</strong></td>
<td>17%</td>
</tr>
<tr>
<td><strong>Transfer amount</strong></td>
<td>MWK 25,000 (~US$24)</td>
</tr>
<tr>
<td><strong>Duration</strong></td>
<td>3 months</td>
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</table>
Timeline for Operationalizing

1. Data collection and monitoring
   - Early season rainfall
   - Full season rainfall
   - Evidence Review

2. Draft Report

3. Validate Report

4. Authorize Funding

5. Communicate scale up at district level

6. Delivery of funds

7. Monitoring and evaluation
Financing Plan

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

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.
Experience to date

- 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
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.

### 2021/2022 Season

<table>
<thead>
<tr>
<th>2021/2022 season</th>
<th>Ntcheu</th>
<th>Blantyre</th>
<th>Thyolo</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scale-up for Early Season</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Scale-up for Full Season</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Evidence review trigger</td>
<td>N/A</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Overall Scale-up</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
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</table>
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.

### 2022/2023 Season

<table>
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<th>Chiradzulu</th>
<th>Nkhotakota</th>
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<tbody>
<tr>
<td>Scale-up for Early Season</td>
<td>No</td>
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Lessons

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

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

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

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

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

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
Going Forward

GoM targets expanding the mechanism further, with nationwide coverage and flood risk in mind.
## Going Forward

### 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).

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

### 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.

### 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

- 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
Policy Papers

Technical Analysis to Inform the Trigger Design for Adaptive Safety Nets to Respond to Climate Shocks in Malawi


Using Disaster Risk Financing to Build Adaptive Social Protection for Climate Shocks in Malawi

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