

# AFRICAN DEVELOPMENT BANK GROUP



## PROGRAMME: AFRICA DISASTER RISK FINANCING (ADRFi) PROGRAMME

### COUNTRY: MALAWI

#### PROGRAMME APPRAISAL REPORT

Date: April 2022

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# **AFRICAN DEVELOPMENT BANK GROUP**



## **MALAWI**

### **AFRICA DISASTER RISK FINANCING (ADRFi) PROGRAMME**

**RDGS/AHFR/COMW/PGCL DEPARTMENTS**

**JUNE 2022**

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## **Currency Equivalents**

January 2022

UA 1.00	=	MWK 1.5587
UA 1.00	=	USD 1.40887
UA 1.00	=	EUR 1.21675
USD 1.00	=	MWK 818.2
EUR 1.00	=	MWK 947.59

## **Fiscal Year**

1 July - 30 June

## **Weights and Measures**

1 metric tonne	=	2204 pounds (lbs)
1 kilogramme (kg)	=	2.200 lbs
1 metre (m)	=	3.28 feet (ft)
1 millimetre (mm)	=	0.03937 inch (“)
1 kilometre (km)	=	0.62 mile
1 hectare (ha)	=	2.471 acres

## LIST OF ABBREVIATIONS AND ACRONYMS

ADD	Agricultural Development Divisions
ADF	African Development Fund
ADRFi	Africa Disaster Risk Finance
ARC	African Risk Capacity
CISANET	Civil Society Agricultural Network
CSS	Climate Screening System
CP	Contingency Plan
DCAFS	Donor Committee on Agriculture and Food Security
DCCMS	Department of Climate Change and Meteorological Services
DoDMA	Department of Disaster Management Affairs
DRF	Disaster Risk Financing
EU	European Union
EWS	Early Warning Systems
ESIA	Environmental and Social Impact Assessment
FAO	Food and Agriculture Organization
FCDO	Foreign, Commonwealth & Development Office
FIP	Final Implementation Plan
FM	Financial Management
FUM	Farmer's Union of Malawi
GAP	Gender Action Plan
GBV	Gender Based Violence
GoM	Government of Malawi
GDP	Gross Domestic Product
IFAD	International Fund for Agricultural Development
IFR	Interim Financial Report
IFRS	International Financial Reporting Standard
IIAG	Ibrahim Index of African Governance
MDGS	Malawi Development Growth Strategy
MDTF	Multi Donor Trust Fund
NAO	National Audit Office
NDC	Nationally Determined Contribution
NRS	National Resilience Strategy
PAR	Programme Appraisal Report
PFM	Public Financial Management
PMU	Project Implementation Unit
RMCs	Regional Member Countries
TWG	Technical Working Group
UA	Unit of Account
UNDP	United Nations Development Programme
USD	United States Dollar
WB	World Bank
WFP	World Food Programme

## GRANT INFORMATION

### Client's information

**RECIPIENT:** Republic of Malawi

**EXECUTING AGENCY:** Ministry of Agriculture

### Financing plan

Source	Amount	Instrument
ADF 15 (PBA)	UA 3.5m (eq. USD 4.90 m)	Grant
ADRFi MDTF	USD 4.35 m	Grant
GOV	USD 0.4 m	Contribution to premium payment
ARC	USD 0.48 m	In-kind contribution
<b>TOTAL COST</b>	<b>USD 10.13 m</b>	

### Timeframe - Main Milestones (expected)

Programme approval	May 2022
Effectiveness	May 2022
Programme Launching	June 2022
Closing Date	May 2024
Last Disbursement	December 2023

## PROGRAMME SUMMARY

**Programme overview:** The Africa Disaster Risk Financing Programme (ADRFi) in Malawi will enhance the country's resilience and response to climate shocks by improving the management and financing of climate disaster risks. This will be achieved through capacity building on disaster risk management and the promotion of an innovative risk financing tool that will cushion the government from the financial impacts of episodes of drought and foster sovereign risk transfer as a viable solution to address the risks of climate disasters. Through a strategic collaboration with the African Risk Capacity (ARC), the outcomes of ADRFi in Malawi will be: (i) enhanced government preparedness to respond to climatic shocks when they occur and (ii) strengthened resilience of rural communities from drought. It is planned that in the very near future the Programme will also integrate flood insurance when the product is available from ARC.

The ADRFi programme in Malawi will be implemented in two phases with the initial phase spanning for two (2) years 2022 and 2023 and the second phase for additional two (2) years - 2024 and 2025 - subject to availability of financial resources. The budget for the first phase is USD 10.13 million co-financed from ADF 15 resources for UA 3.5 million (approximately USD 4.9 million), the ADRFi Multi Donor Trust Fund (MDTF) for USD 4.35 million, the Government of Malawi for USD 0.4 million and an in-kind contribution by the African Risk Capacity for USD 0.48 million. The direct beneficiary of the Programme is the Government of Malawi, which will benefit from support in the payment of its sovereign risk premium for the transfer of drought risks, as well as the agencies involved in disaster risk management in the country that will benefit from capacity building. The indirect beneficiaries of the programme are the vulnerable smallholder farmers exposed to drought with a significant proportion of them being women and children.

**Needs assessment:** Agriculture is an important sector of the economy of Malawi. It contributes to about thirty percent (30%) of Gross Domestic Product (GDP), employs about sixty-four percent (64%) of the workforce, and generates over eighty percent (80%) of national export earnings. Agriculture in Malawi is predominantly rainfed. However, rainfall pattern is erratic and largely unpredictable, especially in recent times. This combination of high dependence on rainfed agriculture with increasingly erratic rainfall leaves household livelihoods and the national economy highly vulnerable to weather shocks. These shocks in turn, play a significant role in increasing poverty of rural and urban households and erode the national economy, with major climate-related disasters having a substantial impact on the national budget by causing unplanned expenditures, widening of fiscal deficits and increasing domestic borrowing. It is estimated that on average Malawi loses about USD 12.5 million or one percent (1%) of Gross Domestic Product each year due to droughts.<sup>1</sup>

In order to improve its resilience to natural disasters, the Government of Malawi has made strides towards building long-term resilience against food insecurity and addressing chronic risks. It has enacted policies and strategies to support reduction of disaster risk and effectively manage the impact of disasters when they occur. This includes the elaboration of a disaster risk financing strategy, which supports the adoption of sovereign risk insurance as an innovative financing tool to address the risk of climate disasters. However, the implementation of this strategy by the country remains limited due to a number of factors pertaining essentially to limited fiscal space of the Government and incapacity to mobilize sustainable financial resources for premium payment.

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<sup>1</sup> International Food Policy Research Institute: Economic Losses and Poverty Effects of Droughts and Floods in Malawi.



**Bank's added value:** The Bank added-value for ADRiFi Malawi is two-fold. First the Programme is in line with the country's 2019-2024 Disaster Risk Financing Strategy and Implementation Plan (DRF Strategy), which identifies sovereign risk insurance as a viable tool to effectively address the risks of climate disasters. By bringing the needed support for a sustainable adoption of sovereign risk insurance, the Bank assists the country in, not only, cushioning itself against the risks of weather shocks, but also, strengthening the mobilization of sustainable resources for disaster risk management in general, and sovereign risk premium payment in particular. The Bank will therefore be pioneering this innovative risk financing mechanism in Malawi. Additionally, the Bank has experience in financing and implementing projects and programmes that aim at strengthening food security and resilience in Malawi. Currently, the Bank has a portfolio of five (5) ongoing agricultural projects in the country for which the development gains are threatened by the impacts of possible recurring climate shocks including droughts and floods. These investments will be safeguarded by ADRiFi. Furthermore, the Bank has gained experience in financing and implementing the ADRiFi programme in other countries. As of 30 October 2021, the Bank is supporting seven (7) countries in the adoption of sovereign risk insurance<sup>2</sup>, with already payouts in Madagascar and Zimbabwe. Lessons stemmed from these investments is that ex-ante risk financing can help mobilize necessary financial resources to provide immediate assistance to the most vulnerable.

**Knowledge management:** The knowledge generated during the implementation of the programme will feed in the overall economic development agenda of Malawi. The expected climate risk modelling activities to be undertaken by ARC will provide accurate information on the potential impacts of extreme climate shocks to the economy, which will, in turn inform decision making processes on resource mobilization and allocation towards climate risk management. This knowledge and other lessons learnt throughout programme implementation will be shared with the Government and all relevant stakeholders through the website of the Department of Disaster Management Affairs (DoDMA) of Malawi as well as on the Bank's website. Furthermore, lessons learnt from the Programme will also inform the design and implementation of the same in other RMCs.

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<sup>2</sup> In order of Board approval: Gambia, Madagascar, Zimbabwe, Mauritania, Niger, Sudan.

## RESULTS FRAMEWORK

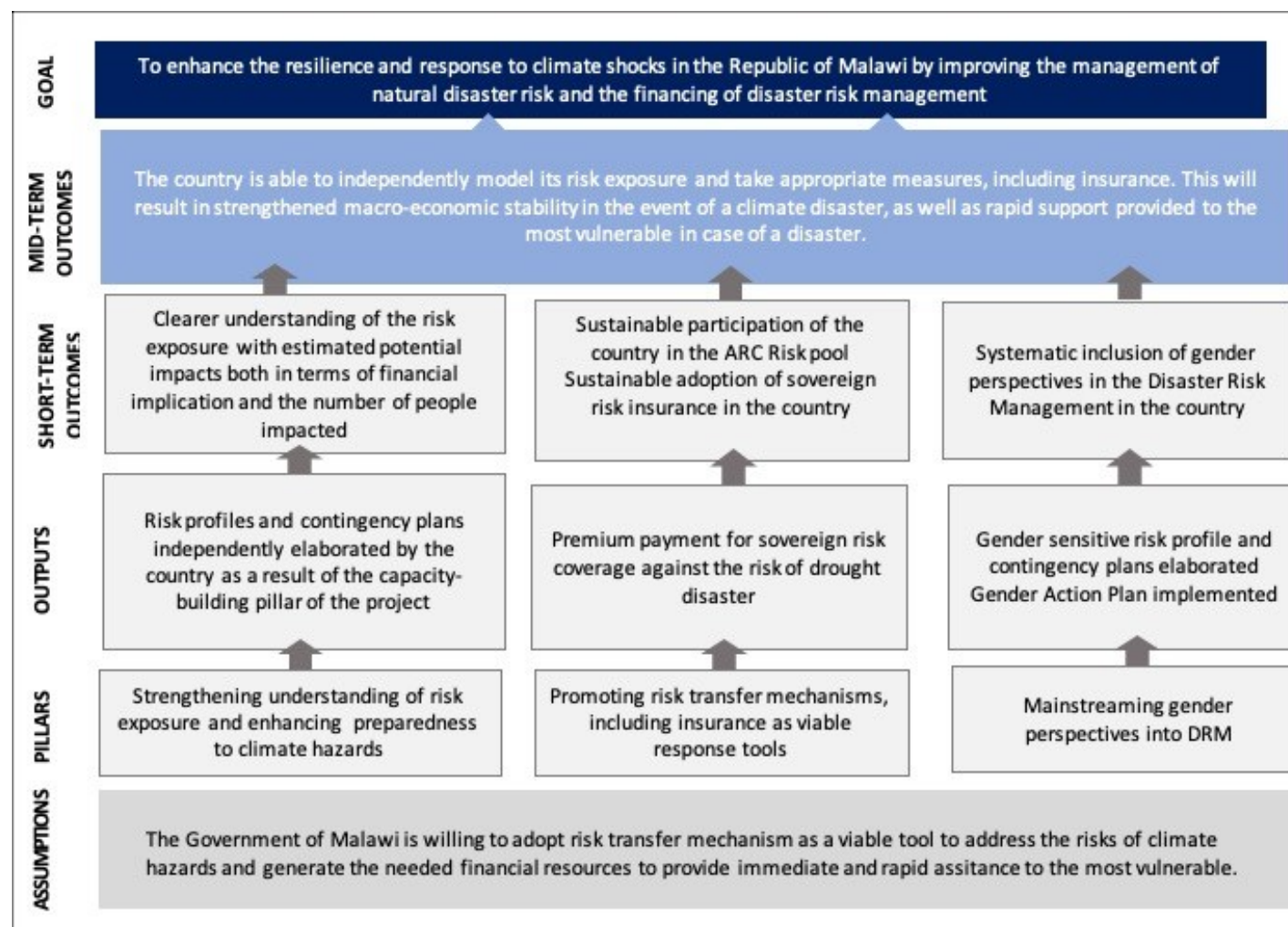
RESULTS FRAMEWORK					
A PROJECT INFORMATION					
PROJECT NAME AND SAP CODE: Africa Disaster Risk Financing Programme (ADRFi) in Malawi P-MW-A00-012			COUNTRY/REGION: Malawi / RDGS		
PROJECT DEVELOPMENT OBJECTIVE: to enhance the resilience and response to climate shocks in the Republic of Malawi by improving the management of natural disaster risk and the financing of disaster risk management					
ALIGNMENT INDICATOR (S): People benefiting from improvements in agriculture (CA03)					
B RESULTS MATRIX					
RESULTS CHAIN AND INDICATOR DESCRIPTION	RMF/ADOA INDICATOR	UNIT OF MEASUREMENT	BASELINE (2022)	TARGET AT COMPLETION (2024)	MEANS OF VERIFICATION
OUTCOME STATEMENT 1: Strengthened preparedness and responsiveness capacities of Malawi in case of a drought disaster					
OUTCOME INDICATOR 1.1: Institutionalized nationally coordinated early warning system and preparedness mechanism that are gender sensitive in nature		Number of gender sensitive Early warning systems developed and implemented	1	3	ARC programme reports Programme implementation reports programme supervision reports
OUTCOME INDICATOR 1.2: Improved protection of Smallholder farmers against the negative impacts of drought disasters		Number of vulnerable smallholder farmers covered annually by the sovereign risk insurance	0	3.8 million of which at least 50% being women farmers and 20% being WHH Farmers.	Insurance Policies Programme implementation reports
OUTCOME INDICATOR 1.3: Rapid assistance provided to the most vulnerable in case of a declared drought disaster		Number of months taken to provide the first assistance to the most vulnerable in case of a declared drought	12	3	Payout implementation reports programme implementation reports
OUTCOME INDICATOR 1.4 : Enhanced capacity of the country to independently assess its exposure to climate risks and come up with appropriate measures to address it		Number of staff trained on Climate Risk Modelling	0	30 with of which at least 40% being women	Training reports Press releases and other relevant documentation on the training
OUTCOME STATEMENT 2: Enhanced ability of Malawi to finance DRM activities and response					
OUTCOME INDICATOR 2: Sustained participation in the ARC Risk Pool		Numbers of years of consecutive participation by the country in the ARC Risk Pool	1	4	Government and DRM agencies; ARC programme reports and programme supervision reports

OUTCOME INDICATOR 3: Enhanced visibility of the expenditures on DRM so as to allocate resources in an efficient manner		Existence of a Monitoring and Evaluation Framework for DRF in the country	0	1	M&E Framework elaborated Report from Consultant
OUTCOME INDICATOR 4: Enhanced awareness on the index-based insurance as a viable tool to address climate risks in agriculture		Number of Staff trained on Agriculture Risk Management including awareness on index-based insurance	0	50 of which at least 50% are women	Training records Report from the Consultant
<b>COMPONENT A: Developing Climate Risk Management Solutions</b>					
<b>OUTPUT STATEMENT A.1: Risk Understanding and Preparedness</b>					
OUTPUT INDICATOR A.1.1: <i>Gender Sensitive Risk profiles independently elaborated by the country each year</i>	<input type="checkbox"/>	Number of annually updated country disaster risk profiles that are gender sensitive	1	3	Training records ARC Reports PMU implementation reports
OUTPUT INDICATOR A.1.2: <i>Gender Sensitive Drought risk response contingency plan developed</i>		Number of biennial gender sensitive contingency plans developed and owned by all stakeholders	1	2	Implementation reports from PMU
OUTPUT INDICATOR A.1.3 : <i>Training on Climate Risk Modelling</i>		Number of trainings on Climate Risk Modelling	0	1	Report from the Consultant
<b>OUTPUT STATEMENT A.2: Deployment of eventual Payout</b>					
OUTPUT INDICATOR A.2 : Final Implementation Plan developed (in case of insurance pay-outs)	<input type="checkbox"/>	Number of Final Implementation Plans developed	0	At least 1	Final Implementation Plan, if elaborated
<b>OUTPUT STATEMENT A.3: Gender Mainstreaming</b>					
OUTPUT INDICATOR A.3.1 : Gender and DRM Action Plan developed	<input type="checkbox"/>	Number of Gender Action Plans developed	0	1	Gender Action Plan developed Programme reports
OUTPUT INDICATOR 3.2: Build Back Better – Rehabilitation activities		Number of women small hold farmers trained on entrepreneurial skills, facilitated to start alternative income generation activities and linked to markets for their produces.	0	500	Implementation reports from PMU
<b>COMPONENT B: Supporting Access to Sovereign Risk Transfer Solutions</b>					
<b>OUTPUT STATEMENT B.1: Sustainable Participation of the Country in the ARC Risk Pool</b>					
OUTPUT INDICATOR B.1.1: Support to premium payment		Number of annual payments of the premiums to ARC Ltd	1	4	Premium Policies issued by ARC Ltd

					PMU implementation report
<b>OUTPUT STATEMENT B.2: Monitoring and Evaluation Framework for DRF</b>					
OUTPUT INDICATOR B.2.1: Monitoring and Evaluation Framework for Disaster Risk Financing		M&E Framework designed	0	1	M&E Framework
<b>OUTPUT STATEMENT B.3: Trainings on Climate Risk Management</b>					
OUTPUT INDICATOR B.3.1 : Trainings on public policy management of climate risks		Number of trainings	0	1	Training reports Reports from Consultant
OUTPUT INDICATOR B.3.2: Training on Agriculture Risk Management and Awareness on Index-Based Insurance		Number of trainings	0	1	Training reports Reports from Consultant
<b>COMPONENT C: Programme Management and Coordination</b>					
OUTPUT INDICATOR C.1.1: Engendered Monitoring and Evaluation		Number of bi-annual engendered Programme implementation progress report	0	4	Semesterly Programme Implementation Reports
OUTPUT INDICATOR C.1.2: Gender Responsive Audit		Gender-responsive Audit report	0	1	Audit report
OUTPUT INDICATOR C.1.3: Completion		Programme completion report	0	1	Programme Completion Report

\* Considering that the insurance covers a 1 in 4-year event, it can be expected that the country could benefit from at least 1 payout during the lifespan of the Programme.

## PROGRAMME THEORY OF CHANGE



## PROGRAMME TIME FRAME

Project Management Timeframe									
Milestone	2022				2023				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
<b>Project life Cycle</b>									
Board approval	x								
Grant protocol signature	x								
Satisfaction of conditions for first disbursement	x								
Disbursement of funds	x		x			x			x
Audit									x
Annual Implementation / completion reports				x					x
Semesterly implementation and disbursement reports		x		x		x			x
Bank's supervision / completion mission				x					x
<b>Key activities</b>									
Africa Risk View Customization	x				x				
Risk Profiling	x	x	x	x	x	x	x	x	x
Contingency plan elaboration and update	x	x	x	x	x	x	x	x	x
Integration of ARV in the National Early warning system	x	x	x	x	x	x	x	x	x
Sovereign risk premium payment				x					x
Gender Mainstreaming		x	x	x	x	x			
Development of an M&E Framework for DRF Strategy Implementation			x	x					
Training on Climate Risk Modelling for Department of Climate Change and Meteorological Services				x					
Training on Agriculture Risk Management and Awareness on Index-Based Insurance					x				
Trainings in public policy management of climate risks				x					

# **REPORT AND RECOMMENDATION OF MANAGEMENT TO THE BOARDS OF DIRECTORS ON PROPOSED GRANTS TO THE REPUBLIC OF MALAWI FOR THE IMPLEMENTATION OF THE AFRICA DISASTER RISKS FINANCE (ADRFi) PROGRAMME**

Management submits the following report and recommendations on the proposed ADF 15 Grant of UA 3.5 million (PBA) to the Republic of Malawi and a grant of USD 4.35 million from the ADRFi Multi Donor Trust Fund (MDTF) to finance the implementation of the Africa Disaster Risk Financing Programme (ADRFi) in Malawi. The Programme will benefit from contributions of the Government of Malawi to the tune of USD 0.4 million, and in-kind contribution by the African Risk Capacity (ARC) estimated to the tune of USD 0.48 million.

## **I – STRATEGIC THRUST AND RATIONALE**

### **1.1 Programme Linkages with Country Strategies and Objectives**

1.1.1 Malawi has a population of about 19.12 million people (WB 2020) of which 50.7% are women and an economy reliant mostly on services and agriculture. With a contribution of about 30% to the GDP and employment of about 64% of the country's workforce the agriculture sector is the hub of economic activity and people's livelihood in the country. Maize, cassava, sweet potatoes, rice, sorghum, groundnuts, and pulses are important food crops produced in the country. Smallholder farmers produce about 75% of food consumed and cultivate some 5.3 million hectares of arable land. However, most farmers have less than a hectare on which to grow the bulk of their food which, in combination with declining soil fertility and limited access to credit and extension services, seriously limits smallholder productivity.

1.1.2 Although there is potential for better production and productivity, the agriculture sector in Malawi operates below its capacity. As a result, the country continuously faces food shortages at national and household levels. Some of the challenges the agriculture sector faces include: (i) poor management of land, water and soils; (ii) low adoption of agricultural technologies; (iii) low access to finance and farm inputs; (iv) low mechanization and technical labour skills; (v) limited irrigation system and (vi) weak linkages to markets. These challenges are exacerbated by climate variability, which make Malawi highly vulnerable to climate-related disasters. Over the past two decades, droughts and floods have increased in frequency, intensity, and magnitude in Malawi, causing negative impacts on food and water security, and on the sustainable livelihoods of rural people. These shocks occurred on local, regional and national scales and caused food shortages, water scarcity, declines in national maize production, and reduced harvests. The prominence of drought can be seen by looking at the succession of national level droughts episodes in Malawi over the last 20 years. The most notable of these episodes were the droughts that occurred in 1991-1992; 1993-1994; 2001-2002, 2004-2005 and in 2015-2016 during which Malawi suffered one of its worst droughts whereby a total of 6.7 million out of a projected population of 17.1 million were affected with severe food shortages. This successive nature of the droughts episodes has caused a vicious circle where households do not have sufficient time to recover from any given drought episode.

1.1.3. As it aims to strengthen the resilience of Malawi against the risk of climate shocks, ADRFi Malawi is perfectly aligned with the Malawi Vision 2063 strategy document which aims to promote a transformative agriculture sector that is smart and resilient to climate change. . Additionally, the programme will greatly contribute to the implementation of the country's

National Resilience Strategy (NRS - 2018-2030), which aims at transforming Malawi into a country that is resilient to economic and environmental shocks and that has transitioned from recurrent humanitarian appeals to protective and productive investments in complementary interventions targeting chronically food insecure and poor households. Furthermore, the programme is aligned with the country's DRF Strategy (2019-2022), which identifies insurance as a tool to address the risks of climate disaster. The Programme is also aligned with the country's National Disaster Risk Management policy (2015), which, among others, recognises and acknowledges that strengthening preparedness capacity is key to ensuring rapid and effective response.

1.1.4 As far as Bank's policies are concerned, ADRiFi Malawi is in line with the Bank's Ten-year Strategy (TYS) and is also in line with two of the Bank's 'High 5' priorities: "Feed Africa" and "Improving the Quality of Life of Africans". The Programme is also aligned with Bank's Climate Change and Green Growth Strategy (2021-2030) which supports, under the Pillar on 'Adaptation - boosting climate resilience and adaptation to climate change, and reducing fragility', enhanced country preparedness in climate sensitive sectors including through early warning systems and climate risk financing as key elements to building resilience against climate change. ADRiFi is aligned to the Bank's Feed Africa for Agricultural Transformation (2016-2025) the Strategy for Addressing Fragility and Building Resilience in Africa ((2022–2026) as well as the Bank's Gender Strategy (2021-2025). The Programme is also aligned with the Bank's Country Strategy Paper (2018-2022) which has been designed to address issues of economic, social and climate resilience, by reducing fragility and strengthening resilience to exogenous shocks.<sup>3</sup> Implementing ADRiFi will not only protect the livelihoods of the rural population but also ensure that gains achieved in the agriculture sector are sustained in the event of severe weather shocks.

## **1.2 Rationale for Bank's Involvement**

1.2.1 About 84% of Malawi's population live in rural areas and is mostly engaged in smallholder rain-fed agriculture. Exposure of these populations to climatic shocks means that they can be pushed into a poverty trap in the wake of a major drought or flood. Cushioning these farmers from climate-related shocks, through sovereign risk insurance, is critical to guarantee availability of financial resources to provide rapid assistance and enable these vulnerable population to recover promptly from such events. Additionally, the adoption of sovereign risk tools will endow the country with an improved planning, preparation and response to severe drought, thereby facilitating timely response to disasters when they occur. However, payment of the insurance premium has been a challenge for the country in the light of high fiscal constraints, current COVID crisis and competing development priorities. The Bank will help overcome these constraints to premium payment and help Malawi to participate in the sovereign insurance pool provided by ARC to countries that experience climate shocks, at a cost that is a lot lesser than what the country would have to pay if it was to purchase the same cover in the insurance market.

1.2.3 Another rationale for Bank involvement derives from the fact that the Bank has gained experience in financing and implementing the ADRiFi programme in other countries, with tangible evidence that ex-ante risk financing contributes to strengthening the resilience of countries to

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<sup>3</sup> The project was not initially in the 2017-2021 CSP, however, there is wide consensus on its key role in contributing to implement the CSP.



climate shocks.<sup>4</sup> In fact, as it is estimated that a 1-in-10-year drought event would have an estimated adverse impact of 4% on the annual GDP of Malawi, the Bank intervention will contribute cushioning Malawi's national budget and socio-economic stability against the impacts of climate shocks. Furthermore, the Bank has currently a portfolio of five (5) agricultural projects in the country for which the development gains are threatened by the impacts of possible recurring drought shocks. ADRiFi will therefore contribute to safeguarding the Bank's investments from the risk of drought related disasters.

### 1.3 Donor Coordination

Donor coordination and engagement with Government in the agriculture sector is handled through the Donor Committee on Agriculture and Food Security (DCAFS) which coordinates with 16 donor agencies present in Malawi. DCAFS purpose is to deepen dialogue, coordination, and cooperation among development partners and between these partners and the Government of Malawi in respect to Agriculture and Food Security, with a view to strengthening the quality of partnership and effectively supporting the Agricultural Sector-Wide Approach and relative agricultural development strategies. There are no similar donor coordination mechanisms when it comes to disaster risk management (DRM) in Malawi, although, a number of donors are active in providing support to DRM in the country. Table 1 outlines the activities of key development partners in Malawi in DRM.

**Table 1: Relevant Activities of Development Partners in DRM**

<b>Institution</b>	<b>Activities of Development Partners</b>
<b>1. World Bank</b>	The World Bank is assisting the Government of Malawi (GoM) with about USD70 million for two projects namely Disaster Risk Management Development Policy Financing and Catastrophe Deferred Drawdown Option 2019-22 (USD40 million and USD30 million respectively). These Programmes are structured around three pillars namely: (i) Strengthening the institutional framework and coordination mechanisms for the implementation of the national disaster and climate resilience agenda; (ii) Increasing climate and disaster resilience in physical developments and infrastructure; and (iii) Strengthening adaptive social protection mechanisms and government financial capacity to respond to disasters.
<b>2. Food and Agriculture Organisation (FAO)</b>	FAO received support from the African Solidarity Trust Fund (USD2 million), the European Union (US\$75 million), the Government of Flanders (USD900,000), the Global Environment Facility (USD5.5 million) and the UK Foreign, Commonwealth and Development Office (USD 9 million) to support and build capacity of vulnerable populations for resilience and sustainable food and nutrition security.
<b>3. United Nations Development Programme (UNDP)</b>	UNDP received a project grant of about USD12.3 million from the Green Climate Fund for the project on "Modernized Climate Information and Early warning System in Malawi" 2017-23. This project is working with communities in food-insecure districts to codevelop tailored weather- and climate-based agricultural advisories to disseminate through various channels.

<sup>4</sup> In 2020, Madagascar received a payout of about USD 2.1 million as result of a Bank finance sovereign insurance for the 2019-2020 agricultural season.

## II – PROGRAMME DESCRIPTION

### 2.1 Programme Components

2.1.1 The overall goal of ADRiFi in Malawi is to enhance the resilience and response to climate shocks in the country, by improving the management of climate disaster risks. The Programme's specific objectives are:

- (i) To strengthen the capacity of Malawi to evaluate climate-related risks and costs, and elaborate subsequent adaptation measures at both national and sub-national levels; and
- (ii) To promote initial financing for disaster risk transfer solutions.

2.1.2 Proposed outcomes of ADRiFi Malawi include: (i) efficient and timely first-response delivery to targeted beneficiaries affected by disasters, and (ii) strengthened gender-responsive resilience to drought-linked disasters in Malawi. These outcomes will be achieved through a comprehensive capacity building, designed to assist the country to quantify and manage their climate risks, and to make informed decisions regarding transferring drought risks to the market through insurance. The Programme is organized around three mutually interrelated components.

**2.1.3 Component 1 - Developing Climate Risk Management Solutions:** This component will be implemented in collaboration with ARC as part of its contribution to Programme implementation.<sup>5</sup> The contribution will be provided in-kind, estimated from the capacity-building support that the ARC will be providing to the country. Through this component, the Programme will strengthen the capacity of technical staff and policy makers on DRM as well as support Malawi in: (i) developing its drought risk profile, both in terms of gender disaggregated number of people affected by drought each year, and the associated cost for the national budget; and (ii) developing contingency plans to respond to drought shocks. At the end of the capacity building, the country will have strengthened its early warning system as well as its response mechanism through contingency planning for drought shocks.

2.1.4 The capacity of technical staff and policymakers will be built to help the country in elaborating its drought risk profile. This activity will involve modelling its drought-related disaster risk through the Africa Risk View (ARV) software application developed by the ARC Agency which underpins the drought insurance product offered by ARC Ltd. The ARV software enables the regular monitoring of the crop year and early detection of the situation and intensity of drought in a country. It also helps to determine the number of affected or potential food-insecure persons during lean periods and the budgetary implications of assistance. The modelling through ARV will consist of inputting Malawi's agro-meteorological data into the software to generate a risk profile that will be used by the country to select risk transfer parameters. Additionally, ARV monitoring throughout the agricultural season will serve as an early warning on the threat of a drought and the impact therefrom on the most vulnerable, particularly during the lean season.

2.1.5 Through ARC support, ADRiFi will facilitate the elaboration and adoption of a contingency plan, that clearly defines the processes and activities that guarantee an optimal use of funds from a potential payout in the event of a disaster, given the existing national risk management structures and the needs of potential beneficiaries. The contingency plan is

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<sup>5</sup> In 2017 the Bank signed an MoU with the African Risk Capacity, which stipulates that the two organizations shall cooperate in preparing, developing, and implementing projects, programmes and technical assistance in areas such as climate and risk resilience in participating countries. In 2018, the Board of Directors approved and welcomes ARC as a key implementing partner to the ADRiFi programme.

government-driven and based on in-country priorities for risk management in the context of food security. It envisions to provide assistance via shock-responsive or scalable systems (such as social protection) or assistance in kind (e.g., food distribution, cash transfer, supplementary feeding, food vouchers, water trucking, or fodder distribution) to protect livelihoods and sustain livestock. For the purposes of implementing the contingency plan, a Final Implementation Plan (FIP) will be submitted by the country shortly before an imminent payout and will include detailed information on how the payout will be deployed. These plans are developed collaboratively between national stakeholders (DoDMA, Ministry of Agriculture, Ministry of Finance and Economic Affairs, Department of Meteorological Services, Reserve Bank of Malawi, CISANET, etc.) and development partners (including WFP, the World Bank and UNDP).

2.1.6 Additionally, this component will also provide technical assistance to the country through a series of trainings including: training on climate risk modelling in favour of the Department of Climate Change and Meteorological Services on climate risk modelling, as well as training on agriculture risk management tools in favour of the Ministry of Agriculture.

2.1.7 **Component 2 - Supporting Access to Sovereign Disaster Risk Transfer Solutions:** This component aims at strengthening the capacity of the country to provide rapid assistance to the most vulnerable, through sovereign disaster risk insurance and sustainable payment of insurance risk premiums. The main activity under Component 2 will be the provision of support to the GoM in accessing the regional sovereign risk transfer pool provided by ARC, through a contribution to the financing of risk premium payment for the country. By accessing the ARC regional risk pool, Malawi will benefit from economies of scale of pooling risks across the continent at a cost much less than if the country had to ensure itself directly in the insurance market for the same perils.<sup>6</sup> The support for premium shall be complemented with capacity building activities to foster the implementation of the country's DRF Strategy. This support will involve the design and implementation of a monitoring and evaluation framework that will help the country to track expenditures related to disaster risk management at all levels, so as to ensure an efficient allocation of resources.

2.1.8 By receiving support for premium payment the country will, from the start of the Programme, commit to building premium payments into its national budget. Table 2 shows premium support arrangements. The Government of Malawi will ringfence into its national budget an allocation equivalent to 5% of the total premium to be paid by 2023. It is envisaged that a second phase of this Programme, to be funded by subsequent ADF allocations and other funding sources such as the ADRiFi MDTF, may be needed to enable the country build up its financial capacity to reach 100% premium payment from its national budget. A special case is therefore made for Malawi to receive more than the stipulated 50% of the total premium support over the life of the Programme normally accorded to new countries joining ADRiFi, in the light of the current peculiar fiscal constraints that the country is faced with.

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<sup>6</sup> The ARC Risk Pool provide covers against the risks of drought and Tropical Cyclones (not considered under this project). Pilots are currently ongoing to offer coverage against the risks of flooding and Malawi has indicated its interest in joining the pilots as the country is also highly subject to the impacts of flash floods.

**Table 2: Premium Payment Support Schedule (in USD million)**

Source	2021*	2022	2023	Total	% of premium
ADF-15	1.2 (40%)	1.25 (42%)	2.0 (67%)	4.45	49%
ADRFi MDTF	1.8 (60%)	1.60 (53%)	0.75 (25%)	4.15	46%
GoM		0.15 (5%)	0.25 (8%)	0.4	5%
<b>Total</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>	<b>9.0</b>	<b>100%</b>

\*Premium payment for the 2021/2022 agricultural season.

**2.1.9 Component 3 - Programme Management and Coordination:** The Ministry of Agriculture will be the executing agency of the Programme. As the Programme majorly hinges on supporting premium payment with a number of capacity building activities funded by ARC, it will require a lean Programme implementation unit to coordinate Programme activities. Staff members of the executing agency will be assigned by the Government to the programme management unit to be established. Specifically, the role of the PMU will include coordination of ARC and ADRiFi activities, mainstreaming activities within the Government agencies, regular reporting, annual auditing and final Programme evaluation, along with the recruitment of local consultants, where needed, to support as appropriate. Table 3 illustrates the Programme components.

**Table 3: Programme Components**

#	COMPONENT	USDm	ACTIVITIES TO BE UNDERTAKEN																				
1	<b>Developing Climate Risk Management Solutions</b>	<b>0.72</b>	<ul style="list-style-type: none"> <li>Modelling climate risk through the Africa Risk View software and develop country risk profile</li> <li>Monitor the agricultural season through the ARV software</li> <li>Develop national engendered contingency plans for drought</li> <li>Prepare a Final Implementation Plan - in case of disbursement by ARC Ltd.</li> <li>Trainings on climate risk modelling</li> <li>Training on agriculture risk management tools</li> <li>Mainstreaming of Gender in DRM</li> </ul>																				
2	<b>Supporting Access to Sovereign Risk Transfer Solutions</b>	<b>9.20</b>	<ul style="list-style-type: none"> <li>Financing of Annual Insurance Premium (USD millions) <table border="1"> <tr> <th></th><th>2021*</th><th>2022</th><th>2023</th></tr> <tr> <td>ADF15</td><td>1.2</td><td>1.25</td><td>2.0</td></tr> <tr> <td>ADRFi MDTF</td><td>1.8</td><td>1.6</td><td>0.75</td></tr> <tr> <td>GoM</td><td></td><td>0.15</td><td>0.25</td></tr> <tr> <td><b>Total</b></td><td><b>3.0</b></td><td><b>3.0</b></td><td><b>3.0</b></td></tr> </table> <p>*Premium support coverage for the 2021/2022 agricultural season</p> </li> <li>Design of a Monitoring Evaluation Framework for the implementation of the DRF Strategy</li> </ul>		2021*	2022	2023	ADF15	1.2	1.25	2.0	ADRFi MDTF	1.8	1.6	0.75	GoM		0.15	0.25	<b>Total</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>
	2021*	2022	2023																				
ADF15	1.2	1.25	2.0																				
ADRFi MDTF	1.8	1.6	0.75																				
GoM		0.15	0.25																				
<b>Total</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>																				
3	<b>Programme Management and coordination</b>	<b>0.21</b>	<ul style="list-style-type: none"> <li>Administrative and operational support</li> <li>Implementation of the Gender Action Plan</li> <li>Audits</li> <li>Regular reporting requirements</li> </ul>																				
	<b>TOTAL (USD)</b>	<b>10.13</b>																					

## 2.2 Technical Solution Retained and Other Alternatives Explored

In implementing this Programme, the Government of Malawi will be guided in the choice of the most appropriate financial solutions that are adapted to the risk profile of the country. Table 4 outlines the different technical options considered for financing disaster risks in the country, and the choice of parametric insurance as a reliable option for the Bank to support in building the resilience to climate disasters in the country.

**Table 4: Programme Alternatives Considered and Reasons for Rejection**

Intervention	Description	Reason for Rejection	Selected Option
Set up a contingency fund line of credit similar to the World Bank's CAT-DDO.	Loan disbursed to Government of Malawi based on a pre-approved threshold and trigger that would then help finance disaster response.	Unsustainable public debt. The total public debt is projected to have reached 57% of GDP at end of December 2021..	A premium payment support, which may come as a grant is most desirable. The country will be able to absorb the cost of premium payment in its budget as the fiscal situation improves. This approach will give the government some fiscal space to organize its budget resources overtime and source funding from national budget allocations.
Establishment of a National DRM Fund	A nationally managed facility funded from country's budget	The time between establishment and operationalization of the Fund would run well beyond the planned programme timeframe. This may be considered as a longer-term solution.	
Disaster risk financing through access to sovereign insurance	Insurance product that pays when drought exposure reaches prior agreed threshold.	Accepted	

## 2.3 Programme Type

This country-specific operation is under the framework of the multinational Africa Disaster Risk Finance (ADRFi) Programme, which aims at building the resilience of RMCs to climate disasters. The specific objectives of the proposed programme are to: (a) to strengthen the capacity of the Government of Malawi to evaluate and cost climate-related risks and elaborate subsequent adaptation measures at both national and sub-national levels; and (b) assist the government implement disaster risk financing solutions including sovereign disaster risk insurance against climate-related shocks.

## 2.4 Programme Cost and Financing Arrangements

The total cost of the Programme for phase 1, net of taxes and duties, is estimated at USD 10.13 million. The Bank will provide a total funding from ADF 15 grant of UA 3.5 million, (approximately USD 4.9 million). The ADRFi MDTF will provide a contribution of USD 4.35 million. The Government will contribute USD 0.4 million, estimated from its own share of the

payment of the premium during the first phase of the Programme, and ARC will provide a co-financing in-kind contribution estimated at about USD 0.48 million to cover for activities under component 1A. Table 5 summarises the different sources of funding.

**Table 5: Sources of Funding**

Source	In USD million	% Total
ADF-15 (PBA)	4.9	48%
ADRFi MDTF	4.35	43%
Government contribution in Premium Payment*	0.4	4%
ARC Contribution (In-kind)	0.48	5%
<b>Total Cost</b>	<b>10.13</b>	<b>100%</b>

**Table 6: Programme Cost Estimates by Component**

Components	Cost in USD million	%
1. Developing Climate Risk Management Solutions	0.72	7%
2. Supporting Access to Sovereign Disaster Risk Insurance	9.20	91%
3. Management and coordination	0.21	2%
<b>Total Cost</b>	<b>10.13</b>	<b>100%</b>

**Table 7: Expenditure schedule by component [in USD]**

Components	2021*	2022	2023	Total
1. Data and Institutional Capacity Development for Improved Risk Profiling and Contingency planning		290 000	430 000	720 000
2. Supporting Access to Sovereign Disaster Risk Insurance	3 000 000	3 050 000	3 150 000	9 200 000
3. Management and coordination		105 000	105 000	210 000
<b>Total Cost</b>	<b>3 000 000</b>	<b>3 445 000</b>	<b>3 685 000</b>	<b>10 130 000</b>

\* Cost for supporting premium for the 2021/2022 agricultural season.

## 2.5 Programme's Target Area and Population

2.5.1 The direct beneficiary of ADRFi is the Government of Malawi, which will benefit from the support for the payment of its premium to ARC Ltd, as well as relevant Ministries, Departments and Agencies that will benefit from capacity building to manage disaster risk activities in the country. The indirect beneficiaries are the local and rural communities that will benefit from assistance in the event of droughts. The Programme will target individuals affected by drought with special focus on women and children.

2.5.2 For the purpose of the insurance and taking into account sub-national ecological conditions to capture well the potential number of people affected in the drought prone areas, the country risk profile has been split into 8 agro-ecological zones or Agricultural Development Divisions (ADDs),

which were further grouped into 4 clusters for risk transfer processes namely: The Northern, Central, Southern and Lower Shire clusters. Splitting the risk profile into 4 clusters offers the benefit of sub-national triggering of the insurance, specifically during mid to low severity droughts. Table 8 below portrays the ADDs considered under the different clusters, the number of people covered by the insurance under each cluster, as well as the ventilation of the annual premium amongst the different clusters. The table includes information on the attachment levels in terms of number of people affected for the different cluster, meaning the number of affected people from which the insurance triggers a payout. The table also indicates the exhaustion levels in terms of number of people affected, meaning the maximum of people covered by the insurance in case of a payout. The clustering of the ADDs has resulted from a consultative process involving national stakeholders and development partners, under the leadership of the Ministry of Agriculture.

**Table 8: the ADD Clusters**

Cluster	Northern	Central	Southern	Lower Shire
ADD	Mzuzu and Karonga	Lilongwe, Kasungu and Salima	Blantyre and Machinga	Shire Valley
Premium (USD)	300 000	300 000	900 000	1 500 000
Percentage of premium	10%	10%	30%	50%
Attachment Level (in terms of people affected)	88 328	1 073 142	1 513 069	211 734
Exhaustion Level (in terms of people affected)	196 474	2 893 170	3 158 856	495 667

## **2.6 Participatory Process for Programme Identification, Design, and Implementation**

2.6.1 Key stakeholders consulted during the programme preparation included the staff of relevant ministries such as the Ministry of Finance and Economic Affairs, the Ministry of Agriculture and the Ministry of Gender Community Development and Social Welfare. Relevant departments in these ministries provided inputs on existing gaps that could be addressed through the Programme. Key departments and institutions consulted during the appraisal mission included: The Department of Disaster Management Affairs (DoDMA), The Reserve Bank of Malawi, Department of Climate Change and Meteorological Services (DCCMS); the National Statistical Office (NSO). The appraisal team also consulted with representatives of the Civil Society including Civil Society Agriculture Network (CISANET) of Malawi; the Climate Change Civil Society Network of Malawi; and the Farmer's Unions of Malawi (FUM). engagement with these two particular stakeholders was key as they voiced the views of the most vulnerable smallholder farmers covered by the sovereign risk insurance.

2.6.2 The appraisal team also engaged with representatives of Development Partners including the Foreign, Commonwealth & Development Office (FCDO); IFAD, UNDP, WFP; the World Bank and the Danish Red Cross. The Department of Planning Services at the Ministry of Agriculture provided input to the design and will lead the process of implementation.

## **2.7 Bank Group Experience, Lessons Reflected in Programme Design**

2.7.1 The overall ADRiFi programme is an innovation in the Bank. As part of the ADRiFi Framework, ADRiFi Malawi builds on the experiences of the Bank and lessons learnt from designing and implementing climate resilience projects in different African countries and mainstreaming climate change in all Bank-financed operations. It has benefited from various projects implemented under the Bank's Climate and Green Growth Policy and Strategy (2021-2030) as well as the Bank's Strategy for Addressing Fragility and Building Resilience in Africa (2022-2026). The design of ADRiFi Malawi has equally been informed by lessons learnt from the implementation of various projects by the Bank in Malawi, particularly in agriculture. The appraisal team considered the fact that although overall country portfolio performance is satisfactory (rated 3.3 out of 4 as of 30 September 2021), previous projects approved by the Bank have experienced delays in meeting conditions precedent to first disbursement in part due to delays in PIU set-up.

2.7.2 Additionally, the design of ADRiFi Malawi has benefitted from lessons learnt in implementing ADRiFi in other countries such as the Gambia, Madagascar, Mauritania Niger and Zimbabwe. Experience in these countries has shown that countries may require support in the initial years of adopting parametric insurance as a risk transfer solution. The ability of the countries to continue payment of the insurance coverage against climate disasters from their budgets after initial support informs the motivation for the Bank to fund this initiative. In this regard, the Bank will work closely with the Government of Malawi to prioritize disaster risk solutions and factor the cost of purchasing insurance in the annual budget in a sustainable manner, as well identifying funding sources to do so. Also, lessons learnt from delayed implementation of insurance payout to the Government of Madagascar has been incorporated in the elaboration of the contingency plan of Malawi by ARC, to facilitate early implementation of activities meant to support local communities impacted by a disaster.

## **2.8 Key Performance Indicators**

The Results-based Logical Framework presents the critical performance indicators of the Programme. The outcome indicators outline the general benefit to the vulnerable individuals/rural communities and the support the government will receive from the insurance; as well as capacity building of institutions that are involved in the management of disaster risks. Key outcome indicators include but are not limited to: (i) number of early warning frameworks developed and implemented (ii) number of vulnerable smallholder farmers who will be covered against climate shocks; (iii) number of months taken by the government of Malawi to provide assistance to the affected communities after occurrence of a covered (insured) event; (iv) and potential disbursement by the insurance in case of a disaster. A Monitoring Plan is included in Appendix 7 to facilitate periodic reporting in quarterly progress reports, bi-annual reporting, and Programme completion reports.

## **III – PROGRAMME FEASIBILITY**

### **3.1 Economic and Financial analysis**

3.1.1 Reference is made to the economic and financial analysis of the ADRiFi Framework included in appendix 8. The economic and financial feasibility of ADRiFi country projects are not based on net present value (NVP) analysis, as they do not generate direct revenues for financial



profitability. However, their viability is determined by a cost-benefit analysis of the ARC insurance offered to African countries.<sup>7</sup> For an annual insurance premium of USD 3.0 million, the country is guaranteed an insurance coverage of up to USD 30 million for extreme drought insured, with a probability of occurrence of once every 4 years, which gives a ratio of almost 20%.

3.1.2 Furthermore, investing in the purchase of the ARC insurance policy generates many economic benefits for the country such as the reduction of its financial vulnerability to drought episodes, due to the rapid and immediate availability of assistance funds for affected persons, and the relatively low rate of the ARC insurance premium resulting from the country's participation in the risk pool. In the long term, given that each US dollar invested in the payment of the ARC insurance premium generates savings of USD 4.4<sup>8</sup> in assistance to affected people, it is expected that the reduction of climatic disaster costs will generate stable GDP growth through the reallocation of funds to key sectors such as infrastructure, education and health.

## 3.2 Fragility and Resilience Analysis

3.2.1 A small landlocked country within a dynamic Southern Africa, Malawi faces significant challenges to its economic and social development. A country regularly hit by droughts and floods, its entire economy sways with each extreme weather event. The economic growth rate remains too low compared to the rapid growth of the population. The weak diversification of the economy also contributes to this lack of dynamism. Although some of the fundamentals have improved, investors have shied away from the country, which has great potential, especially in tourism. Corruption remains rampant, and the lack of electricity is a major constraint to economic activity and industrial development.

3.2.2 At the sectoral level, Malawi is increasingly affected by weather and climate shocks, a trend observed in recent decades. These events are characterized by drought in most parts of the country and severe localized flooding in other areas, resulting in severe damage to crops, loss of productive assets, and property losses for the affected populations. The country continues to suffer from the adverse effects of the El Nino phenomenon of a few years ago, which led to extreme drought. The results of these successive shocks have left more than a third of the population in a situation of food insecurity. This food security, but also resilience to climate change, are also undermined by severe land degradation and deforestation resulting from intensive agricultural practices and unsustainable harvesting of trees for energy for urban households (in the form of charcoal and firewood). Poor management of the upper watersheds has resulted in water and power cuts that impact human health and welfare and the potential for economic growth. Malawi's economy is based primarily on agriculture, which is highly dependent on rainfall. This sector, which is cruelly lacking in resources, starting with irrigation systems. is the mainstay of the economy, accounting for 30% of GDP.

## 3.3 Environmental and Social Impacts

3.3.1 **Environmental impact:** ADRiFi Framework is assigned Environmental and Social Category (E&S) Risk Category 3 in accordance with the Bank's Integrated Safeguards System Policy Statement and Operational Safeguards, since it does not have any component that would

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<sup>7</sup> The CBA Analysis is available at :

<https://ebrary.ifpri.org/utils/getfile/collection/p15738coll2/id/127813/filename/128024.pdf>

<sup>8</sup> Estimantes derived from the CBA referred to in footnote 7 above.

pose E&S risks and impacts. The E&S risk category 3 was validated on 8<sup>th</sup> November 2021. ADRiFi Malawi aims to mitigate the effects of extreme climatic events exacerbated by climate variability to the extent that these affect agricultural productivity and subsequently, food security. It is promoting solutions that will lead to greater climate resilience and improve access to financing for initiatives to promote more effective and efficient disaster risk management. It is unlikely to have any detrimental and site-specific negative environmental and social impacts as it involves mainly capacity building, risk modelling and risk transfer solutions. Based on the Guidelines and standards (including Operational Safeguards and Guidance Notes) of ESA studies considered, none of the OS1-5 will be triggered. These include (i) Environmental Assessment (OS1); (ii) Involuntary Resettlement (OS2); (iii) Natural Habitats/Biodiversity and Ecosystem Services (OS3); (iv) Pollution Prevention & Hazardous Materials (OS4); and (v) Labour Conditions & Occupational Health and Safety (OS5). As environmental and climate change capacity building measures are already part of the Programme activities, no mitigation measures are required at this stage.

**3.3.2 Social Impact:** The increased frequency of extreme weather events will have devastating consequences for human wellbeing and the livelihoods of rural people in Malawi. Such events activate weakening situations and cause wide-ranging loss of livelihoods and property. The Programme anchored as a socio-economic development approach will mitigate new risks (risk avoidance), addressing existing risks (risk reduction and risk retention), as well as the residual risks and social safety nets (SSN) that prevents, limits and/or address the socio-economic impacts of climate-related disasters. The Programme will unlock investments that will eventually contribute to economic growth and reduce vulnerability to climate change. It will stimulate climate smart investments that will contribute to improved sustainable livelihoods, poverty reduction, increased food security/nutrition, and reduced labour loss in the rural communities. Adaptation measures of the Programme will make rural communities less vulnerable to climate shocks. The implementation of ADRiFi Malawi will not result in involuntary resettlement of communities.

### **3.4 Climate change**

ADRFi Malawi has been screened for climate risks and rated as Category 3, as it aims to address vulnerability to climate risks. The Programme's support to access to sovereign disaster risk insurance and provision of climate risk management solutions will enhance Malawi's resilience and adaptive capacity to extreme droughts, which have increased in frequency and intensity in the last decade. With most of the country's population dependent on rain-fed agriculture, drought is a significant threat to Malawi and normally results in lower food production, reduction in water and pasture availability, loss of human and livestock lives, migration and conflict over limited resources, especially pastures and water. Capacity building of key government agencies involved in the ARC Technical Working Group will be conducted to enhance coordination and effective implementation of measures to reduce and manage climate risks, properly operate and maintain the weather observatory and early warning system, and issue agro-advisories. No greenhouse gas (GHG) emissions are expected to result from implementation of the Programme activities. The Programme is aligned with Malawi's Nationally Determined Contribution to the Paris Agreement (updated in 2021); specifically, by establishing risk financing (weather index insurance) to enhance resilience in the agriculture sector. Furthermore, the programme is aligned with the Bank's Climate Change and Green Growth Policy and Strategy (2021-2030) and is identified as an adaptation intervention that contributes to the Banks commitment/target to provide financing for adaptation.

### **3.5 Gender**

3.5.1 About 84% of Malawi's population live in rural areas and are dependent on subsistence farming, largely by done women. Though no sector of society is unaffected, women bear the most brunt of climate change. Women walk long distances in search for household firewood and water where they spend much of their time especially on long queues at water points, while being awaited by other household chores. Such also exposed women to Gender Based Violence (GBV) risks robs them of emotional and physical energy that would otherwise have been used for socioeconomic development activities. At times girls drop out of school to provide support to their overburdened mothers thus dragging girls into poverty and widening the gender gap<sup>9</sup>. Unpredictable climate, erratic rains and sometimes floods result into bad or total failure of crop yields, leading to food insecurity affecting men, women and their children. However, being a social responsibility for women to provide food for their household, they end up bearing the biggest weight at the scenes of their starving children. The NRS for Malawi however, recognises that women's empowerment and improvements in gender relations have proven impacts on productivity, income generation, diversification, and improved decision making on the use of income and resources to meet household consumption and nutritional, a factor that boosts resilience to climate change.

3.5.2 ADRiFi Malawi is category 3 according to the Bank's Gender Maker System. The project will enable engaging and empowering women, resulting in strengthened resilience to disaster risks. A Gender Action Plan will be developed to provide guidance to gender inclusive approaches for better disaster risk management so as to minimize negative impacts on both men and women. Terms of Reference for sourcing for an experienced Local Consultant have already been developed in collaboration with ARC and this will expedite the procurement process. The Programme will also support Advocacy and Sensitization activities on DRM emphasizing related gender perspective. These will include: Advocacy efforts to Women caucus in the parliament and parliamentary committee on Agriculture, advocacy efforts to traditional leaders and local authority structures including the Police and Sensitization and capacity building workshops including roadshow on building of climate resilience for rural vulnerable groups especially women who get disproportionately affected. The Engendered monitoring and reporting of project activities will ensure tracking of set gender activities in the project's Gender Action Plan (GAP), document disaggregated data and the project's gender impact. See annex 3 for detailed GAPs.

## **IV – IMPLEMENTATION**

### **4.1 Implementation Arrangements**

4.1.1 The Bank is developing this country Programme in collaboration with ARC, which is facilitating the implementation of Component 1. The Ministry of Agriculture will be the executing agency, through its Department of Planning. As the Programme mainly focuses on supporting premium payment with a limited number of capacity building activities undertaken in the context of ARC workplan in Malawi, it will require a small Programme management unit to coordinate Programme activities. The staff members of the executing agency who are involved in the ARC programming will be assigned to the Programme management unit (PMU) to be established, so as to foster synergies and facilitate implementation. The PMU will be headed by a Programme Coordinator, assisted by a Procurement Officer, a Financial Controller and a Gender Expert, a

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<sup>9</sup> <https://www.equaltimes.org/>

DRM Expert each with qualifications, skills, experience and terms of reference acceptable to the Fund.

4.1.2 A review of the capacity of the Executing Agency revealed that the staff have the necessary skills and competencies to coordinate programme implementation and are already quite experienced in implementing donor funded programmes and projects including those funded by the Bank. Staff assigned to the PMU will be trained on the Bank's procurement and fiduciary procedures to ensure effective execution of the Programme. The PMU will be responsible for the day-to-day implementation of Programme and will report to the Permanent Secretary of the Ministry of Agriculture.

4.1.3 In the event of a disaster in Malawi, the ARC programme in the country will elaborate and implement a Final Implementation Plan (FIP). Details of the FIP may include, but are not limited to, the following:

- (i) Information on the list of all items to be procured and possible procurement sources.
- (ii) How cash/goods will move from procurement to implementing partners, and to the targeted beneficiaries?
- (iii) What checks are in place to ensure the cash/goods reach the targeted beneficiaries in a timely manner and can be tracked?
- (iv) How the implementation of the Contingency Plan will be monitored?

4.1.4 **Financial Management (FM) and Audit:** An assessment of the Ministry of Agriculture's Financial Management System was carried out by the Bank to establish whether it has the capacity to carry out the financial management (FM) of the above-named project. The financial management (FM) assessment was carried out in accordance with the Bank's FM Manual and Implementation Guidelines-2014. The overall FM risk is assessed as moderate. The Ministry of Agriculture has extensive experience in the management of projects funded by the Bank and other development partners. A key lesson learnt from prior and existing projects in the agriculture sector is that financial management compliance is often impeded due to the periodic transfers of critical government accounting personnel.

4.1.5 Based on the assessment of the fiduciary arrangements, the Ministry of Agriculture will designate an experienced Accountant to work as part of the Programme team. The accountant will have primary responsibility for the FM aspects and report to the Programme Manager and to the Director of Finance at the Ministry of Agriculture. In accordance with the Bank's financial reporting and audit requirements, the Programme will be required to prepare and submit a bi-annual progress report to the Bank not later than forty-five (45) days after the end of each reporting period. The Programme will also prepare and submit financial statements covering each financial year, audited by the National Audit Office, together with the auditor's opinion and management letter to the Bank not later than six (6) months after the Programme closing date.

## **4.2 Disbursement**

All disbursements under the programme will follow the disbursement procedures outlined in the Bank's Disbursement Handbook. The direct payment and special account/revolving fund methods will apply to the Programme to pay for eligible activities. The other two methods (reimbursement and reimbursement guarantee) described in the Disbursement Handbook may be used when necessary, with prior approval from the Bank. The Bank will issue a disbursement letter stipulating

key disbursement procedures and requirements. The Recipient will open a Special Account in foreign currency at the Reserve Bank of Malawi and an operating account in local currency at a bank acceptable to the Fund.

### **4.3 Procurement Arrangements:**

4.3.1 The acquisition of consulting services, financed by the Bank for the project, will be in accordance with the “*Procurement Policy for Bank Group Funded Operations*”, dated October 2015 and following the provisions stated in the Financing Agreement. Procurement will be carried out in accordance with Bank Procurement Methods and Procedures (BPMPs), using the relevant Bank Standard or Model Solicitation Documents (SDs) and review procedures. There will be two consultancy services (Gender Mainstreaming into DRM and Programme Audits (procurement and financial audit), which will be procedure on the basis of Individual Consultant (IC) selection and Least Cost Selection (LCS) in respective. Details of procurement arrangement is presented in Appendix 4.

4.3.2 The acquisition of Goods and *non-consultancy services* under Operating Expenses will be carried out using Borrower’s Procurement System (BPS) comprising its Laws and Regulations as stipulated in Public Procurement and Disposal of Public Assets Act 2017 and Public Procurement Regulation, 2020 as amended to be in consistent with the new law, using the approved Solicitation Documents agreed for various group of transactions to be entailed under the project.

4.3.3 The Ministry of Agriculture will be responsible for procurement of consulting services and Goods and Non-Consultancy Services under the project. The Ministry has adequate experience, skills and competencies in handling procurement using Bank financing, however, the Bank will provide support and guidance in procurement of the consultancy services in an effective and efficient manner.

### **4.4 Monitoring and Evaluation:**

The Programme will build on the logical results framework for M&E. Due to the limited number of activities to be implemented the Programme coordinator will oversee the M&E functions and therefore prepare and provide programme activity, output, and outcome monitoring tools for all relevant national and local level stakeholders involved in programme implementation. Collection of timely and accurate data will be useful for the purpose of monitoring the programme.

### **4.5 Governance**

The total public debt is at 57% of GDP at December 2021 from 59.5% in 2019 and 37% in 2015, exacerbated by the fiscal constraints impacted by COVID-19 expenditure estimated at 2% of GDP, and the low GDP growth of 0.9% achieved in 2020. The IMF have been negotiating a new Extended Credit Facility programme, due to be concluded in June 2022. The rapid rise in public debt is attributed to the worsening macroeconomic situation, including worsening of export revenues etc. . With regards to Governance, Malawi ranks 23 out of 54 African nations on the Mo Ibrahim Foundation (MIF) Governance Index, with the country scoring 51.5 percent, representing a deteriorating trend of -1.3 points between 2010 and 2019. On transparency and accountability, Malawi has scored 38.3 percent, ranking 24, with a deteriorating trend of -5.1 points. However, in the sub-category Malawi has achieved improvement in its scores on national security and rule of law. The ADRiFi programme will be implemented taking into account the strenuous fiscal

constraints that are faced by the country, whilst contributing to strengthen overall governance of the country, particularly in the DRM sector.

## **4.6 Sustainability**

4.6.1 The Government's commitment and ownership of the Programme was demonstrated by the high level of involvement during its preparation. The Government is committed to allocating its national budget progressively to finance insurance premiums. The Government is also committed to its PBA allocation (ADF-15) and subsequent PBA allocations for the implementation of ADRiFi and this demonstrates its strong commitment to allocate competing resources to climate risk management. Unlike other ADRiFi country Programmes that are expected to reach financial sustainability in premium financing within the first phase of the Programme, this might be too ambitious for Malawi, given its strenuous fiscal space as well as the adverse impacts of covid-19 response by the Government and its partners.

4.6.2 The use of risk transfer solutions is expected to rectify contingent liabilities from the country's balance sheet and will lead to faster response to severe shocks. By choosing to adopt risk transfer solutions, the country is willing to commit a substantial amount of funds to finance planning, preparation, and implementation of a coordinated default response to disaster, as indicated in the response and recovery plan. The Government is also committed to pre-agreed, coordinated plan with a specific, defined set of actions and precise responsibilities of who undertakes which task to reduce the negative impact of the emerging disaster.

4.6.3 By building institutional and staff capacity regarding disaster risk response, the programme will ensure a proper management of disaster risks in Malawi. Additionally, by contributing to premium payment, the Government will ensure ownership over risk transfer. Furthermore, through the elaboration of the monitoring and evaluation framework to support in the implementation of its DRF Strategy, the country will track expenditure on DRM so as to ensure that financing for DRM is fully integrated into its budgeting process and development agenda. The integration of the Programme activities into the annual work plans of the PMU (in line with the organization's mandate) will ensure that activities supported by ADRiFi Malawi are sustained after the lifespan of the Programme.

## **4.7 Risk Management**

4.7.1 Potential risks identified for the implementation of ADRiFi Malawi may include, but not limited to the following:

- (i) Possible change of Government during Programme implementation or policy reversal may undermine the commitment to progressive contribution to premium payments demonstrated by current Government; and
- (ii) Basis risk - when the insurance index measurements do not match an individual insured's actual losses – can lead to reputational risk.

4.7.2 Various mitigation measures have been proposed to minimize these risks, including sensitization and training of policy makers, capacity building, data collection to support index risk management and elaboration of a disaster risk financing strategy. Details of the risks and proposed mitigation measures are elaborated in Appendix 6.

## **4.8 Knowledge building**

4.8.1 The knowledge generated during the implementation of the programme will feed in the overall economic development agenda of Malawi. The expected climate risk modelling activities to be undertaken by ARC will provide accurate information on the key disaster risks and their potential impact to the economy, which will, in turn inform decision making processes on resource mobilization and allocation towards climate risk management. This knowledge and other lessons learnt throughout Programme implementation will be shared with the Government and all relevant stakeholders through the website of the Department of Disaster Management Affairs (DoDMA) as well as on the Bank's website. As Malawi is among the countries to be supported by the Bank to implement disaster risk financing mechanism; lessons learnt will also inform implementation of the same in other RMCs.

4.8.2 The Programme is based on an innovative approach that looks at disaster risk management from a holistic point of view. The knowledge generated during the implementation of the programme will feed in the overall economic development agenda of Malawi. Development of risk profiles will provide accurate information on the key disaster risks and the general impact to the economy. With the information on cost for responding to the disasters, the government will be able to develop long-term management of disasters and their impacts. The knowledge will be useful in assisting the government to design the best-suit financing models for disaster risk management. The knowledge and lessons from the programme's innovations will be shared at the Annual Joint Sector Review meetings and at other regional sector seminars, including those organised by the Bank and other continental or global disaster risk financing initiatives.

## **V – LEGAL INSTRUMENTS AND AUTHORITY**

### **5.1 Legal instruments**

The legal instrument to finance this operation is the: (i) a Protocol of Agreement between the Republic of the Malawi (the "Recipient") and the African Development Fund (the "Fund"); and (ii) a Letter of Agreement between the Recipient and the African Development Bank ("the Bank") as administrator of the ADRiFi Multi Donor Trust Fund.

### **5.2 Conditions associated with the Fund's intervention**

#### *5.2.1 Condition Precedent to Entry into Force of the Grant Agreements*

The Grant Agreements shall enter into force on the date of signature by the Recipient and the Fund/Bank.

#### *5.2.2 Conditions Precedent to First Disbursement of the ADF Grant:*

The first disbursement of the grants shall be conditional upon the entry into force of the Agreements, and the Recipient providing evidence of the fulfilment of the following conditions, in a form and substance satisfactory to the Fund:

- (a) The establishment of the PMU and assignment of five (5) core staff from within the Ministry of Agriculture, namely, (i) a Programme Coordinator to head the PMU, (ii) a Procurement Officer, (iii) a Financial Controller/Accountant, (iv) a Gender Expert, and

- a DRM Expert each with qualifications, skills, experience, and terms of reference acceptable to the Fund; and
- (b) The execution and delivery by the African Risk Capacity (“ARC”), of a letter of approval confirming availability of budget for its in-kind contribution to the implementation of the Programme, or a co-financing Agreement between the ARC and the Recipient, on terms and conditions acceptable to the Bank, or the submission of evidence that the Recipient has secured financing from alternative sources to cover the financing gap resulting from failure to obtain co-financing from ARC.

### 5.2.3 *Undertakings:* The Recipient shall

The Recipient undertakes the following:

- (a) Provide as promptly as needed, funds, facilities, services and other resources required as counterpart contribution for implementation of the Programme, and/or necessary or appropriate to ensure that the goals of the Programme and the purpose of the Grant are accomplished;
- (b) Maintain the existence and functioning of the PMU, in a form and with a composition and Terms of Reference acceptable to the Fund, throughout the duration of the Programme implementation period;
- (c) For disbursement through a Special Account, submit to the Fund a withdrawal request with a Special Account denominated in USD, opened at the Reserve Bank of Malawi, in the name of the Programme, for deposit of the proceeds of the Grant, and a corresponding local currency operating account at a bank acceptable to the Fund; and
- (d) Implement the Programme in compliance with the Bank Group Safeguards Policies, and the applicable national legislation, in a manner and in substance satisfactory to the Fund.

## 5.3 **Compliance with Bank Policies**

This Programme complies with all applicable Bank Group policies.

## **VI – RECOMMENDATION**

Management recommends that the Boards of Directors approve the proposed ADF grant of Three Million Five Hundred Thousand Units of Account (UA 3,500,000) and ADRiFi-MDTF grant of Four Million Three Hundred and Fifty Thousand United States Dollars (USD 4,350,000), to the Republic of Malawi, to finance implementation of the ADRiFi Programme under the terms and conditions stipulated in this report.

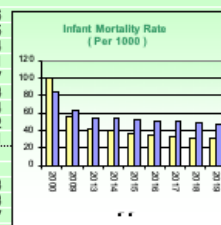
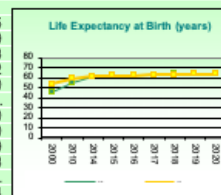
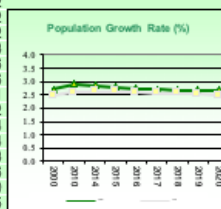
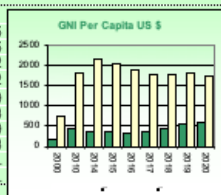


# APPENDIXES

## Appendix 1: Macro and Socio-Economic Indicators

### Malawi COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Malawi	Southern Africa	Africa	Developing Countries
<b>Basic Indicators</b>					
Area ('000 Km <sup>2</sup> )	2020	94	6,571	30,067	96,535
Total Population (millions)	2020	19.1	213.2	1,338.8	6,509.5
Urban Population (% of Total)	2020	18.5	50.0	43.8	51.2
Population Density (per Km <sup>2</sup> )	2020	202.9	32.8	45.6	69.2
GNI per Capita (US \$)	2020	580	2,430	1,736	4,849
Labor Force Participation *, Total (%)	2020	75.2	68.5	61.3	58.3
Labor Force Participation **, Female (%)	2019	72.5	62.7	55.8	45.9
Sex Ratio (per 100 female)	2020	97.3	96.8	99.9	106.8
Human Develop. Index (Rank among 189 countries)	2019	174	...	...	...
Popul. Living Below \$ 1.90 a Day (% of Population)	2007-19	69.2	47.0	34.1	...
<b>Demographic Indicators</b>					
Population Growth Rate - Total (%)	2020	2.7	2.3	2.5	1.2
Population Growth Rate - Urban (%)	2020	4.4	3.2	3.6	2.2
Population < 15 years (%)	2020	43.0	38.9	40.4	27.2
Population 15-24 years (%)	2020	21.0	19.3	19.3	16.3
Population >= 65 years (%)	2020	2.6	3.6	3.5	7.6
Dependency Ratio (%)	2020	83.9	73.8	78.1	54.6
Female Population 15-49 years (% of total population)	2020	24.6	25.2	24.2	25.1
Life Expectancy at Birth - Total (years)	2020	64.7	63.7	63.8	71.2
Life Expectancy at Birth - Female (years)	2020	67.9	66.6	65.6	73.4
Crude Birth Rate (per 1,000)	2020	33.4	30.4	32.6	19.4
Crude Death Rate (per 1,000)	2020	6.3	7.8	7.8	7.3
Infant Mortality Rate (per 1,000)	2019	30.9	41.0	47.9	30.6
Child Mortality Rate (per 1,000)	2019	41.6	57.0	69.5	41.0
Total Fertility Rate (per woman)	2020	4.1	3.8	4.3	2.5
Maternal Mortality Rate (per 100,000)	2017	349.0	245.8	432.3	231.0
Women Using Contraception (%)	2020	62.6	54.6	39.1	58.9
<b>Health &amp; Nutrition Indicators</b>					
Physicians (per 100,000 people)	2010-19	3.6	35.3	33.8	128.5
Nurses and midwives (per 100,000 people)	2010-19	43.9	98.2	114.6	249.9
Births attended by Trained Health Personnel (%)	2010-20	89.8	73.2	64.4	79.3
Peop. Using at least basic drinking water services (% of Pop.)	2020	70.0	71.1	69.4	88.2
Peop. Using at least basic sanitation services (% of Population)	2020	27.0	46.8	41.9	74.0
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2020	8.1	10.9	3.0	...
Incidence of Tuberculosis (per 100,000)	2019	146.0	382.2	198.2	152.0
Child Immunization Against Tuberculosis (%)	2019	91.0	83.8	81.0	88.0
Child Immunization Against Measles (%)	2019	92.0	75.6	71.9	84.9
Underweight Children (% of children under 5 years)	2010-20	26.4	13.4	16.8	13.8
Prevalence of stunting	2010-20	41.6	31.6	31.9	...
Prevalence of undernourishment (% of pop.)	2019	17.3	20.2	17.7	10.4
Current health expenditure (% of GDP)	2018	9.3	6.8	5.2	5.4
<b>Education Indicators</b>					
Gross Enrolment Ratio (%)					
Primary School - Total	2010-20	144.8	114.2	103.0	101.6
Primary School - Female	2010-20	147.0	112.4	101.1	100.5
Secondary School - Total	2010-20	37.1	61.0	53.0	72.4
Secondary School - Female	2010-20	33.6	59.3	51.1	72.1
Primary School Female Teaching Staff (% of Total)	2010-20	45.0	59.3	49.2	63.7
Adult Literacy Rate - Total (%)	2010-20	62.1	80.3	68.2	84.3
Adult Literacy Rate - Male (%)	2010-20	78.4	82.9	72.4	88.4
Adult Literacy Rate - Female (%)	2010-20	55.2	67.5	50.1	80.2
Government expenditure on Education (% of GDP)	2010-20	2.9	5.6	4.8	4.1
<b>Environmental Indicators</b>					
Land Use (Arable Land as % of Total Land Area)	2018	38.2	6.0	8.2	11.3
Agricultural Land (as % of land area)	2018	59.9	53.9	37.8	37.8
Forest (As % of Land Area)	2020	23.8	33.9	22.6	31.7
Per Capita CO2 Emissions (metric tons)	2018	0.1	2.5	1.1	3.4



Sources : AIDB Statistics Department Databases; World Bank: World Development Indicators;

last update : November 2021

UNAIDS; UNSD; WHO; UNICEF; UNDP; Country Reports.

Note : n.a. : Not Applicable; ... : Data Not Available. \* Labor force participation rate, total (% of total population ages 15+)

\*\* Labor force participation rate, female (% of female population ages 15+)

## Appendix 2: Table of AfDB's Portfolio in Malawi

Loan/Grant Number	Sector/ Project Name	Approval sum	Approval date	Completion Date	Final disburs date	Disbursements to 30-Sep-21	Disb/ rate to 30-09-21	Age (years) 30-09-21
<b>Agriculture</b>						43,732,269.64	31.73%	3.5
2.10015E+12	AGRICULTURAL INFRASTRUCTURE AND YOUTH AGRIBUSINESS PROJECT	16,000,000	28-09-16	30.06.2022	30-10-22		68.53%	5
2.10015E+12	MALAWI - SUSTAINABLE FISHERIES, AQUACULTURE DEVELOPMENT AND WATERSHED MANAGEMENT PROJECT	6,510,000	2/10/2019	30.06.2025	30-10-25	2779351	42.69%	2
2.10016E+12	MALAWI - SUSTAINABLE FISHERIES, AQUACULTURE DEVELOPMENT AND WATERSHED MANAGEMENT PROJECT	3,050,000	2/10/2019	30.06.2025	30-10-25	45,388.00	1.49%	2
2.10015E+12	SHIRE VALLEY TRANSFORMATION PROJECT	20,000,000	4/12/2018	31.12.2025	30-04-26		0.00%	2.8
2.20016E+12	SHIRE VALLEY TRANSFORMATION PROJECT	4,500,000	4/12/2018	31.12.2025	30-04-26	912,733.00	20.28%	2.8
6.54065E+12	SHIRE VALLEY TRANSFORMATION PROJECT	11,022,037	4/12/2018	31.12.2025	31-12-24		0.00%	2.8
5.55016E+12	TRANSBOUNDARY COOPERATION IN SONGWE BASIN	4,770,667	17-05-19	30.06.2023	30-10-23	993,835.00	20.83%	2.4
5.57016E+12	SMALLHOLDER IRRIGATION & VALUE ADDITION	28,041,950	13-03-13	31.12.2020	30.04.2021	28,036,342.00	0.9998	8.5
<b>Water, Sanitation and Irrigation</b>						43,213,936.43	74.68%	5.3
2.10015E+12	SUSTAINABLE RURAL WATER AND SANITATION INFRASTRUCTURE loan	15,000,000	30-04-14	30.12.2021	30-04-22	14,182,532.00	94.55%	7.4
2.20016E+12	SUSTAINABLE RURAL WATER AND SANITATION INFRASTRUCTURE grant	5,000,000	30-04-14	30.12.2021	30-04-22	4,945,900.00	98.92%	7.4
5.80016E+12	SUSTAINABLE RURAL WATER AND SANITATION INFRASTRUCTURE RWSI	3,181,818	30-04-14	30.12.2021	30-04-22	2,815,456.00	88.49%	7.4
5.55016E+12	ADDITIONAL FINANCING TO SUSTAINABLE RURAL WATER GEF	1,888,214	10/5/2019	30.09.2022	30-01-23	952,734.00	50.50%	2.4
2.10016E+12	NKHATA BAY TOWN WATER SUPPLY AND SANITATION PROJECT	10,500,000	22-10-18	30.06.2023	30-10-23	2,806,671.00	26.73%	2.9
6.54065E+12	NKHATA BAY TOWN WATER SUPPLY AND SANITATION PROJECT	8,817,629	22-10-18	30.06.2022	30-10-23	3,440,654.00	39.02%	2.9
2.10015E+12	MZIMBA INTEGRATED URBAN WATER AND SANITATION PROJECT	3,600,000	23-10-15	30-06-21	30-10-21	3,586,068.00	99.61%	5.9
6.54065E+12	MZIMBA INTEGRATED URBAN WATER AND SANITATION PROJECT	10,515,731	18-12-15	30-06-21	30-10-21	10,483,921	99.70%	5.8
<b>Multisector</b>						7,003,940.35	41.10%	2.6
5.70016E+12	NACALA RAIL AND PORT VALUE ADDITION PROJECT	714,286	23-05-17	30.12.2021	30-04-22	503,087.14	70.43%	4.4
2.10016E+12	PROMOTING INVESTMENT AND COMPETITIVNESS IN TOURISM SECTOR	7,000,000	11/1/2018	31.12.2021	30-04-22	4,327,499	61.82%	3.7
2.10015E+12	SUPPLEMENTARY FINANCING PROMOTING INVESTMENT AND COMPETITIVNESS IN TOURISM SECTOR Loan	321,800	18-06-20	31.12.2021	30.04.2022	59,490	18.49%	1.3
2.10016E+12	SUPPLEMENTARY FINANCING PROMOTING INVESTMENT AND COMPETITIVNESS IN TOURISM SECTOR Grant	370,200	18-06-20	31.12.2021	30.04.2022	158,372	42.78%	1.3
2.10016E+12	MULTINATIONAL-POST CYCLONE IDAI EMERGENCY RECOVERY	16,340,000	5/6/2019	31.12.2023	30-04-24	1,955,492	11.97%	2.3
<b>Social (Gender, Youth and Sports)</b>						7,316,796.76	87.30%	4.8
2.10015E+12	JOBS FOR YOUTH MALAWI	7,520,000	7/12/2016	30.12.2021	30-04-22	6,157,759	81.89%	4.8
2.10016E+12	JOBS FOR YOUTH MALAWI	1,250,071	7/12/2016	30.12.2021	30-04-22	1,159,038	92.72%	4.8
<b>Transport Infrastructure and Public Works</b>						56,847,115.84	70.05%	6.6
2.10015E+12	NACALA ROAD CORRIDOR PROJECT PHASE IV (LIWONDE-MANGOCHI)	42,360,000	3/12/2013	31.12.2021	30-04-22	34,560,458	81.59%	7.8
2.10016E+12	NACALA ROAD CORRIDOR PROJECT PHASE IV (LIWONDE-MANGOCHI)	610,000	3/12/2013	31.12.2020	30-04-21	607,426.00	99.58%	7.8
2.10015E+12	MULTINATIONAL: NACALA ROAD CORRIDOR DEVELOPMENT -PHASE V	26,600,000	19-06-19	30.06.2024	30-10-24	14,615.00	0.05%	2.3
2.10015E+12	MZUZU-NKHATA BAY ROAD PROJECT	21,890,000	13-03-13	31.12.2021	30-04-22	21,664,617	98.97%	8.5
		<b>277,374,403</b>		<b>Average</b>		<b>158,114,059</b>	<b>57.00%</b>	<b>4.57</b>

## Appendix 3: Environmental and Social Conformity Note

ENVIRONMENTAL AND SOCIAL COMPLIANCE NOTE (ESCON)		AFRICAN DEVELOPMENT BANK GROUP	
<b>A. Basic Information<sup>1</sup></b>			
Project Title: Africa Disaster Risk Financing Programme		Project "SAP code" P-MW-A00-012	
Country: Malawi	Lending Instrument <sup>2</sup> : DI <input checked="" type="checkbox"/> FI <input type="checkbox"/> CL <input type="checkbox"/> BS <input type="checkbox"/> GU <input type="checkbox"/> RPA <input type="checkbox"/> EF <input type="checkbox"/> RBF <input type="checkbox"/>		
Project Sector: Agriculture	Task Team Leader: Cecil NARTEY		
Appraisal date: 27-August to 03-September, 2021	Estimated Approval Date: 15 December 2021		
Environmental Safeguards Officer: Herbert OULE			
Social Safeguards Officer: xxxxx			
Environmental and Social Category: 3	Date of categorization: 08 - 11 - 2021	Operation type: SO <input checked="" type="checkbox"/> NSO <input type="checkbox"/> PBO <input type="checkbox"/>	
Is this project processed under rapid responses to crises and emergencies?		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	
Is this project processed under a waiver to the Integrated Safeguards System?		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	
<b>B. Disclosure and Compliance Monitoring</b>			
<b>B.1 Mandatory disclosure</b>			
Environmental Assessment/Audit/System/Others (specify):			
Was/Were the document (s) disclosed <i>prior to appraisal</i> ?		Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input checked="" type="checkbox"/>	
Date of "in-country" disclosure by the borrower/client		[Date]	
Date of receipt, by the Bank, of the authorization to disclose		[Date]	
Date of disclosure by the Bank		[Date]	
Resettlement Action Plan/Framework/Others (specify):			
Was/Were the document (s) disclosed <i>prior to appraisal</i> ?		Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input checked="" type="checkbox"/>	
Date of "in-country" disclosure by the borrower/client		[Date]	
Date of receipt, by the Bank, of the authorization to disclose		[Date]	
Date of disclosure by the Bank		[Date]	
Vulnerable Peoples Plan/Framework			
Was the document disclosed <i>prior to appraisal</i> ?		Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input checked="" type="checkbox"/>	
Date of "in-country" disclosure by the borrower/client		[Date]	
Date of receipt, by the Bank, of the authorization to disclose		[Date]	
Date of disclosure by the Bank		[Date]	
If in-country disclosure of any of the above documents is not expected, as per the country's legislation, please explain why: NA.			
<b>B.2. Compliance monitoring indicators</b>			
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?		Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input checked="" type="checkbox"/>	
Have costs related to environmental and social measures, including for the running of the grievance redress mechanism, been included in the project cost?		Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input checked="" type="checkbox"/>	
Is the total amount for the full implementation for the Resettlement of affected people, <i>as integrated in the project costs, effectively mobilized and secured</i> ?		Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input checked="" type="checkbox"/>	
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?		Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input checked="" type="checkbox"/>	
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?		Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input checked="" type="checkbox"/>	
<b>C. Clearance</b>			
Is the project compliant to the Bank's environmental and social safeguards requirements, and to be submitted to the Board? Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>			
<b>Prepared by:</b>	<b>Name</b>	<b>Signature</b>	<b>Date</b>
Environmental Safeguards Officer:	Herbert OULE		09/11/2021
Social Safeguards Officer:	xxxxx		
Task Team Leader:	Cecil NARTEY		09/11/2021
<b>Submitted by:</b>			
Sector Director:	Atsuko TODA	<i>Atsuko</i>	10/11/2021
<b>Cleared by:</b>			
Director SNSC:	Maman-Sani ISSA	<i>Maman-Sani</i>	10/11/2021

<sup>1</sup> Note: This ESCON shall be appended to project appraisal reports/documents before Senior Management and/or Board approvals.

<sup>2</sup> DI=Direct Investment; FI=Financial Intermediary; CL=Corporate Loan; BS=Budget Support; GU=Guarantee; RPA=Risk Purchase Agreement; EF=Equity Financing; RBF=Results Based Financing.

## Appendix 4: Map of Malawi



## Appendix 5: Risks and Mitigation Measures

RISK CATEGORY	RISK DESCRIPTION	RATING	MITIGATION MEASURE	RISK OWNER
Country's Political and Governance Context	Change of Government during Programme implementation or policy reversal	Moderate	Capacity building of Government Ministries coordinating the implementation of disaster risk management activities, sensitizing of parliamentarians, and strengthening of stakeholder institutions will contribute to mainstreaming DRM activities and enhanced governance that will minimize the risk of policy change in Government or its impact.	AfDB and ARC
Other	Basis risk - when the index measurements do not match an individual insured's actual losses – can be associated with reputational risk	Low	Efforts will be made to improve the quality of the data used to determine the index and to reduce the basic risk. Funding for agricultural and food security surveys will help to address the lack of field data. In addition, the country's capacity to understand insurance products and their inherent limitations will be strengthened. The financing strategy for disaster risk management will ensure that insurance products are part of a pool of instruments that the country and beneficiaries could use to ensure better risk management, including residual risks (i.e., risks not covered by sovereign insurance).	ARC and GoM

## Appendix 6: Monitoring Plan

A. Alignment indicators							
Indicator name		Definition/ description		Source	Baseline and targets (where possible)		
People benefiting from improvements in agriculture		Total number of people benefiting from improved agricultural productivity		National reports	Baseline (date): Target (date):		
B. Outcome and output indicators (performance indicators)							
Indicator name	Definition/ description	Methodology for collection	Responsibility for collection	Frequency of reporting	Results planning		
					2022	2023	2024
OUTCOME INDICATOR 1.1: Institutionalized nationally coordinated early warning system and preparedness mechanism	Number of Early Warning Systems developed and implemented	Programme implementation reports	PMU	Annually	1	2	3
OUTCOME INDICATOR 1.2: Improved protection of Smallholder farmers against the negative impacts of drought disasters	Number of vulnerable smallholder farmers covered annually by the sovereign risk insurance	Programme implementation reports  ARC reports	PMU and ARC	Annually	0	3.8 million	3.8 million
OUTCOME INDICATOR 1.3: Rapid assistance provided to the most vulnerable in case of a declared drought disaster	Number of months taken to provide first assistance to the most vulnerable in the event of a drought reduced from 12 to 3 months	Payout Implementation reports	PMU and ARC	Annually	12	3	3
OUTCOME INDICATOR 2: Sustained participation of the country in the ARC Risk Pool	Consecutive participation by the country in the ARC Risk Pool	Programme implementation reports	PMU	Annually	1	2	3
OUTPUT INDICATOR A.1.1: Gender Sensitive Risk profiles independently elaborated by the country each year	Number of annually updated gender sensitive disaster risk profiles	Programme implementation reports  Risk profiles	PMU  ARC	Bi-annual	1	2	3

<i>OUTPUT INDICATOR A1.2: Gender Sensitive Drought risk response contingency plan developed</i>	Number of biennial gender sensitive contingency plans developed and owned by all stakeholders	Programme implementation reports Contingency plans	PMU ARC	Biennially	<i>1</i>	<i>1</i>	<i>2</i>
<i>OUTPUT INDICATOR A.2 : Final Implementation Plan developed (in case of insurance pay-outs)</i>	Number of Final Implementation Plans developed	Final Implementation plan	ARC	When a disaster occurs	<i>0</i>	0	<i>At least 1</i>
<i>OUTPUT INDICATOR A.3 : Gender and DRM Action Plan developed and implemented</i>	Number of Gender Action Plan developed and implemented	Programme implementation reports	PMU	Annually	<i>0</i>	1	<i>1</i>
<i>OUTPUT INDICATOR B.1.1: Support to premium payment</i>	Number of annual payments of the premium to ARC Ltd	Programme implementation reports	PMU ARC	Annually	<i>1</i>	3	<i>4</i>
<i>OUTPUT INDICATOR C.1.1: Monitoring and Evaluation</i>	Number of bi-annual programme implementation progress report	Programme implementation reports	PMU	Bi-annual	<i>0</i>	2	<i>4</i>
<i>OUTPUT INDICATOR C.1.2: Audit</i>	Audit of the project	Audit report	PMU	Once for the duration of the project	<i>0</i>	0	<i>1</i>
<i>OUTPUT INDICATOR C.1.3: Completion</i>	Programme completion report	Completion report	PMU	Once at programme completion	<i>0</i>	0	<i>1</i>



## ANNEXES

### Annex 1: Proposed Budget

ADRIFI MALAWI COST STRUCTURE						
Components / Funding Sources	Activities	2021	2022	2023	Total Cost US \$	Total Cost UA
<b>Component 1: Developing climate risk management solutions</b>						
<b>Component 1A: Risk Profiling and Contingency planning</b>						
ARC	ARV Customization	-	60,000.00	60,000.00	120,000.00	85,714.29
ARC	Risk Profile	-	60,000.00	60,000.00	120,000.00	85,714.29
ARC	Operational Plan	-	60,000.00	60,000.00	120,000.00	85,714.29
ARC	Integration of ARV in the National Early warning system	-	60,000.00	60,000.00	120,000.00	85,714.29
<b>Total 1A</b>			240,000.00	240,000.00	480,000.00	342,857.14
<b>Component 1B: Institutional Capacity Building for Climate Risk Modelling</b>						
ADF	Training on Climate Risk Modelling for Department of Climate Change and Meteorological Services			70,000.00	70,000.00	50,000.00
ADF	Training on Agriculture Risk Management and Awareness on Index-Based Insurance			70,000.00	70,000.00	50,000.00
ADF	Mainstreaming Gender in DRM		50,000.00	50,000.00	100,000.00	71,428.57
<b>Total 1B</b>			50,000.00	190,000.00	240,000.00	171,428.57
<b>Total Component 1</b>		-	<b>290,000.00</b>	<b>430,000.00</b>	<b>720,000.00</b>	<b>514,285.71</b>
<b>Component 2: Supporting Access to Sovereign Risk Transfer Solutions</b>						
<b>Component 2A: Support to Premium Payment</b>						
ADF	ADF15 contribution to premium payment	1,200,000.00	1,250,000.00	2,000,000.00	4,450,000.00	3,178,571.43
GoM	GoM Contribution to premium payment	-	150,000.00	250,000.00	400,000.00	285,714.29
MDTF	ADRFi MDTF contribution to premium payment	1,800,000.00	1,600,000.00	750,000.00	4,150,000.00	
<b>Total 2A</b>		3,000,000.00	3,000,000.00	3,000,000.00	9,000,000.00	3,464,285.71
<b>Component 2B: Institutional Capacity Building for policy management of climate risks</b>						
MDTF	Monitoring and Evaluation Framework for Disaster Risk Financing	-		150,000.00	150,000.00	107,142.86
MDTF	Trainings in public policy management of climate risks		50,000.00		50,000.00	35,714.29
		-	50,000.00	150,000.00	200,000.00	142,857.14
<b>Total Component 2</b>			<b>3,050,000.00</b>	<b>3,150,000.00</b>	<b>9,200,000.00</b>	<b>3,607,142.86</b>
<b>Component 3: Programme Management and coordination</b>						
ADF	Operating Costs		50,000.00	50,000.00	100,000.00	71,428.57
ADF	Missions		20,000.00	20,000.00	40,000.00	28,571.43
ADF	Programme Audits		35,000.00	35,000.00	70,000.00	50,000.00
<b>Total Component 3</b>		-	<b>105,000.00</b>	<b>105,000.00</b>	<b>210,000.00</b>	<b>150,000.00</b>
<b>Total Components 1+2+3</b>		-	<b>3,445,000.00</b>	<b>3,685,000.00</b>	<b>10,130,000.00</b>	<b>4,271,428.57</b>
ARC					480,000.00	342,857.14
GoM					400,000.00	285,714.29
ADRFi MDTF					4,350,000.00	142,857.14
ADF-15					4,900,000.00	3,500,000.00



## **Annex 2: Procurement Arrangements and Outline Procurement Plan**

### **Details of Procurement Methods & Procedures (PMPs) to be used under the Programme**

#### **Borrower Procurement System (BPS)**

##### **Non-Consultancy Services**

Non-Consultancy Services; All operating activities that are included in Missions i.e., seminars, workshops, travels, meetings and communications, at estimated value of USD 20,000, shall be carried out using Limited Competitive Bidding method

##### **Bank Procurement Policy and Methodology (BPM):**

The following contracts will be carried out using the BPM in line with the Bank's Procurement Framework for Bank Group-Funded Operations, dated October 2015, using Bank's Procurement Methods and Procedures (PMPs) and utilizing available Bank's Standard Solicitation Documents (SSDs).

##### **Consulting Services**

Consulting Services: Recruitment of Gender Mainstreaming into DRM consultant, at estimated value of USD100,000; Training on Climate Risk Modelling for Department of Climate Change and Meteor Services at estimated value of USD70,000.00; Training on Agriculture Risk Management and Awareness on Index-Based Insurance at estimated value of USD70,000.00; and Trainings in public policy management of climate risks at estimated value of USD50,000.00 will all be undertaken through Open Competitive Bidding following Individual Consultant (IC) selection method;

Monitoring and Evaluation Framework for Disaster Risk Financing at the estimated value of USD 150,000 and Programme Audits at estimated value of USD 70,000 will both be undertaken through Open Competitive Bidding following Least Cost Selection (LCS) method. Advertisement related to these recruitments shall be advertised in UNDB online and in the Bank's External Website.

#### **Summary of Procurement Arrangements**

<b>Category of Expenditures (Cost Element)</b>	<b>Bank (BMPs) - USD</b>	<b>Total</b>
<b>I. Consulting Services</b>		
Gender Mainstreaming into DRM	Individual Consultant (IC)	100,000.00
Training on Climate Risk Modelling for Department of Climate Change and Meteor Services	Individual Consultant (IC)	70,000.00
Training on Agriculture Risk Management and Awareness on Index-Based Insurance	Individual Consultant (IC)	70,000.00
Trainings in public policy management of climate risks	Individual Consultant (IC)	50,000.00
Monitoring and Evaluation Framework for Disaster Risk Financing	Least Cost Selection (LCS)	150,000.00
Programme Audits	Least Cost Selection (LCS)	70,000.00
<b>TOTAL</b>		<b>510,000.00</b>
<b>Category of Expenditures</b>	<b>Borrowers (BPS) - USD</b>	<b>Total</b>

(Cost Element)		
<b>II. Non-Consultancy Services</b>		
Operating Costs	Shopping	100,000.00
Missions	Shopping	40,000.00
<b>TOTAL</b>		<b>140,000.00</b>

### **Executing Agency**

The department of Planning at the Ministry of Agriculture will be the Executing/Implementing Agency of the Africa Disaster Risk Financing (ADRFi) Programme. The Ministry will be responsible for the management and supervision of the Programme and for reporting to the Bank on its implementation. The Ministry has had previous experience with the Bank in the implementation of Bank activities over the years. However, the Bank will provide support and guidance to the department in the procurement of the two consultancy services under the Grant.

### **Procurement Oversight.**

- (i) Recruitment process for both contracts for **consulting services** shall be subject to Prior Review by the Bank.
- (ii) Except as indicated in paragraph (i) above, the Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review.
- (iii) The Operating Expenditures will be post reviewed.

### **Advertising**

The text of a General Procurement Notice (GPN) has been agreed with Ministry of Agriculture, and it will be issued for publication in UNDB online and in the Bank's Internet Website, upon approval by the Board of Directors of the Financing Proposal.

## Procurement Plan

Procurement Plan								
General								
Country/Organization:		Malawi						
Project Name:		Africa Disaster Risk Financing (ADRFi) Programme						
Grant Number:		TBD						
Executing Agency:		Ministry of Agriculture						
Approval Date of Procurement Plan:		TBD						
Date of General Procurement Notice:		TBD						
Period Covered by this Procurement Plan:		01 <sup>st</sup> April 2022 to 31 <sup>st</sup> December, 2023						
CONSULTANCIES								
Prior/Post review Thresholds								
Procurement Method		Prior review Threshold (UA)	Post review Threshold (UA)	Frequency of Review				
Competitive Method (QCBS)		>10,000.00		All				
Competitive Method (LCS)		>10,000.00		All				
Competitive Method (Individual)		>10,000.00		All				
Direct Contracting		>10,000.00		All				
Procurement Packages Methods and Time Schedule for 24 months								
Package description	Lot Nos.	Estimated Amount in USD	Procurement Method	Pre-or Post-Qualification	Dom. or Regional Preference	Prior or Post Review	SPN Publication Date	Contract Start Date
Gender Mainstreaming into DRM	N/A	100,000.00	IC	POST	N/A	Prior	04/04/2022	06/06/2022

Training on Climate Risk Modelling for Department of Climate Change and Meteor Services	N/A	70,000.00	IC	POST	N/A	Prior	04/04/2022	06/06/2022
Training on Agriculture Risk Management and Awareness on Index-Based Insurance	N/A	70,000.00	IC	POST	N/A	Prior	06/06/2022	05/09/2022
Trainings in public policy management of climate risks	N/A	50,000.00	IC	POST	N/A	Prior	06/02/2023	03/04/2023
Monitoring and Evaluation Framework for Disaster Risk Financing	N/A	150,000.00	LCS	POST	N/A	Prior	05/09/2022	07/11/2022
Programme Audits	N/A	70,000.00	LCS	POST	N/A	Prior	07/08/2023	09/10/2023
Total Cost		510,000.00						
GOODS AND NON-CONSULTING SERVICES								
Prior/Post review Thresholds								
Procurement Method	Prior review Threshold (USD)	Post review Threshold (USD)		Frequency of Review				
Shopping	<100,000.00							
Procurement Packages Methods and Time Schedule for 24 months								
Package description	Lot Nos.	Estimated Amount in USD	Procurement Method	Pre-or Post-Qualification	Dom. or Regional Preference	Prior or Post Review	SPN Publication Date	Contract Start Date
Operating Costs	N/A	100,000.00	Shopping	POST	N/A	POST	04/04/2022	06/06/2022
Missions	N/A	40,000.00	Shopping	POST	N/A	POST	05/09/2022	05/09/2022
Total Cost		140,000.00						

### **Annex 3: Gender Analysis and Gender Action plan**

#### **Gender Analysis:**

Agriculture, which is the mainstay of Malawi's economy, is mostly dependent on rain fed systems, therefore vulnerable to climate change. The effects of climate on agriculture and livelihoods are felt differently by men and women. As a result, women need different strategies from men to enable them to adapt. For example, at household level, rural women are responsible for fetching water and fuel wood, leading to scarcity of wood and water supplies due to deforestation and cultivation, which means that women have to travel longer distances to fetch both water and fuel wood. As a result of these added distances, women are forced to carry heavier loads of fuel wood and water to minimize the number of times they travel to collect these domestic resources per week/month. In the process Women get exposed to risk of GBV. At times girls drop out of school to provide support to their overburdened mothers thus threatening to drag girls into poverty and widening the 'gender gap'. Women typically have limited incomes, unequal participation in decision-making processes and face the double burden of domestic and productive workloads. In Malawi, these disparities exist because of the economic and social position of women in the household and community. Women are also responsible for food production and preparation at household level. They provide over 70% of agricultural labour. Due to climate change, yields are poor, which means most of the labour women provide in the sector is not productive, which also leads to low incomes. While men are also affected by climate change it is often easier for men to adapt to climate change due to their greater freedom of mobility and fewer household responsibilities. Men are also more mobile than women, hence they are able to learn from other contexts how to adapt and can mobilize more resources than women.

#### **Programme's Gender Interventions**

The Programme will support the exercise of conducting a Gender Analysis leading to the development of a Gender & Disaster Risk Management (RDM) Action Plan for Malawi. This will enable engaging and empowering women as beneficial means of strengthening resilience to disaster risks. Based on gender roles and relations and how they shape vulnerability to disaster, the Gender Action Plan will provide guidance to gender inclusive approaches for better disaster risk management that minimizes negative impacts on both men and women. Consultation with ARC during the mission indicated that this was a pipeline activity that pended funding opportunity thanks to ADRiFi. Terms of Reference for the exercise have already been developed which will expedite the procurement process for a local and experienced consultant to conduct the Gender Analysis and develop the Gender and DRM Action plan. The Programme will also support Advocacy and Sensitization activities on DRM emphasizing related gender perspective. These will include: Advocacy efforts to Women caucus in the parliament and parliamentary committee on Agriculture, advocacy efforts to traditional leaders and local authority structures including the Police and Sensitization and capacity building workshops including roadshow on building of climate resilience for rural vulnerable groups especially women who get disproportionately affected. See below the Programme's Gender Action Plan (GAP) for the Programme for details.

## Gender Action Plan

PROJECT TITLE	Africa Disaster Risk Financing (ADRFi) Malawi			
GMS CATEGORY	GEN II			
Output statement	Activities	Timing	Budget (USD)	Responsibility
Developing Climate Risk Management Solutions	Conduct a Gender Analysis leading to the development of a Gender & DRM Action Plan with gender inclusive approaches for better disaster risk management. Produce training manual and guidelines: <b>Sub activities</b> <ul style="list-style-type: none"> <li>Review the TORs developed by ARC for Local and experienced Consultant.</li> <li>Recruitment of the consultant who will develop the Gender Action Plan and lead the Advocacy and Sensitization activities on DRM</li> <li>Conduct dissemination workshop</li> </ul>	Immediate	30,000	Ministry of Agriculture
	Advocacy and Sensitization activities on DRM emphasizing related gender perspective. These will include: <ol style="list-style-type: none"> <li>Advocacy efforts to Women caucus in the parliament and parliamentary committee on Agriculture.</li> <li>Advocacy efforts to traditional leaders and local authority structures including the Police.</li> <li>Sensitisation and capacity building workshops including roadshow on building of climate resilience for rural vulnerable groups especially women</li> </ol> <ul style="list-style-type: none"> <li>organization of sensitization campaigns through road shows;</li> <li>Publications of advocacy and sensitization materials;</li> <li>Development and dissemination of policy brief</li> </ul>	Medium term	20,000	Ministry of Gender Community Development and Social Welfare Supported by Ministry of Agriculture
	<b>Build Back Better – Rehabilitation activities</b> such as: <ol style="list-style-type: none"> <li>Train women small hold farmers on entrepreneurial skills and facilitate them to start alternative income generation activities</li> <li>Apply PICS and Household Methodologies in building of resilience approaches in the community.</li> <li>Facilitate linkage to markets for women produces</li> <li>Promote a buy from women campaign by having earmarked off takers.</li> <li>Promote village savings groups for women.</li> </ol> <b>NB: The above activities will be informed by the above gender analysis.</b>	Immediate	50,000	District Councils
	Include Gender indicators in the M&E reporting framework. <b>NB: At all levels of reporting indicate strides taken in implementing the Gender Action.</b>		0	PMU
<b>Total</b>			<b>100,000</b>	

## **Annex 4: Economic and Financial Analysis of the ADRiFi Programme (excerpt from the ADRiFi Framework)**

### **Economic and Financial Performance**

**The viability of the ADRiFi has been evaluated in terms of the risk exposure of the countries to drought,** level of premium payment and affordability as well as potential scenarios for payouts to countries during the lifespan of the programme and beyond. The assessment was informed by data extracted from a pricing model ran by ARC Ltd. The following perspectives have been identified as being critical to countries' participation in the programme:

- The level of premium payment vis-a-vis drought exposure and the expected level of coverage by the sovereign insurance;
- The opportunity cost of channeling financial resources to premium payment; and
- The benefits of countries participating in ARC risk pool in a sustainable manner.
- The embedding of premiums in national budgets capitalising on the catalytic impact of ADRiFi.

Estimates of the drought exposure of a pool of eleven countries (modeled in terms of drought response costs) show that about USD 1.8 billion would be needed in case of extreme drought events in those countries for the 2018 underwriting year. This shows the magnitude of costs implications in case of “no action”. With attachment levels set at 1-in 4 years event, a total of USD 23 million in premium payment would secure about a coverage of USD 164 million, for rapid assistance to affected population in the event of extreme droughts in the modelled countries. It is estimated that every USD 1 spent on ex-ante intervention through ARC's programme saves USD 4.40 in post disaster relief measures.

**Financial analysis:** Simulations run on ARC Ltd pool growth (up to 20 countries) returned an expected level of premium payment of USD 434 million over the period 2019-2033. An amount of USD 335 million in payout is expected over the same period, reaching a maximum of USD 839 million in worst-case scenario. Out of these countries, eleven would finance part of their premiums through the ADRiFi programme during 2019-2022. Over this period, their expected level of premium payment aggregates to USD 69.9 million for USD expected payout USD 56 million. On a larger time-scale (2019-2033), these countries will receive an expected amount of USD 158 million (an average of USD 15 million per country).

**The Bank's financial contribution over the period 2019-2022 would amount to USD 27.8 million (40% of ADRiFi).** In addition, the positive ripple effect of growing pool participation and the embedding of premiums in national budget will ensure the viability and sustainability of ARC Ltd where each participating country will benefit in the ownership of an estimated 100% increase in capital. Moreover, approaching the market as a group significantly reduces the cost of individual premiums, particularly if compared to a case where a country would have to buy insurance coverage individually

**Economic analysis:** In economic terms, participation of RMCs in the ARC risk pooling can be expressed in terms of long term economic resilience from the avoidance of negative coping mechanisms by vulnerable population (selling off productive assets, child malnutrition) which would hamper future economic activity, stable GDP growth achieved by ex-ante response costs which avoids the re-allocation of funds targeted towards GDP enhancing programmes in other sectors including health, education and infrastructure.

## **Annex 5: Fragility Note**

### **Introduction**

Climate risk is identified as an important factor to tackle and monitored in Africa, most prominently in countries in situations of fragility and those with isolated situations of fragility. The Bank's Strategy for Addressing Fragility and Building Resilience in Africa (the fragility Strategy). As the continent faces accelerated risks of climate change, the low-income and countries also struggle to prepare, respond, and adapt to the threats, leaving the most vulnerable communities and populations exposed. Given limited fiscal space, climate knowledge and capacity of institutions to respond and adapt, the situation is more dire and urgent in these countries. Episodes of droughts have left its trail of famines, diseases, poverty and conflict across Africa over time, yet the risk still faces communities and individuals, albeit the limited institutional capacity of the public sector to make interventions.

### **Strategic Alignment**

The project and its development objective is closely aligned to the Bank's Fragility Strategy, which identified climate change and associated risks as a key driver of fragility. The High-Level Panel on Fragile States (HLPFS) also recognizes the need to build resilience as part of efforts to tackle climate disruptions. As part of its implementation pillars, the current Strategy also pays keen attention on institutional capacity building and the community role in building sustainable approaches to addressing pertinent challenges - aspects covered by the ADRiFi project.

### **Key Fragility and Factors of Resilience in Malawi Related to Climate Change**

Although Malawi is not classified as a transition state, the most country assessments have identified some drivers of fragility in the country, which elevate vulnerabilities within the Malawian community. Moreover, the capacity of institutions to deliver public goods and services, as well as to respond to all social needs still leaves room for improvement. The country recorded a CPIA of 3.6 (2018), indicative of relatively moderate capacity on average. However, the average rating glosses over sectorial and localised capacity gaps in governance areas. Some key issues relating to climate and governance are discussed:

- i. **Weaknesses in governance capacity** – Despite the CPIA rating of 3.6, Malawi's governance sector still shows areas of weakness, including implementation gaps of enacted laws, policies or strategies and institutional arrangements. The country's limited capacity to respond to shocks came to shore when the COVID-19 pandemic hit the country. For example, the containment measures implemented by government affected all aspects of Malawi's society, including livelihood activities and education, which adds to the burden of poverty in rural areas and urban poor's, who rely on small-scale activities and exacerbates fragility. The Bank's fragility assessments have also revealed instances of corrupt practices<sup>10</sup> by some officials in both public and private institutions, especially within the natural resource sector, which diverts developmental resources that could otherwise impact on the welfare of the country, including climate mitigation and disaster preparedness. Despite the incidences of corruption, Malawi fares well on institutional strength in the justice and political systems, which is important for delivering impartiality of the judiciary system and limits impunity of public officials involved in corruption.

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<sup>10</sup> Corruption Perception Index of 128/180 in 2020



- ii. **Weak adaptation capacity** – Threats to that govern natural resources and the environment, which reinforces the effects of climate change and leaves the nation exposed to catastrophes<sup>11</sup>. Eighty-four percent (84%) of Malawians live in rural areas and more than 90 percent of them still depend on fuel wood for cooking and lighting, a practice that contributes to environmental degradation and works alongside climate change to fuel food insecurity, displacement, human suffering and conflict (IOM, 2011<sup>12</sup> and ICRC, 2020). According to the Between 1990 and now, Malawi has experienced an accelerated deforestation averaging 2.4 percent per year which is significantly higher than both the Africa average of 0.78 percent and the world’s 0.23 percent (Nankhuni 2004 and World Bank 2019). Agriculture contributes close to 30% of income and supports most of Malawi’s rural population. Yet, the smallholder farmers chronically rely on rainfed farming, which exposes millions of Malawians to drought related food insecurities and diseases (FAO, 2019)<sup>13</sup>.
- iii. **Limited fiscal space to respond to needs or crisis** – As a low-income country, Malawi faces budgetary constraints and has historically relied on development financing. The Banks Economic Outlook for Malawi (2021) showed that the fiscal deficit was projected to widen to 10.2% in 2021, raising the debt-to-GDP ratio to 66% in 2021. Actually, government has in place fiscal consolidation measures, including strengthening domestic resource mobilization through the 2017–22 public financial management reforms program. However, the country continues to rely on debt financing and other external sources to adequately cover public expenditure but puts pressure on debt distress<sup>14</sup>. With high debt distress risks, the vulnerable populations are easily exposed the spillover effects of the impact of debt on economic stability and investment.

### **Recommendations for Resilience Building in Malawi’s Communities**

- i. In view of consistently low scores for Malawi’s Regional Integration and Structural Policies in the CRFA, prioritisation of its regional integration drive. As the manifestations of fragility are increasingly of a regional nature, tackling the issues of climate change at national level will not suffice. Thus, a coordinated approach to climate preparedness, response and adaptation will be a strong facilitator of climate resilience.
- ii. Building community resilience through enhancing their capacities to scale localised traditional methods of climate adaptation will be crucial. Mobilisation of young and mature people to gear community alliance to tackle environmental degradation

<sup>11</sup> <https://www.sei.org/featured/ipbes-land-degradation/>

<sup>12</sup> International Organisation for Migration (2011); International Dialogues on Migration - Climate Change, Environmental Degradation and Migration

<sup>13</sup> <https://www.fao.org/emergencies/fao-in-action/stories/stories-detail/en/c/1180394/>

<sup>14</sup> <https://documents1.worldbank.org/curated/en/554341595279554970/pdf/Malawi-Joint-World-Bank-IMF-Debt-Sustainability-Analysis.pdf>

practices, which exacerbate climate change, can potentially be more impactful in rural areas where electrification and renewable energy use is limited.

- iii. Prioritising the energy sector to combat desertification and environmental degradation is important for Malawian authorities to priorities post the COVID-19 pandemic. A strong energy policy that implements renewable sources will enhance resilience by supporting environmental protection and agricultural mechanisation, while also exploring other sources of livelihoods and survival for drier seasons.
- iv. In future projects, the Bank should also consider supporting structural (legal, policy and institutional) reforms and localised capacity building series to promote good practices in natural resource management and interaction with the environment to minimise damage and risks of climate change on communities.