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Report No: PAD2090

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT
IN THE AMOUNT OF SDR68.1 MILLION
(US\$95 MILLION EQUIVALENT)
IN IDA RESOURCES

AND

PROPOSED GRANT
IN THE AMOUNT OF SDR6.5 MILLION
(US\$9 MILLION EQUIVALENT)
IN IDA CRISIS RESPONSE WINDOW RESOURCES

TO THE

REPUBLIC OF MALAWI

FOR A

MALAWI DROUGHT RECOVERY AND RESILIENCE PROJECT

OCTOBER 26, 2016

Social, Urban, Rural and Resilience Global Practice (GSURR)
AFRICA Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective September 30, 2016)

Currency Unit = Malawian Kwacha

MWK 720 = US\$1

SDR 0.7164298 = US\$1

FISCAL YEAR

July 01 - June 30

Regional Vice President: Makhtar Diop

Country Director: Bella Bird

Senior Global Practice Director: Ede Jorge Ijjasz-Vasquez

Practice Manager: Sameh Naguib Wahba

Task Team Leader(s): Ayaz Parvez, Francis Samson Nkoka, Veronique Morin

ABBREVIATIONS AND ACRONYMS

AIDS	Acquired Immunodeficiency Syndrome
APES	Agricultural Production Estimates Survey
ASWAp-SP	Agriculture Sector Wide Approach – Support Program
BP	Bank Policy
CERC	Contingent Emergency Response Component
CPF	Country Partnership Framework
DA	Designated Account
DFID	Department for International Development
DoDMA	Department of Disaster Management Affairs
DPO	Development Policy Operation
DRM	Disaster Risk Management
EAD	Environment Affairs Department
ERL	Emergency Recovery Loan
ERR	Economic Rate of Return
ESMF	Environmental and Social Management Framework
EMP	Environmental Management Plans
ESMP	Environmental and Social Management Plans
EU	European Union
FIRP	Food Insecurity Response Plan
FM	Financial Management
FMS	Financial Management Specialist
FRR	Financial Rate of Return
GDP	Gross Domestic Product
GFDRR	Global Facility for Disaster Reduction and Recovery
GoM	Government of Malawi
HIV	Human Immunodeficiency Virus
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFA	Inputs for Assets
IFR	Interim Financial Report
ISP	Implementation Support Plan
M&E	Monitoring and Evaluation
MASAF	Malawi Social Action Fund
MDRRP	Malawi Drought Recovery and Resilience Project
MFERP	Malawi Flood Emergency Recovery Project
MGDS-II	Malawi Growth and Development Strategy II
MoAIWD	Ministry of Agriculture, Irrigation and Water Development
MoFEPD	Ministry of Finance and Economic Planning and Development
MoLGRD	Ministry of Local Government and Rural Development
MVAC	Malawi Vulnerability Assessment Committee
MWK	Malawian Kwacha

NFRA	National Food Reserve Agency
NGO	Non-Governmental Organization
OP	Operational Policy
PDNA	Post Disaster Needs Assessment
PDO	Project Development Objective
PIM	Project Implementation Manual
PIU	Project Implementation Unit
PPSD	Project Procurement Strategy for Development
PSC	Project Steering Committee
PTC	Project Technical Committee
PWP	Public Works Programs
RAP	Resettlement Action Plans
RPF	Resettlement Policy Framework
SADC	Southern African Development Community
SAP	Safeguards Action Plan
SGR	Strategic Grain Reserve
SRBMP	Shire River Basin Management Program
UN	United Nations
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WASH	Water, Sanitation and Hygiene
WB	World Bank
WFP	World Food Programme
WUA	Water User Association

**BASIC INFORMATION**

Is this a regionally tagged project?	Country (ies)	Lending Instrument
No		Investment Project Financing

☒ Situations of Urgent Need or Assistance/or Capacity Constraints

☐ Financial Intermediaries

☐ Series of Projects

Approval Date	Closing Date	Environmental Assessment Category
08-Nov-2016	31-Jan-2021	B - Partial Assessment

Bank/IFC Collaboration
No

Proposed Development Objective(s)

The Project Development Objective is to “support the Government of Malawi to meet the immediate food security and livelihoods restoration needs of the communities affected by drought and promote recovery and resilience in key affected sectors”. In the event of a future eligible crisis or emergency, the Project may also be able to provide immediate recovery support to GoM through a proposed Contingent Emergency Response Component.

Components

Component Name	Cost (USD Million)	Comments
Improving Food Security and Sustainable Livelihoods	80.00	
Enhancing Drought-Resilience and Preparedness	19.00	
Contingent Emergency Response Component (CERC)	0.00	
Project Management	5.00	

**Organizations**

Borrower : Government of Malawi, Ministry of Finance, Economic Planning and Development

Implementing Agency : Ministry of Finance, Economic Planning and Development

Safeguards Deferral

Will the review of safeguards be deferred?

☒ Yes ☐ No**PROJECT FINANCING DATA (IN USD MILLION)**

<input type="checkbox"/> Counterpart Funding	<input type="checkbox"/> IBRD	<input type="checkbox"/> IDA Credit <input type="checkbox"/> Crisis Response Window <input type="checkbox"/> Regional Projects Window	<input checked="" type="checkbox"/> IDA Grant <input checked="" type="checkbox"/> Crisis Response Window <input checked="" type="checkbox"/> Regional Projects Window	<input type="checkbox"/> Trust Funds	<input type="checkbox"/> Parallel Financing
Total Project Cost: 104.00		Total Financing: 104.00 Of Which Bank Financing (IBRD/IDA): 104.00		Financing Gap: 0.00	

Financing (in USD Million)

Financing Source	Amount
D1440	104.00
Total	104.00

**Expected Disbursements (in USD Million)**

Fiscal Year	2017	2018	2019	2020	2021
Annual	35.00	18.00	22.00	25.00	4.00
Cumulative	35.00	53.00	75.00	100.00	104.00

INSTITUTIONAL DATA**Practice Area (Lead)**

Social, Urban, Rural and Resilience Global Practice

Contributing Practice Areas

Agriculture

Finance & Markets

Water

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Gender Tag

Does the project plan to undertake any of the following?

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF

Yes

b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment

Yes

c. Include Indicators in results framework to monitor outcomes from actions identified in (b)

Yes

SYSTEMATIC OPERATIONS RISK- RATING TOOL (SORT)



Risk Category	Rating
1. Political and Governance	● Substantial
2. Macroeconomic	● Substantial
3. Sector Strategies and Policies	● Moderate
4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● High
7. Environment and Social	● Moderate
8. Stakeholders	● Moderate
9. Other	
10. Overall	● Substantial

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

☐ Yes ☒ No

Does the project require any waivers of Bank policies?

☐ Yes ☒ No

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	✓	
Natural Habitats OP/BP 4.04	✓	
Forests OP/BP 4.36		✓
Pest Management OP 4.09	✓	
Physical Cultural Resources OP/BP 4.11	✓	
Indigenous Peoples OP/BP 4.10		✓
Involuntary Resettlement OP/BP 4.12	✓	
Safety of Dams OP/BP 4.37	✓	
Projects on International Waterways OP/BP 7.50		✓



Projects in Disputed Areas OP/BP 7.60



Legal Covenants

Sections and Description

Name

Maintaining a Project Implementation Unit (PIU)

Recurrent

Frequency - Continuous

Description of Covenant

The Recipient shall maintain throughout Project implementation, the Project Implementation Unit (PIU) with terms of reference, staffing and other resources satisfactory to the Association.

Sections and Description

Name

Staffing the Project Implementation Unit (PIU)

Due Date: 30-Dec-2016

Description of Covenant

The Recipient shall not later than thirty (30) days of the Effective Date assign to the PIU, and thereafter maintain through-out Project implementation, a national coordinator, a Project coordinator, an agriculture specialist, an assistant financial management specialist, an assistant monitoring and evaluation specialist, an assistant safeguards specialist, a Project Accountant, a civil engineer, a monitoring and evaluation and public works coordinator, an administrative assistant, all in accordance with the Procurement Regulations.

Sections and Description

Name

Setting up PIU Field Office

Due Date: 30-Dec-2016

Description of Covenant

The Recipient shall not later than thirty (30) days of the Effective Date, set up an additional PIU regional field office in select District with terms of reference, institutional framework and staffing satisfactory to the Association, all in accordance with the provisions of the Project Implementation Manual.

Sections and Description

Name

Project Implementation Manual

Due Date: 30-Jan-2017



Description of Covenant

The Recipient shall not later than sixty (60) days after the Effective Date: (i) (A) prepare, under terms of reference satisfactory to the Association, and furnish to the Association for review, a Project implementation manual containing detailed guidelines and procedures for the implementation of the Project. and (B) thereafter adopt and carry out the Project in accordance with such Project implementation manual as shall have been approved by the Association ("Project Implementation Manual").

Sections and Description

Name

Project Technical Committee

Due Date: 30-Dec-2016

Description of Covenant

The Recipient shall maintain throughout Project implementation, a Project Technical Committee with a composition, mandate and other resources satisfactory to the Association. The Project Technical Committee shall be responsible for, inter alia: (a) providing technical guidance at both strategic and operational levels and resolving technical issues that are brought to its attention; and (b) ensuring the implementation of the inter-ministerial and inter-departmental coordination modalities, and for managing the respective roles and responsibilities set out for implementing ministries, departments and agencies, all in accordance with the provisions of the Project Implementation Manual.

Sections and Description

Name

Safeguard Instruments

Due Date: 30-Dec-2016

Description of Covenant

The Recipient shall, not later than one (1) month after the Effective Date: (i) prepare and disclose in a manner satisfactory to the Association: (a) an Environmental and Social Management Framework (ESMF), (b) a Resettlement Policy Framework (RPF), (c) an Integrated Pest Management Plan (IPMP), collectively "Safeguard Instruments" (ii) and ensure that the Project is carried out in accordance with the Safeguard Instruments; and (ii) all measures required for carrying out the recommendations of said Safeguard Instruments are taken in a timely manner.

Sections and Description

Name

Project Steering Committee

Due Date: 30-Dec-2016

Description of the Covenant

The Recipient shall maintain throughout Project implementation, a Project Steering Committee with a composition,



mandate and other resources satisfactory to the Association. The Project Steering Committee shall be responsible for providing overall coordination, as well as policy and strategic guidance on the Project, all in accordance with the provisions of the Project Implementation Manual.

Conditions

PROJECT TEAM

Bank Staff

Name	Role	Specialization	Unit
Ayaz Parvez	Team Leader(ADM Responsible)		GSU19
Francis Samson Nkoka	Team Leader		GSU19
Veronique Morin	Team Leader		GSU13
Steven Maclean Mhone	Procurement Specialist(ADM Responsible)		GGO01
Trust Chamukuwa Chimaliro	Financial Management Specialist		GGO31
Atishay Abbhi	Team Member		GSU19
Blessings Nyanjagha Botha	Team Member		GFA13
Boyenge Isasi Dieng	Safeguards Specialist		GSU07
Chalida Chararnsuk	Team Member		GSU19
Christine Makori	Counsel		LEGAM
Christoph Pusch	Team Member		GSU19
Helen Z. Shahriari	Safeguards Specialist		GSU05
Jane A. N. Kibbassa	Environmental Specialist		GEN01
Josses Mugabi	Team Member		GWA01
Julie Dana	Team Member		GFM01
Laurence Elodie Esther Fanny Chalude	Team Member		GSU13
Maiada Mahmoud Abdel	Team Member		WFALA



Fattah Kassem

Maria Angelica Sotomayor Araujo	Team Member	GSU13
Maria Virginia Ziulu	Team Member	CFGPD
Nathalie S. Munzberg	Safeguards Advisor	OPSPF
Priscilla Flaness Kandoole	Team Member	GMF07
Shri Vasantt Kumar Jogoo	Safeguards Specialist	GEN01
Su Jung Song	Team Member	GSU13
Tamara Juvenile Mwafongo	Team Member	AFMMW
Time Hapana Fatch	Team Member	GFA13
Valens Mwumvaneza	Team Member	GFA13

Extended Team

Name	Title	Organization	Location
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MALAWI DROUGHT RECOVERY AND RESILIENCE PROJECT

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I. STRATEGIC CONTEXT

A. Country Context

1. **The Republic of Malawi is predominantly an agrarian economy, with about 85 percent of its population living in rural areas and the majority engaged in smallholder rain-fed agriculture. With over two thirds of its total population living in poverty, it ranks as the 16th least developed country in the world¹.** Malawi is a landlocked country neighboring Tanzania, Zambia, and Mozambique. Approximately 20 percent of its total surface area (118,484 square kilometers) is covered by Lake Malawi. Agriculture accounts for 29 percent of Malawi's Gross Domestic Product (GDP) as well as 76 percent of export earnings (mainly from tobacco) in 2015². However, the high level of subsistence farming is one of the key factors behind high poverty rates. Rural poverty stood at 56 percent in 2004/05 and increased to 57 percent by 2010/11, compared to approximately 25 percent in urban areas in 2010/11³. Although poverty is more widespread in rural than urban areas, income inequality is significantly more pronounced in urban areas.

2. **Real per capita GDP has seen minimal improvements over the years.** In 2015, the country's GDP per capita stood at US\$494.4 up from US\$241.5 at independence in 1964⁴. Growth outcomes have been characterized by episodic spells and recurring volatility with little significant dent on poverty outcomes. The country's annual real GDP growth averaged 7 percent between 2006 and 2010, but slowed down to 1.9 percent in 2012 triggered by a sharp devaluation of the exchange rate, sporadic fuel shortages, and a rise in inflation by almost 35 percent. The pace of growth picked up afterwards reaching 5.7 percent in 2014 but with adverse weather conditions and macroeconomic instability, Malawi recorded a GDP growth rate of just 2.8 percent in 2015. Prospects for 2016 remain subdued with a projected growth of 2.6 percent with a second consecutive year of climatic shocks. Poverty headcount based on the 2004/05 and 2010/11 living standards measurement data shows that national poverty has remained stagnant at more than 50 percent and actually increased in rural areas. Current World Bank estimates using the new international poverty line of US\$1.90 per day, indicate that 69.9 percent of the population is classified as being poor in 2015.

3. **Malawi is highly exposed to natural hazards, such as floods and droughts.** In the last 36 years alone, the country has experienced eight major droughts, affecting over 24 million people in total. The impact, frequency and spread of hydro-meteorological and climatic hazards in Malawi has intensified in the past four decades and is likely to worsen with climate change, compounded by other factors, such as population growth and environmental degradation. In addition to loss of life and the destruction of public and private assets, such disasters can severely disrupt food production and exacerbate food security challenges. In Malawi, droughts and dry spells cause, on average, a one percent loss of GDP annually⁵. Most drought episodes have occurred in El Niño years, during which the country experiences rainfall deficits.

¹ 2015 UNDP World Development Report

² Ministry of Finance, Economic Planning and Development

³ Third Integrated Household Survey (IHS 3)

⁴ World Development Indicators, GDP per capita (Constant 2010 US\$)

⁵ GFDRR Country Profile: Malawi



Situation of Urgent Need of Assistance

4. **Malawi is currently experiencing consecutive disasters with devastating floods in the 2014/15 season and continuing dry spells leading to an agricultural drought in the 2015/16 season.** The previous year's flooding, followed by this year's drought has severely affected food production and food security in the country. The start of the agricultural season was delayed by two to four weeks followed by erratic and below average rains in November and December 2015. Prolonged dry spells resulted in severe crop failure, particularly in the Southern Region and parts of the Central Region, including many of the same districts that were affected by the 2014/15 floods. The recently released agricultural crop estimates show that overall food production has declined by 12.4 percent from the 2014/15 season, which was already down by about 30 percent compared to the 2013/14 season.

5. **The compounding effect of two consecutive poor agricultural seasons is further exacerbating the suffering of the drought affected population, and Malawi is likely to experience its worst food shock in a decade in the upcoming lean period from January to March 2017.** Over 2.8 million individuals across 24 districts (out of 28 districts) were receiving food assistance until April 2016 and with further decline in food production, more individuals are expected to require further food assistance in the coming months. The annual food security assessment conducted in May 2016 by the Malawi Vulnerability Assessment Committee (MVAC) estimates that a minimum of 6.5 million people (or 39 percent of the country's projected population of 16.8 million) will not be able to meet their annual food requirements during the 2016/2017 consumption period. MVAC further assesses that, in order to ensure that the affected people survive up to the next harvest period without disrupting their socio-economic livelihoods, the total food assistance that is required is estimated at an equivalent of 493,000 metric tons of maize.

6. **The drought and resulting food security crisis in Malawi is taking place within the context of a larger scale regional disaster.** The El Nino climatic event has caused one of the worst droughts in Southern Africa in more than 35 years, with severe food shortages in Malawi, Lesotho, Swaziland and Zimbabwe. Across the region, an estimated 32 million people will be food insecure between June 2016 and March 2017. The humanitarian impact extends beyond food security with reports of increased levels of malnutrition, difficulty in accessing water, higher school drop-out rates, increased incidence of communicable diseases and rural to urban migration. The current regional cereal deficit continues to put upward pressure on market prices, with the poor harvests and resulting cereal deficits having caused food prices to rise faster than non-food inflation. Of all the countries affected by the drought in the region, Malawi has been ranked as the most in need due to its high levels of: (i) vulnerability due to pervasive poverty; (ii) exposure to climatic shocks, with 60 percent of the workforce reliant on agriculture and the country already experiencing increases in food prices and food insecurity; and (iii) limited capacity to cope due to its poor fiscal position and low levels of food reserves⁶.

7. **The impact of the drought and resulting food security crisis has overwhelmed national response capacities in Malawi.** As a result, the President of Malawi declared a "State of National Disaster" with effect from April 13, 2016. The declaration covered 24 of Malawi's 28 districts, including

⁶Regional Inter-Agency Standing Committee (RIASCO) Response Plan for the El Nino Induced Drought in Southern Africa, May 2016 – April 2017



all districts in the Southern and Central Regions and two districts in the Northern Region⁷. He also made an appeal for humanitarian relief assistance from the international community, United Nations (UN), Non-Governmental Organizations (NGOs) and the private sector to help alleviate the suffering of the people affected by the food shortage.

8. The Bank responded immediately to the Government's request for support. The Bank's emergency interventions included (i) provisioning of US\$2.5 million to the Government of Malawi (GoM) to upscale production of sweet potato and cassava as part of mitigation activities to the dry spells across the country through the Agriculture Sector Wide Approach Support Project (ASWAp-SP); (ii) securing US\$250,000 through the Food Price Crisis Response Trust Fund to support the GoM to analyze the current El Niño situation; (iii) leveraging a grant of US\$500,000 from the Global Facility for Disaster Reduction and Recovery (GFDRR), awarded on May 26, 2016, to conduct an assessment on the impact of the drought crisis in Malawi and use the findings to develop a drought recovery and resilience strategy; and (iv) US\$6 million released within the existing Malawi Floods Emergency Recovery Project (MFERP) for Strategic Grain Reserve (SGR) restocking.

9. In order to estimate the drought impact and recovery needs, the GoM, with the support of development partners, has prepared a Food Insecurity Response Plan (FIRP) and a Post Disaster Needs Assessment (PDNA). These are described in more detail in Annex 6. The objective of the FIRP is to address the immediate life-saving and life-sustaining needs generated by the crisis from July 2016 to March 2017. The FIRP estimates that around US\$395.1 million is needed for humanitarian responses, of which US\$233.8 million are associated with food security. Complimentary to the FIRP, the PDNA focuses more on medium to long-term measures (over the next three-year period). According to the PDNA, drought related damages and losses across fourteen sectors total US\$366 million, with the agriculture sector making up the largest proportion (US\$256 million), followed by irrigation (US\$31.9 million) and water supply and sanitation (US\$19.1 million) sectors. Recovery needs across all sectors have been estimated at US\$500.2 million over a period of three years. Food security needs make up over half (54 percent) of the total recovery costs, i.e. an estimated US\$268 million. These needs are based on a broad six-pillared Drought Recovery Strategy that underpins all sectors.

10. In spite of contributions and pledges from various countries and development partners to support the drought response, a large financing resource gap exists to meet the urgent and unprecedented food security needs identified in the FIRP, and the medium to long-term needs identified in the PDNA Drought Recovery Strategy remain almost completely non-funded. As described in detail in Annex 6, several countries and development partners⁸ are contributing to the food security response with monetary and in-kind support for maize and super-cereals. However, based on data obtained from World Food Programme (WFP) and government sources, as of August 2016, Malawi still faces a resource gap estimated at US\$54 million to address the immediate food security needs (see Annex 6). In a situation of fluid donor pledges, the proposed project design responds to the best information available as of August 2016.

11. Given the scale of the drought and the unprecedented recovery needs in Malawi, the World Bank

⁷ Balaka, Blantyre, Chikhwawa, Chiradzulu, Dedza, Dowa, Kasungu, Lilongwe, Machinga, Mangochi, Mchinji, Mulanje, Mwanza, Mzimba, Neno, Nkhota Kota, Nsanje, Ntcheu, Ntchisi, Phalombe, Rumphi, Salima, Thyolo, and Zomba.

⁸ African Development Bank, IMF, DFID, USAID, WFP, Norway, Japan, China



is currently taking the lead in the multi-partner crisis response, with a total of US\$223.25 million allocated for emergency response. This includes the immediate response activities described in paragraph 8, and the interventions outlined below. The proposed US\$104 million Malawi Drought Recovery and Resilience Project (MDRRP), described herein, focuses both on the immediate impact of the drought, and medium-term and sustainable recovery and drought resilience in the affected sectors. In respect to the ongoing food security crisis, it will leverage key UN capacities to preserve human capital, given the pressing food and nutritional needs of the severely drought affected communities across the country. The proposed Project will also help strengthen and improve food security and nutrition of the affected communities in the transitional recovery period while agricultural livelihoods are still being restored to pre-drought levels. Concurrently, US\$70 million in International Development Association (IDA) funding is being proposed as Additional Financing (AF) to the existing Malawi Social Action Fund (MASAF) Project to enhance social protection efforts. Another US\$10 million in IDA funding has been approved as AF to the Nutrition and HIV/AIDS project for emergency nutritional supplies for the management of acute malnutrition in 14 drought affected districts. And finally, in response to the drought, an augmentation of US\$30m is proposed for the Resilience Development Policy Operation (DPO) currently under preparation, increasing the total for the DPO to US\$80 million. While the proposed MDRRP and MASAF AF focus on immediate and medium-term recovery interventions to address the needs of key affected sectors, the Resilience DPO is intended as a stabilizing measure through policy reform measures to build the longer term resilience of the country to various shocks.

12. **In response to the request from the GoM (dated July 11, 2016), the IDA Grant for the proposed MDRRP will aim to address a subset of priority interventions outlined in the FIRP and PDNA Drought Recovery Strategy.** Given the scale and magnitude of impact on the poor and overall economy, the proposed Project will balance: (i) addressing immediate pressing food security needs; and (ii) supporting medium-term drought recovery and resilience building for sectors that have been most impacted and prioritized for livelihood recovery (agriculture, irrigation, water resources and water supply and sanitation, and disaster risk reduction). The proposed Project is specifically designed to allow rapid and recovery-focused responses in multiple sectors to address the gaps created and exacerbated by the disaster. An integrated multi-sectoral disaster response ensures that critical recovery interventions are implemented in a synchronized and simultaneous manner. The systematic and integrated approach of multi-sectoral recovery interventions enables coordination of interventions among stakeholders, avoids gaps, minimizes overlaps, improves service delivery and accountability, and can establish comprehensive monitoring mechanism.

13. **Deferral of Safeguards Requirements.** The proposed operation meets the emergency provisions of OP 10.00 Paragraph 12 (Projects in Situations of Urgent Need of Assistance or Capacity Constraints) of the Bank's Operational Manual and Guidelines and will be processed through condensed procedures provided therein. The proposed operation is deferring safeguards requirements to the implementation phase, and as required under such circumstances, a Safeguards Action Plan (SAP) has been prepared and included as part of the Project Appraisal Document (PAD). The proposed deferral of safeguards requirements has been approved by Bank management.

B. Sectoral and Institutional Context



14. **Breaking the cycle of food insecurity.** The GoM is currently developing a plan for “Breaking the Cycle of Food Insecurity in Malawi for Greater Development Impacts”, under the leadership of the Department of Disaster Management Affairs (DoDMA), which will serve as the National Resilience Strategy for the country. The overall objective of the strategy is to make Malawi more resilient to disasters and break the cycle of food insecurity. As demonstrated by the consecutive disasters in 2014/15 (flood) and 2015/16 (drought), a multi-phase, multi-sector programmatic approach is required to ensure that not only immediate recovery needs are met, but that underlying vulnerabilities are addressed to break the cycle of recurrent disasters that are becoming more frequent and severe. In the context of the ongoing emergency, the FIRP addresses the humanitarian needs generated by the crisis and sets the basis for recovery, while the PDNA focuses more on those medium to long-term measures that will ensure full recovery of the affected population. These have both been developed in strategic alignment with the National Resilience Strategy, as well as with existing sector development programs. Such policy harmonization ensures that there are no critical overlaps between plans and that no gaps remain uncovered, maximizes smoother transition and sequencing, and builds synergies for medium to long term resilience.

15. **The PDNA Drought Recovery Strategy formulated by the GoM adopts a risk-reduction and people-centered approach with the vision of strengthening the resilience of the population and promoting sustainable development.** It focuses on six key strategic pillars, including: (i) increase productivity in agriculture and irrigation development; (ii) improve food security, nutrition and health services; (iii) enhance people’s capacity to withstand risk and build resilience; (iv) strengthen water resources management and enhance water supply; (v) strengthen Disaster Risk Reduction (DRR) and drought resilience; and (vi) integrate gender concerns into all recovery interventions. The GoM and its partners recognize that the recovery has to be a multi-sectorial effort. Therefore, interventions will be planned and implemented simultaneously in all those sectors affected by the drought according to the level of impact of the event.

Institutional Context of Sectors Relevant to the MDRRP

16. **Food security.** The food security agenda of Malawi is driven by a plan currently under development for “Breaking the Cycle of Food Insecurity in Malawi for Greater Development Impact”, which highlights the importance of disaster resilience and sustainable economic development. The Government’s SGR, established in 1981, has played a critical role in coping with food (maize) shortages and emergencies. Additionally, the National Food Reserve Agency (NFRA) was established in 1999 to manage the SGR and promote marketing. The NFRA is responsible for maintaining the SGR and stabilizing the grain market, overseeing importation and exportation, supervised and validated by a Board of Trustees and SGR Management Committee. For SGR replenishment and restocking, the NFRA and the Ministry of Agriculture, Irrigation and Water Development (MoAIWD) have historically worked closely with UN agencies and Development Partners, such as the WFP and the UK’s Department for International Development (DFID), and bilateral donors to procure and distribute food commodities.

17. **Agriculture.** The MoAIWD is also responsible for policy development and strategic management of the agriculture sector, and has recently developed the National Agricultural Policy (NAP) to harmonize sector policies. The NAP is fully aligned with the existing core policies, including the Vision 2020 Framework, the second Malawi Growth and Development Strategy (MGDS II), and the Agriculture Sector



Wide Approach (ASWAp). The long-term agricultural development strategies are to support a high level of agricultural productivity, diversification and commercialization to ensure equity, household food security, income growth, employment, and sustainable utilization of natural resources.

18. **Irrigation.** Increased investment in irrigation is consistent with Malawi's higher level development plans and aspirations articulated in the Vision 2020, MGDS II, and ASWAp. The irrigation sector core strategies are now guided by the three priority areas from the Irrigation Master Plan and Investment Framework as well as the National Irrigation Policy. The priority is to increase irrigation coverage through development of new schemes, rehabilitation and modernization of old schemes, and to build capacity for technicians/staff and farmers. The MoAIWD is responsible for oversight at the ministry level and the Department of Irrigation is the technical lead and will oversee the implementation and management of activities.

19. **Water Resources and Water Supply.** The Government developed a National Water Resources Investment Strategy (NWRIS, 2011) and an Irrigation Master Plan (2015) to guide investments in water resources to meet a range of water needs for productive purposes. Under the vision "Water and Sanitation for All", the sector goal is to ensure sustainable provision of adequate quantity and quality of water and adequate sanitation services. MoAIWD has a role in facilitating management of water resources as well as formulating related policies. Water supply in urban and small towns is managed by five statutory water boards⁹ and rural water supply is managed by Water User Associations (WUAs) with technical backstopping by District Water Officers.

20. **Disaster Risk Management.** DoDMA, in the Office of the Vice President, has the legal mandate to coordinate and direct Disaster Risk Management (DRM) programmes in the country. The National Disaster Risk Management (NDRM) Policy was approved in 2015 with the overall goal to sustainably reduce disaster losses in lives and in the social, economic and environmental assets of communities and of the nation. The policy covers DRR, preparedness, mitigation, response and recovery. In light of the recurring disasters affecting the country, the GoM is currently developing a National Resilience Strategy, which articulates three main objectives that will guide the DRM activities in Malawi: (i) promote irrigation for food security and nutrition and drive export; (ii) reduce the effects of floods and occurrence of drought; and (iii) enhance effective Early Warning Systems (EWSs).

21. **Complementarity of Proposed Project with Bank Strategy and Existing Country Portfolio.** The Bank has started to systematically engage with the GoM on strengthening the country's disaster preparedness and resilience through a combination of IPF and DPF operations. Activities planned under the MDRRP complement a number of ongoing and pipeline projects within the Bank's portfolio. Most notably this includes: (i) the agriculture, water supply, and water resources interventions under the MFERP; (ii) the agricultural livelihood, productivity and access enhancing interventions under the ASWAp Support Program (ASWAp-SP); (iii) the social protection interventions under the Malawi Social Action Fund (MASAF): Strengthening Safety Nets Systems Project; (vi) the investments in institutions, information and infrastructure for improved land and water management and community level adaptation support through the Shire River Basin Management Program (SRBMP); and (v) policy reforms through the proposed Resilience Development Policy Operation (DPO), which aims to lay the foundations for a more resilient economy by reducing agricultural market distortions, improving

⁹ Lilongwe, Blantyre, Northern, Central, and Southern Water Boards



incentives for commercialization and restoring fiscal balances. The DPO actions towards making agriculture markets work would address the structural reforms needed (i) with the SGR that would minimize speculations in the maize markets and hence lead to less volatility in the maize prices, while ensuring that smallholder producers benefit; and (ii) with the Farm Input Subsidy Program (FISP) to ensure timely delivery of inputs to farmers and productivity gains.

C. Higher Level Objectives to which the Project Contributes

22. **The proposed Project has been designed in alignment with, and will contribute to, the country's National Resilience Strategy (currently under development), the PDNA Drought Recovery Strategy and the FIRP.** While simultaneously ensuring that immediate and pressing food needs are met, the most effective way to handle recurring shocks is by building the capacity of vulnerable communities to withstand the impact and recover from their effects. Accordingly the proposed MDRRP will be guided by the following principles: (i) a simultaneous cross-sectoral approach through a multi-stakeholder engagement; (ii) maintaining strategic continuity and gradual transition across the immediate and medium-term phases of recovery; (iii) community participation and targeting the most vulnerable; (iv) building back better and smarter; (v) focus on resilience through strategic alignment of ongoing development policies; (vi) integration of gender sensitive design in all engagements, and (vii) a focus on improving the capacity of government institutions for improved resilience.

23. **Within the regional context, the Project is part of the larger regional World Bank response to the drought in Southern Africa.** The current regional response provides support to the countries of Lesotho (US\$20 million), Mozambique (US\$20 million), Madagascar (US\$35 million), and Malawi (US\$204 million). The proposed Project is aligned with the action plan developed for Southern Africa by the Regional Inter-agency Standing Committee (RIASCO) which allows space for Malawi specific adaptations. The Bank's overall Malawi drought response thereby is consistent with the regional plan in addressing not only the immediate food security needs, but also in terms of measures to build the resilience of the affected population to better handle future shocks, and the macro-economic measures articulated to better enable the countries of the region to respond to such crises.

24. **The Project will contribute to the Bank's twin goals of ending extreme poverty and promoting shared prosperity, by helping to minimize the economic and social impact of the drought through priority interventions.** In order to withstand shocks from natural disasters, countries with high levels of hazard exposure need to reduce underlying vulnerabilities and strengthen resilience. The Bank's strategy recognizes that a multi-phase and multi-sector programmatic approach is required to ensure recovery and contribute to addressing developmental gaps that have been created and exacerbated by the consecutive disasters. The Project will aim to contribute towards alleviating poverty by providing immediate livelihoods support to the population affected by drought, and boosting income growth through building greater climate resilience in agriculture, and rehabilitating and augmenting critical water infrastructure. The Project will leverage resources and contribute towards the broader agenda of breaking the cycle of food insecurity and building resilience for future shocks being articulated by the Government at a programmatic level through the FIRP, PDNA, NDRM Policy, and the upcoming National Resilience Strategy.



25. **The proposed Project is fully aligned with the Bank's Country Assistance Strategy (CAS) for Malawi for the period FY13 - FY17 (Report Number 74159-MW).** This will specifically include contributions towards the following result areas identified in the CAS: lowering vulnerability and improving the resilience of poor communities through adequate social safety nets, improved climate resilience, and enhanced capacity to respond to disaster risks. This program will directly address all three areas by providing a social safety program, reconstructing critical community assets, restoring livelihoods, strengthening the institutional capacity of the Government to respond to disasters, and promoting long-term drought resilience.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

26. The Project Development Objective is to “support the Government of Malawi to meet the immediate food security and livelihoods restoration needs of the communities affected by drought and promote recovery and resilience in key affected sectors”. In the event of a future eligible crisis or emergency, the Project may also be able to provide immediate recovery support to GoM through a proposed Contingent Emergency Response Component.

B. Project Beneficiaries

27. **The Project is designed to directly benefit Malawi's drought-affected populations in the following manner:** (i) direct and immediate livelihood support through the Inputs-for-Assets (IFA) program to 200,000 households; and (ii) direct food support to over 1.6 million people. In addition, an estimated 160,000 households will benefit from activities aimed at increasing agricultural productivity by promoting cultivation of drought resistant crops and livestock production. An estimated 2.1 million people are also expected to benefit from the resilient water supply infrastructure, irrigation, and water resource and catchment management subprojects proposed to be funded under the Project.

28. In addition, the people of Malawi will benefit, either directly or indirectly, from the strengthening of the Government's capacity to respond and recover from drought.

C. PDO-Level Results Indicators

29. The achievement of the PDO will be monitored by the following outcome indicators:
- (a) Direct project beneficiaries (and percent female)
 - (b) Number of people with improved food access (and number of female)
 - (c) Number of households who received support to restore their livelihoods
 - (d) Number of households benefiting from agriculture inputs and/or livestock restocking
 - (e) Number of people benefiting from improved irrigation schemes
 - (f) Number of people benefiting from rehabilitated water supply schemes



III. PROJECT DESCRIPTION

A. Project Components

30. **MDDRRP components are based on the Drought Recovery Strategy outlined in the PDNA and the FIRP.** Accordingly, the allocation and distribution of resources proposed under the MDDRRP is commensurate and proportional to the distribution of impact and needs across and within sectors identified under the PDNA and FIRP. Such ‘impact and needs proportionality’ will remain a key operational principle during project implementation as well, particularly with respect to project decisions on resource allocation within and across project components and subcomponents, and within and across the drought affected districts. It is also important to note that within the confines of the proposed project components, the Project will retain flexibility during the course of implementation to adjust and locally adapt the proposed interventions and subprojects, as well as retain the space for reallocating funds across the subcomponents and subprojects within the various project components.

31. **Condensed Procedures, Food Expenditures and Policy Exceptions.** The proposed operation meets the emergency provisions of OP 10.00 Paragraph 12 (Projects in Situations of Urgent Need of Assistance or Capacity Constraints) of the Bank’s Operational Manual and Guidelines and will be processed through condensed procedures provided therein. Since the proposed Project will finance food expenditures targeted towards the drought affected population, a Memorandum dated August 19, 2016 was submitted to and approved by Management to allow expenditures related to food to be financed under the Grant.

Component 1: Improving Food Security and Sustainable Livelihoods – SDR57.4 million (US\$80 million equivalent)

32. The PDNA Drought Recovery Strategy and FIRP accord the highest priority towards bolstering the immediate availability of maize in the country and its efficient and sustained distribution to the affected population over the likely continued period of food shortage. Further guided by the PDNA strategy for ensuring sustainability of recovery and resilience building in the food sector, the project design includes components to improve agricultural productivity, enhance cultivated area under assured irrigation and expand livelihood options for vulnerable populations.

33. **Sub-component 1.1: Meeting Urgent Food Security Needs – US\$50 million.** This sub-component will finance the procurement and distribution of maize. As agreed with the Government, the US\$50 million allocated for food security needs will be split into: (i) US\$7.5 million for financing the domestic procurement of maize (approximately 21,000MT) through the NFRA; and (ii) US\$42.5 million for financing the international procurement of maize (approximately 70,000MT) and the corresponding distribution of maize through WFP. The engagement of WFP for international procurement and distribution of maize is recommended given that (i) there is not enough maize available in-country for local procurement; (ii) the Government does not have extensive past experience with international procurement; and (iii) WFP has a unique comparative advantage in ensuring the timely delivery and distribution of maize required in this emergency situation.



34. **Sub-component 1.2: Improving Livelihoods and Building Resilience through Input Distribution – US\$15 million.** This sub-component will provide immediate livelihood support to vulnerable households that have been affected by drought through a scaling up of the ongoing IFA program under the MFERP. IFA provides farm inputs to beneficiaries for the upcoming season and other in-kind assistance, in return for their participation in labor-intensive community infrastructure repair schemes. The proposed Project will scale up the existing IFA schemes to address a new set of beneficiaries in 15 districts where IFA is currently underway and extend support to an additional nine districts affected by the drought. The sub-component will focus on providing improved seeds and fertilizer packages to about 200,000 beneficiaries. In return, the key assets to be improved will include rural feeder roads, catchment management and repairs to irrigation infrastructure. Such interventions will create temporary jobs, while supporting vulnerable farmers to improve their agriculture production and recover from the food crisis that has been induced by drought. The proposed infrastructure repairs like the rural feeder roads will have a long term benefit and also facilitate the distribution of food and other relief supplies to drought affected communities.

35. **Sub-component 1.3: Increasing Agriculture Productivity and Resilience – US\$3 million.** This sub-component will promote drought resistant crops, and livestock production through (i) the production and distribution of drought tolerant crops (sorghum and millet) to selected communities; and (ii) restoring and enhancing livestock production of selected communities through provision of small stock and vaccination of animals against major diseases.

36. **Sub-component 1.4: Climate Smart Irrigation – US\$12 million.** This sub-component will support the restoration, enhancement and improvement of critical irrigation schemes in order to boost agriculture production and efficient use of water. This includes (i) restoration of 1000 ha irrigable land in 12 selected districts and increase efficiency of water diversion, conveyance and application; (ii) installation of small scale solar powered irrigation drip kits and accessories in 75 ha in 10 districts; (iii) installation of medium scale solar pumps and accessories in 600 ha in seven districts; (iv) procurement and distribution of 2250 treadle pumps in nine districts; (v) technical assistance for feasibility studies, engineering designs and construction supervision, as well as capacity building to farmers for sustainable utilization and management of irrigation schemes and infrastructure in all 24 drought affected districts; and (vi) technical support in the implementation of the catchment management activities for the catchments of the rivers feeding the targeted irrigation schemes, following National Catchment Guidelines.

Component 2: Enhancing Drought-Resilience and Preparedness – SDR13.6 million (US\$19 million equivalent)

37. **Sub-component 2.1: Rehabilitating and Augmenting Critical Water Supply Infrastructure – US\$9 million.** This sub-component will include: (i) construction of around 60 improved surface water intake structures for existing rural piped water supply schemes; (ii) construction of approximately 30km new transmission pipelines to affected areas; (iii) rehabilitation of approximately 1,500 existing boreholes to augment water supply in rural areas; (iv) construction of around 35 emergency high-yielding boreholes to augment water supply to urban areas; and (v) technical assistance for feasibility studies, engineering design and construction supervision of the above investments; (vi) drought contingency planning for all five water boards; and (vii) support to strengthen community management



structures for rural water supply. Rehabilitation of the above water supply infrastructure will be undertaken with due consideration to sanitation standards and requirements.

38. **Sub-Component 2.2: Strengthening Water Resource and Catchment Management – US\$8 million.** This sub-component will finance the rehabilitation of critical and duly prioritized small earth dams and associated catchments, as well as the construction of new water harvesting structures (excavated tanks) in order to augment water availability in the drought-affected areas. This will include: (i) rehabilitation of around 20 small earth dams; (ii) construction of around 28 water harvesting structures; (iii) water resource catchment rehabilitation and protection for selected hotspot areas; and (iv) technical assistance for feasibility studies, engineering design and construction supervision.

39. **Sub-Component 2.3: Strengthening Drought Resilience (Technical Assistance) – US\$2 million.** This technical assistance sub-component will include the following subcomponents: (i) strengthening ability to operationalize existing early warning tools; (ii) strengthening the institutional and policy framework and supporting early action by connecting agriculture risk management, food security strategies, and disaster response; (iii) feasibility study on early financing through establishment of contingency fund; and (iv) scaling up civil protection communities in 8 drought-affected districts and establishing and building capacity of district and community disaster risk management structures.

Component 3: Contingent Emergency Response Component (CERC) – US\$0 million

40. This contingent emergency response component is included under the project in accordance with OP/BP 10.00, paragraphs 12 and 13, for situations of urgent need of assistance. This will allow for rapid reallocation of project proceeds in the event of future natural or man-made disaster or crisis that has caused or is likely to imminently cause a major adverse economic and/or social impact during the life of the project. This component will have no funding allocation initially. In the event of a future emergency, this component would allow the Government to request the Bank to re-categorize and reallocate financing from other project components to cover emergency response and recovery costs, if approved by the Bank.

Component 4: Project Management – SDR3.6 million (US\$5 million equivalent)

41. This component will finance the following activities: (i) incremental operating costs of the Project Implementation Unit (PIU) and the relevant line departments responsible for the implementation of various project components and subcomponents; (ii) technical designs for the reconstruction and rehabilitation of infrastructure included under various Project component; (iii) supervision quality control and contract management of reconstruction and rehabilitation sub-projects; and (iv) audit, studies and assessments required under various Project components.



B. Project Cost and Financing

42. **The total Project cost is US\$104 million, which will be financed by an IDA Grant including US\$9 million from the Crisis Response Window (CRW).** Summary costs are provided below, while further details on Project costs are provided in Annex 2. The implementation period for the project will be four years.

43. **Eligibility for Crisis Response Window (CRW) Financing.** In order to contribute to Malawi's overall drought recovery needs of US\$500 million identified under the Post Disaster Needs Assessment (PDNA), the Bank is proposing a funding package of US\$223.25 million, of which US\$20 million are from the CRW. Out of the US\$20 million CRW resources, the MDRRP will receive US\$9 million in IDA CRW Grant for the total US\$104 million project. The remaining US\$95 million will be funded through regular IDA. The MDRRP meets CRW eligibility criteria in that: (a) it responds to a declaration of state of National Disaster by the President of Malawi with effect from April 13, 2016, covering 24 of Malawi's 28 districts; (b) the GDP growth estimates for 2016 have been revised to 2.6 percent from 5.0 percent on account of the drought¹⁰; (c) the cumulative impact of drought losses directly related to GDP equal 5.6 percent of Malawi's GDP; (d) the drought has hit some of the poorest parts of Malawi and is very likely to have pushed people further into poverty. The share of the population living below the international poverty line (US\$ 1.9/day in 2011 PPP prices) is expected to increase, from 69.6 percent in 2015 to 69.8 percent in 2016; (e) the double shock of drought in 2015/16 and floods in 2015 have reduced agricultural production, leading to food shortages, which in turn have pushed up the rate of inflation; (f) agricultural crop estimates from Feb-March 2016 show that overall food production has declined by 12.4 percent from the 2014/15 season, which was already down by about 30 percent compared to the 2013/14 season; and (g) the annual food security assessment conducted in May 2016 by the MVAC estimates that a minimum of 6.5 million people (or 39 percent of the country's projected population of 16.8 million) will not be able to meet their annual foods requirements during the 2016/2017 consumption period. In addition to the significant impacts in Malawi, the drought is considered one of the worst drought events in Southern Africa in more than 35 years, with severe food shortages in Malawi, Lesotho, Swaziland and Zimbabwe. Across the region, an estimated 32 million people will be food insecure between June 2016 and March 2017.

44. **Given the urgency to supply food to the drought affected people, subject to Board approval of the Project, and upon Project effectiveness, the Legal Agreement includes the option of retroactive financing for eligible expenditures incurred for the purchase and distribution of maize.** The use of retroactive financing allows the Government to finance eligible expenditures under the Project (the purchase and distribution of maize), and be reimbursed once the Project is effective and provided the retroactive financing conditions (outlined in Annex 1) are met.

45. **As detailed in the Memorandum signed and dated on August 23, 2016, Management has provided approval for an exception to increase the retroactive financing limit from 40 percent to 56 percent** to extend urgent support to the GoM to purchase and distribute maize and other food commodities and nutritional supplements. Project components are summarized below with details

¹⁰ World Bank, Malawi Economic Monitor- Absorbing Shocks, Building Resilience, May 2016.



provided in Annex 2.

Project Components	Project cost	IBRD or IDA Financing	Trust Funds	Counterpart Funding
Component 1: Improving Food Security and Sustainable Livelihoods	80	80	0	0
Component 2: Enhancing Drought-Resilience and Preparedness	19	19	0	0
Component 3: Contingent Emergency Response Component (CERC)	0	0	0	0
Component 4: Project Management	5	5	0	0
Total Costs	104	104		
Total Project Costs				
Front End Fees				
Total Financing Required	104			

C. Lessons Learned and Reflected in the Project Design

46. **The project design incorporates lessons learned from the Bank's extensive global and regional experience in response to natural disasters**, especially in Africa and ongoing and past projects in the country including the MFERP that is responding to the 2015 flooding.

47. **World Bank experience in responding to disasters has established the significance and sustainability of cross-sector and multi-sectoral disaster recovery. Single-sector focused responses have not been proven effective to deliver lasting results.** Also, if the disaster response is spread across too many existing or pipeline projects, it incurs prohibitive transactional costs and is unlikely to achieve mutually complementary outcomes, and synchronized, simultaneous implementation. The systematic planning of multi-sectoral recovery interventions enables coordination among the different actors involved, defines clear roles and responsibilities, and allows for establishing a comprehensive monitoring mechanism for recovery. Complementarity of programs like agriculture, livelihood, irrigation, catchment and water management provide holistic disaster recovery. While short-term interventions



address immediate needs (like food security), undertaking medium to long-term interventions also ensures sustained support to the government for resilience and capacity building.

48. **Multi-sectoral and cross-sector programming requires intense coordination with respective line ministries, strong guidance from a multi-sectoral Project Steering Committee (PSC) and a well-resourced Project Implementation Unit (PIU).** The PIU needs to include the necessary skills sets and expertise in order to balance its role as a project coordinator and provide over-sight and resources for on-the-ground implementation. This calls for the project management component to be well resourced when undertaking multi-sectoral interventions. Moreover, the PSC mechanisms must be set up in a way to ensure that the PSC is able to be regularly activated in order to provide counsel and make decisions on critical aspects of the project, including planning and budgeting on a routine basis.

49. **Early programming of IFA/ Public Works Programs (PWP) is essential for aligning the inputs with the agricultural seasons in Malawi.** This includes identifying the types of inputs according to the climate in specific locations as well as the advance establishment of the selection criteria and formula for the allocation of resources. Early consultations with and orientation of communities and local leaders will enable effective implementation of IFA/PWP programs. It has been observed that limited water availability and agricultural land lead to limited utilization of inputs received. Therefore these types of interventions should to the extent possible, liberalize the form of wages to the beneficiaries to allow their more adaptable and gainful utilization.

50. **It is critical to strengthen vertical coordination between district and national level technical staff and horizontal coordination of multi-sector technical staff at districts and national level.** The flow of information, planning of activities, and implementation progress should be regularly shared amongst technical staff. Information sharing significantly contributes to the successful implementation of activities and enhances proper communication with communities. Under the MFERP, it was observed that in some instances, the district specialists were not fully adhering to the implementation guidelines of the program. Therefore, in order to mitigate these challenges, MDRRP will develop, enforce and progressively improve standard operating procedures (and operational manual) to continuously empower the District Monitoring and Evaluation (M&E) Officers to hold constant district level meetings for all stakeholders and ensure sound understanding and implementation of the program by all stakeholders.

51. **Recurrence of disasters in Malawi calls for government systems to gradually invest greater resources in better preparing for disasters.** In the past, depletion of grain reserves and late importing has led to non-replenishment of maize stock. Given the uncertainty in the food market post-disasters, the Project has proposed the need to devise and institutionalize a rules-based procurement and import strategy that clearly defines the roles of specific actors, to make timely decisions on maize procurement. The Project will also strive to provide avenues for collaboration with other ongoing regional and international projects and improve access to international good practices that would enable the GoM to look at ways of developing ex-ante instruments for responding to and managing extreme weather-based shocks to the system.

IV. IMPLEMENTATION



A. Institutional and Implementation Arrangements

52. **Use of Existing MFERP Institutional Structures.** The proposed Project will benefit from the expertise and the existing implementation arrangements developed for the ongoing MFERP, which also supports a multi-sectoral disaster recovery. The overall implementation arrangements proposed and agreed with GoM for the MDRRP are summarized below, and detailed and illustrated in Annex 2. The GoM and the PIU will develop and maintain a detailed Project Implementation Manual (PIM) to specify the roles and responsibilities of various segments and tiers of the Project's implementation apparatus as well as lay out technical and operational decision making processes.

53. **Project Steering Committee (PSC).** The MDRRP will use a PSC as its apex decision-making body, utilizing and building upon the existing PSC in place for the MFERP. The PSC, chaired by the Ministry of Finance, Economic Planning and Development (MoFEPD), would be composed of representatives from the MoFEPD, MoAIWD, Ministry of Local Government and Rural Development (MoLGRD) and DoDMA. The Chief Executive Officers of NFRA, and relevant Water Boards would also be represented on the PSC. This committee would provide oversight for project implementation as well as central policy guidance as required on a periodic basis.

54. **Project Technical Committee (PTC).** The PTC will be chaired by MoFEPD. The MoAIWD would act as the lead technical agency for implementation and report to MoFEPD. Further in order to ensure efficient and effective technical decision making and support to the Project, a dedicated MDRRP PTC will be established to provide technical guidance at both strategic and operational levels, as well as help resolve technical issues that are brought to its attention. The PTC will comprise of technical specialists and Directors/Department Heads from each implementing sector or agency. The PTC will also serve as the primary mechanism for ensuring the implementation of the inter-ministerial and inter-departmental coordination modalities. It will also manage the respective roles and responsibilities set out for the various implementing entities and departments as further specified in the PIM. The PTC will report to the PSC.

55. **Project Implementation Unit (PIU) for MDRRP.** The existing PIU for the Bank-funded MFERP will be scaled up and its capacity augmented to take on the additional responsibility of providing implementation oversight for the MDRRP. However, there will be a clear bifurcation of decision making, implementation, fiduciary and safeguards management functions, roles and responsibilities of existing and additional PIU staff between MFERP and MDRRP. This would take the shape of a modified PIU structure with two Project Implementation Cells (PICs), one for the existing MFERP and the other for the new MDRRP. A National Coordinator will be appointed to supervise MDRRP and MFERP, supported by Project Coordinators for MFERP and MDRRP. The enhanced PIU will focus on quality and process oversight, financial management, centralized procurement, inter-ministerial reporting arrangements, contract management, monitoring and evaluation and ensuring social and environmental safeguards compliance, while benefiting of the implementation experience of the MFERP.

56. **PIU capacity enhancement.** To achieve the above, the existing PIU will strengthen its capacity to oversee the implementation of the components and sub-components introduced under the MDRRP, with particular emphasis on building technical capacity for those sectors not previously covered under MFERP (related to agriculture, livestock and water supply). Similarly, the PIU will need to enhance its



capacity to extend outreach to the 24 drought affected districts, of which nine are additional to what was previously covered under MFERP. The PIU will recruit additional specialists and establish an additional PIU regional structure in Kasungu to support implementation in Central districts. Additional administration assistants will also be recruited to support the financial and procurement aspects of the Project and for smooth conduct of operations at the regional office. Annex 2 provides more details on the proposed capacity enhancements of the PIU to additionally manage MDRRP implementation as well as on how functional bifurcation will be maintained across the two projects.

B. Results Monitoring and Evaluation

57. **Outcome Monitoring and Evaluation.** The PIU will be responsible for the overall M&E of the Project, using the Project's results framework to issue quarterly updates on the overall project implementation. The PIU will be responsible for operationalizing the Overall Results Framework for monitoring and evaluating the Project at a consolidated level through a Results Monitoring System. The PIU will make use of, and scale up, the existing systems set up for M&E for MFERP to apply to the MDRRP. To monitor and track the progress regarding the indicators for component 1.1, WFP will work closely with the PIU in order to link up their monitoring system to that of the project.

58. **Data collection.** The PIU will establish a data collection system to obtain data from affected districts and sectors and carry out community-level surveys on a periodic basis to record baseline data in line with indicators included in the project results monitoring framework. Data collected will be used to update baselines, presenting and targeting indicator values for all sub-components and results reporting to the PSC and the Bank on a routine basis. It will use the MFERP data collection system as a vehicle to quickly build, scale-up and operationalize similar data flows and data collection arrangements for the MDRRP.

59. **Physical, Financial and Quality Monitoring.** In parallel, there will be component, sub-component and sub-project level implementation, monitoring and evaluation that will involve the various national, district and community-level implementing organizations. Supervision and monitoring roles will be divided according to the work performed and specific results being achieved, then relayed to the PIU for consolidation. Implementation monitoring will also form the basis for the payment system for contractors for work completed.

60. **Implementation support will generally entail both routine and ad-hoc quality checks at various stages of implementation.** Periodic monitoring will include process reviews/audits, reporting of outputs and maintaining updated records. Broad thematic areas that will be supervised and monitored include the following: (i) Social and Environmental Monitoring; (ii) Regular Quality Supervision & Certification; (iii) Periodic Physical Progress and Process Monitoring and Third-Party Quality Audits, and (iv) Results Monitoring and Evaluation.

61. **Procurement Monitoring.** All procurement activities at the component, sub-component and sub-project levels will also be closely monitored by Procurement Specialists in the PIU.

C. Sustainability



62. **The proposed interventions address immediate food security needs but also contain measures fostering long-term resilience building and strengthening the capacity of the country to cope with natural disasters over medium and long term.** To this effect, the MDRRP adapts a multi-faceted and multi-sector approach combining short term and medium term recovery interventions with long term resilience building activities. Given the challenges associated with capacity building in Malawi, this approach is likely to reduce the country's vulnerability and exposure to climate and disaster risks but also foster climate and disaster resilient development. Furthermore, MDRRP draws lessons from MFERP to ensure quick and sustainable implementation of the project activities. Appropriate plans will accordingly and progressively be developed for capacity building in government and other institutions for mitigating and responding to natural disaster shocks.

63. **The project activities include short and medium-term interventions to help ensure a stable base for improved livelihoods of communities and resilience to future disasters.** IFA and enhancing agriculture productivity interventions will provide support to drought-affected population, promote agricultural diversification, ensure increased access to input, reduce dependence on livelihood vulnerable to drought and help farmers in targeting the next cropping season, while deriving sustained benefits from the improvement of productive community assets. Drought-resilient water and catchment management interventions will increase the availability of water resources, which is crucial for socio-economic growth, development and resilience building of the country. Implementation of these activities will follow locally acceptable approaches which have proved to be sustained as lessons drawn from MFERP and the SRBMP. Concurrently, international standards and benchmarks will be implemented and locally adapted to ensure technical soundness and resilience of the implementation solutions provided under the project, while according adequate consideration to environment and social sustainability aspects.

64. **Further, the Project includes interventions for the improvement of the country's drought preparedness, response and recovery system.** The technical assistance activities included in the project design for drought resilience will help ensure that the gains made under the immediate Project interventions are not lost over time, and provide the analytical basis for increasing the predictability of Malawi's food sector, water resource management and agricultural sector responses, and their resilience and preparedness with regards to natural disasters. In the long-term, the Project's support to provide the tools for adequately operationalizing the country's drought early warning systems will also help secure and protect developmental gains made in key sectors against such natural disaster shocks.

D. Role of Partners



65. **The Project has been designed through a rigorous multi-stakeholder and multi-partner process of drought impact and needs assessment since the declaration of the emergency.** The PDNA led by the government also afforded opportunities for close collaboration with key UN agencies and other partners. Following the PDNA, the Bank task team continued to work closely with a range of public sector stakeholders from various central line ministries as well as the drought affected districts in order to establish and systematically prioritize the needs identified in the PDNA through workshops. Subsequently the Bank worked closely with the FIRP team and development partners such as DFID to establish the basis for strategic parameters and operational principles that underpin the proposed design and approach of the MDRRP.

66. **Project implementation will also follow an inclusive and consultative process with key development partners through existing donor coordination mechanisms.** This will help ensure close strategic harmonization and operational coordination across the inter-related interventions (food supply in particular) under various development partner programs being considered under the broader drought recovery program. The project team will also continue to leverage and promote the drought recovery and resilience strategy agreed under the PDNA to influence the drought recovery planning and implementation of various development partners.

67. Finally, implementation of the single-largest project component on maize procurement and distribution will be carried out through the WFP to make use of existing, transparent and well-functioning mechanisms for food supply to the drought affected communities - in keeping with international partnership arrangements, norms and standards agreed between the Bank and UN agencies.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

Risk Categories	Rating (H, S, M or L)
1. Political and governance	S
2. Macroeconomic	S
3. Sector strategies and policies	M
4. Technical design of project	M
5. Institutional capacity for implementation and sustainability	S
6. Fiduciary	H
7. Environmental and social	M
8. Stakeholders	M
9. Others	
Overall	S

68. The overall risk for achieving the PDO is **Substantial**.



69. **Political and governance risks are rated substantial.** Multi-sector and multi-donor coordination is always challenging in Malawi. Moreover, Malawi faces limited capacity and information availability especially during situations of natural disasters as demonstrated in the ongoing drought where information on in-country maize availability and funding available through development partners has been difficult to gather. Similarly the ongoing drought response has revealed policy and strategic disconnects on how the immediate and medium term responses will be shaped by various segments of government as well as development partners. Both across various government departments and even within the community of development partners, there is room for improved policy and strategic harmonization and operational coordination. To this effect, the Project will strive to further strengthen dialogue among development partners and various tiers of government on key aspects of the immediate drought response as well as medium term drought resilience building. Further, the nature of project interventions, targeting criteria and geographical coverage are also considered politically sensitive. The Project will make use of the PSC and PTC mechanisms for decision making and criteria setting to ensure multi-sector information flow is systematic and robust. Furthermore, the Project will maximize opportunities for joint activity planning and implementation for activities that cut across various stakeholders and development partner programs.

70. **Macroeconomic risks are rated as substantial which can be exacerbated by external shocks and climate-induced natural disasters.** With reliance on a few primary exports and a relatively undiversified economy, Malawi remains vulnerable to external demand and price shocks as well as to weather-related disasters, as demonstrated by the 2015 flood and the 2015/16 drought. The macroeconomic instability is compounded by pressures from weak fiscal management and vulnerability to climate shocks, and manifested in the declining growth rate and deteriorating poverty outcomes. The recent Malawi Drought PDNA estimates that the total impact of drought is US\$365.9, which is equivalent to 5.6 percent of Malawi's GDP. The effects of damage and losses are estimated to result in a projected negative impact on GDP growth in 2016, which is expected to remain weak, just 2.6 percent. The instability may affect the achievement of the PDO through diminished capacities and inefficiencies in implementation as well as the diminished potential of the Project's resilience building approach.

71. **Risks related to institutional coordination across multi-sectoral project components and various implementing entities are substantial.** Project management resources for MFERP, which only covers 15 flood affected districts are being fully utilized by the PIU. Thus, the addition of another 9 districts under the MDRRP (increasing to 24 districts), and the addition of new sectors will strain the existing management structure and capacity of the PIU as well as its implementation and oversight resources. However, with the adequate project management resource allocation, capacity and skills enhancement and technical assistance being proposed under the MDRRP, the PIU is expected to successfully mitigate this risk. This will still require an early and formal notification of the Project's implementation arrangements to all implementing entities, and clarification of their respective roles and responsibilities through a Project Implementation Manual.

72. **The project fiduciary risk is rated high** due to the nature of the activities proposed and the requirement for expedited implementation and delivery given the need for urgently responding to the emergency created by the drought. The key proposed mitigation measure in this respect is the use of a well-established and functioning PIU which will considerably increase fiduciary oversight and



transparency. Procurement processes have also been streamlined and the PIU will be strengthened to be directly responsible for most of the procurement of all goods, works and services under the Project. Where it is not directly responsible for procurement, the PIU will still be required to play a strong procurement and financial management oversight and coordination role in the implementation of activities by the line departments. For example, there are significant fiduciary risks associated with the need to procure and pre-position food at the earliest and capacity enhancement of the National Food Reserve Agency. In addition, the nature of activities under Components 1 and 2 have direct beneficiary interface, which increases the risk of loss of transparency, particularly at the local level, and which will be mitigated by strengthening operational oversight functions and procedures of the PIU based on the lessons learnt from the ongoing implementation of the MFERP. This will include system and process strengthening as well as greater vigilance from central and regional PIU staff, which in turn will require strengthening of PIU oversight resources both in terms of staff numbers and skills.

73. The table below summarizes the project procurement and fiduciary risks and the proposed mitigation measures.

Risk Factor	Mitigation Measure
Record keeping and documentation	<ul style="list-style-type: none"> • All implementing agencies will maintain all procurement records duly catalogued and indexed that will facilitate easy access to information
Fiduciary Risk relating to main principles of the Bank Procurement Guidelines	<ul style="list-style-type: none"> • Experienced procurement staff/consultant shall be positioned to guide implementing agencies • Attend training in Bank procurement procedures • Conduct training on new Bank procurement procedures • Regular supervision support and monitoring
Inefficiencies and delays in procurement process	<ul style="list-style-type: none"> • Regular monitoring through procurement plan.
Insufficient competition in procurement	<ul style="list-style-type: none"> • Aggregation of smaller contract packages wherever feasible
Contract Management	<ul style="list-style-type: none"> • Disclosure of all contract awards in UNDB Magazine for prior contracts and post review contracts in local newspapers and website of Office of Director of Public Procurement
Probability of staff handling procurements being transferred	<ul style="list-style-type: none"> • Continue dialogue with Government to retain trained staff
Fraud and corruption risks [including collusion and outside interference] in contracting process	<ul style="list-style-type: none"> • Disclosure of procurement plan • Disclosure of contract awards • Creating awareness on effects of fraud and corruption • Regular reviews such as PPR, internal Audit, external audit etc.
Weak complaint redress system	<ul style="list-style-type: none"> • Disclosure of complaint redress procedure through Office of the Director of Public Procurement (ODPP) • Bi-annual report of all complaints received and action taken.



74. **The proposed Project is requesting the deferral of environment and social requirements referred to in paragraph 12(a) of OP 10.00. Environmental and social safeguards risks are rated as moderate**, and include: i) loss of land acquired for use in rehabilitation and re-construction and expansion of irrigation schemes; ii) loss of trees due to an increase in migrant workers using fuel wood, leading to potential growth in soil erosion and siltation of stream/rivers in the area; iii) increase in water logging and salinization around rehabilitated irrigation schemes; iv) increase in incidences of water-borne diseases around irrigation schemes; and v) conflicts in the use of water in rivers between irrigation farmers and upstream and downstream water users.

75. **Government will prepare an Environmental and Social Management Framework (ESMF) to guide the mainstreaming of environmental and social considerations** that include mitigation measures in design, implementation and operation of sub-projects under the MDRRP. The Government is also preparing an RPF to provide guidance on mitigations of social and economic negative impacts, resettlement planning and possible compensation issues within sub-projects under the MDRRP. Through its Environmental Affairs Department (District Environmental Officers), the GoM has the technical capacity to supervise this environmental work at the local level.

76. **Climate risk due to forecast La Niña phenomenon.** The Department of Climate Change and Meteorological Services has forecasted that Malawi will be affected by the La Niña phenomenon that is likely to result in normal and above normal rainfall from October 2016 to March 2017. In a La Niña phenomenon, areas which experienced dry conditions during El Niño tend to receive above-average rainfall.¹¹ Flooding and dry spells are likely to occur in some areas during the 2016-2017 season, with a 35 percent chance of above-normal rainfall. To this effect, the project is striving to build resilience of farmers and national systems to mitigate the impact of climate variability which includes measures like strengthening early warning systems, early action and early financing mechanisms. In addition, the Project has included a Contingent Emergency Response Component (CERC) as a mitigation strategy for this risk.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

77. **The major impact of the drought has been on the agriculture sector with estimated losses at US\$230.6 million, 63 percent of total impact of drought, equivalent to 10 percent loss in growth in the sub-sector.** Output in the agricultural sector is projected to contract by 2.2 percent during 2016.¹² According to the Agricultural Production Estimates Survey (APES), maize, the key crop in terms of food security, recorded a 30.2 percent year-on-year drop in production in 2015-16. The third round APES reveals a 14.7 percent contraction in maize production in 2015-16. This represents a 44.9 percent decline in production over the past two years. Given the decrease in maize production and increasing

¹¹ La Niña: Early warning – early action analysis for a potential La Niña in 2016 – 2017, Food and Agriculture Organization of the United Nations (August 2016), Rome. <http://www.fao.org/3/a-i6010e.pdf>

¹² World Bank, *Malawi Economic Monitor – Absorbing Shocks, Building Resilience*, May 2016.



demand in preparation of the lean season, it is expected that the price of maize will increase in the region. The overall inflation is expected to remain high during 2016, mainly driven by food price inflation. Food constitutes 50.2 percent of the consumption basket in the Consumer Price Index (CPI). The incidence of poverty is also expected to rise in the country. The bottom 40 percent of the population are estimated to experience an 11.8 percent decrease in their consumption, which is by far the largest in the SADC region¹³.

78. **An economic analysis was undertaken to assess the economic relevance and value addition of the Project in the light of the above macroeconomic and financial context.** The Project comprises both quantifiable (direct and indirect) and unquantifiable (direct and indirect) benefits that are expected to accrue for the drought-affected population, surrounding communities and the economy as a whole. Given the difficulties associated with estimating all the Project's benefits, the quantitative focus was only based on benefit and cost streams of the IFA-based livelihoods support and irrigation sub-components.

79. **The procurement and distribution of maize to meet immediate food security needs is likely to have a positive economic impact on households,** especially those whose livelihoods have been affected due to drought. This component would substantially moderate the effects of price and supply shock during the coming lean season. It is also likely to reduce the economic burden on households as resources freed up from the purchase of maize could be used for securing essential food (non-maize) and other commodities. Additionally, provision of maize for meeting household nutritional requirements will lessen the likelihood of negative coping mechanisms, such as the selling of livelihood and other productive assets, which would have lasting economic impact.

80. **Results from the cost benefit analysis for the IFA and irrigation sub-components reveal that the proposed investments are viable, establishing a Financial Rate of Return (FRR) of 13 percent and 22 percent, and an Economic Rate of Return (ERR) of 27 percent and 26 percent,** respectively using a 5 percent discount rate. Based on a sensitivity analysis, these results are robust with respect to cost increases, benefit reductions and delays in realizing benefits. The Project will also have a positive effect on disposable household income. Irrigation and IFA components will raise employment opportunities and wage earnings with labor requirements increasing by 37 person-days and 8 person-days and wages by MWK 4,877 and MWK 3,666 per day, respectively. The household farm income would also significantly increase by about MWK 233,610 and MWK 27,496 per household for irrigation and IFA, respectively. Annex 4 presents the findings of the detailed project economic analysis.

B. Technical

81. **The Project's technical appraisal confirmed the need for augmenting the country's food supplies** for vulnerable populations throughout the expected period of food shortages. This will require development partners including the Bank to provide financial support for maize purchases locally, regional and international for restocking the SGR and distributing to food insecure households as identified by the FIRP. Given the scarcity of maize across the regional market, it has been agreed to split resources provided for maize procurement between the WFP and the NFRA.

¹³ World Bank, *El Niño drought in SADC: Economic Impacts and Potential Mitigation Solutions*, June 2016.



82. **The allocation of resources to NFRA will allow it to purchase some maize tonnage locally while WFP will purchase the maize mainly from regional and international sources** and distribute the maize to food insecure households. NFRA's purchasing will also benefit from the improvements brought about in maize procurement and mechanisms adopted under the ongoing MFERP, which include the independent verification of the quantity of maize received in the SGR and its subsequent distribution to disaster-affected people. The humanitarian procurement operation supported by NFRA, combined with implementation of findings of the SGR Management Modalities Study completed earlier this year, will be important in improving efficiency in maize procurement, storage and drawdown. At the same time, it is expected that the comparative advantage from WFP to manage large international logistics and procurement will ensure timely purchases and distribution of food to affected vulnerable households.

83. **Agreements reached with GoM over the Split of Local and International Procurement of Maize and its Distribution to beneficiaries.** Maize will be procured through the NFRA and the WFP, while distribution will be done for all maize by the WFP. Out of the US\$31.0 million earmarked for maize purchases, it has been formally confirmed by the Government (through a letter of August 29, 2016), that US\$7.5 million could be allocated to the NFRA to facilitate local procurement, while the rest of the resources (US\$23.5 million) could be allocated to the WFP for the international procurement of maize. The procurement and distribution of maize from international markets will be carried out through the WFP owing to its comparative advantage, expertise and strong capacity in tendering maize to be imported through international grain markets and in managing the logistical/operational challenges across contracting and delivery. It was further agreed that US\$19.0 million would be provided to WFP to support the distribution of maize to the affected beneficiaries, under the overall oversight and coordination of DODMA.

84. **Actions Required for Improving the Procurement, Management and Distribution of Maize.** The GoM is expected to complete and adopt the revised guidelines for the procurement, storage and drawdown of maize from the SGR and share with IDA an action plan for implementation of the recommendations in the SGR management modalities study. The PIU will continue to use and scale up the existing mechanisms of MFERP to monitor quantity and quality of the maize received into the storage facilities of the SGR and verify that such maize has been distributed to drought affected people through a receipt verification report. The drawdown of the maize from the SGR will follow existing modalities, where all quantities will have to be approved through SGR/Commercial Maize Marketing Committee. In addition, MoFEPD will take a lead role in devising and institutionalizing a project specific, rules-based maize procurement strategy that clearly defines the roles of specific actors, to make timely decisions on maize procurement, based on ongoing assessments of maize supply dynamics from international markets, local availability of maize and maize prices.

85. **Irrigation.** Treadle pumps are a common and well-tested mechanism for small-scale irrigation in Malawi's rural areas. Treadle pumps will be distributed to organized farmer groups who are also practicing village savings and loan for the sustainability of the interventions. Treadle pumps (with a minimum suction of 5m, delivery pipe of 50m and capable of irrigating at least 0.3ha) will be installed on shallow ground water wells, and farmers will be trained in their proper use, including creating awareness on the need to avoid farming close to rivers/streams in order to reduce the risk of river bank degradation. Drip irrigation kits will be piloted in some areas in order to improve water use efficiency.



Solar pumps will be retrofitted on existing irrigation schemes to reduce operating costs. Solar pump-based irrigation is a proven technology for small scale irrigation, and is currently being promoted by GoM at a broader level as a forward looking developmental solution that is compatible with climate change adaptation and environmental conservation considerations.

86. **Rehabilitation of irrigation schemes will be based on a thorough engineering assessment and prioritization criteria** (to be agreed prior to implementation). Design and supervision will be through consultants with close backstopping from the Department of Irrigation and the PIU, while construction will be contracted to qualified contractors. Design and construction will follow existing MoAIWD technical guidelines on small irrigation systems. In order to strengthen the integrity of the catchments of the rivers feeding these irrigation schemes, the Department of Land Resources Conservation (DLRC) will implement catchment management activities mostly on soil erosion control in the critical hot spots of the catchments in order to reduce the silt load into these rivers. In addition, in-situ water harvesting technologies will also be implemented to assist in recharging the ground water.

87. **Water Supply.** The water supply interventions will be based on detailed assessments, including technical, geophysical surveys (for boreholes), complemented by local community knowledge of seasonal variations in stream/river flow conditions, since most of the surface sources are not gauged. Assessments will be carried in consultation with different stakeholders including water boards, communities and districts to (i) prioritize the interventions; (ii) allocate resources to the interventions and determine geographical scope; and (iii) define implementation modalities and schedules. Design and construction will follow existing MoAIWD technical guidelines for small community water supply systems and sanitation requirements. Design and supervision will be through third-party engineers with close backstopping from regional engineers and the PIU, while construction will be contracted to qualified contractors.

88. **Water Resources Management.** Rehabilitation of dams will be based on thorough engineering assessments. Design and construction will follow existing MoAIWD technical guidelines for small earth dams and water harvesting structures. Catchment rehabilitation and protection will follow a livelihoods-based approach as outlined in the National Catchment Management Guidelines recently adopted by MoAIWD (2015) spearheaded by DLRC which certifies compliance especially where smallholder farmers are involved. Design and supervision will be through third-party engineers with close backstopping from regional engineers and the PIU, while Project works will be contracted to qualified contractors.

C. Financial Management

89. **Financial management of the MDRRP will be centralized at the PIU.** Apart from its main secretariat in Lilongwe, the PIU has regional offices currently covering the 15 project districts under MFERP. An FM assessment was made to evaluate the adequacy of the PIU to handle FM requirements of the MDRRP in addition to existing operations of the MFERP. The specific objectives of the assessment were to determine whether: (i) the entity has adequate financial management arrangements in place to ensure the funds will be used for the purposes intended; (ii) the Project's financial reports will be prepared in an accurate, reliable and timely manner; (iii) the Project's assets will be safely guarded, and (d) the Project will be subjected to auditing arrangements acceptable to the Bank.



90. **The expansion of coverage of the activities from 15 districts to 24 districts will require more regional offices** in order for all districts to have acceptable FM arrangements in place. The additional financing activities will increase the volume of work in FM and consequently additional finance staff at the level of assistant FMS will be required at the secretariat in Lilongwe and also two additional staff at accounts assistant level at each outreach office in order to ensure timely processing and reporting.

91. **Funds flow will be as follows.** There will be one designated account for the project to be managed by the PIU. The PIU will also open Malawi Kwacha operating accounts at the secretariat and outreach/regional offices. The districts will also have exclusive operating accounts for the project. Funds will flow from the Bank to the Designated Account (DA) accounts then to the Kwacha operating accounts. Funds for district activities will go the project's outreach bank accounts except for districts' incremental costs funds requirements which will go to districts' operating accounts. Funds required for the purchase of maize by WFP will be transferred from the PIU bank account to WFP account or where direct transfers will be necessary the PIU will prepare withdrawal applications for direct transfer from the Bank to WFP account.

92. **Overall, the Financial Management assessment concluded that the MFERP PIU financial management arrangements meet the Bank's minimum requirements** under (1) Bank Directive: Financial Management Manual for World Bank Investment Project Financing Operations (Catalogue number OPCS5.05-DIR.01) Issued(Retrofitted): February 4, 2015 and effective from March 1, 2010 and (2) Bank Guidance: Reference Material-Financial Management in World Bank Investment Project Financing Operations (Catalogue Number OPCS5.05-Guid.02) Issued and effective February 24, 2015. The residual risk rating for the MDRRP is **Substantial** due to inherent risks in the Government's control environment.

93. **The Project will support retroactive financing up to the overall credit amount of US\$50 million** as governed by Bank policy (OP 10.00, Paragraph 12, revised July 1, 2016), including for Projects in Situations of Urgent Need of Assistance or Capacity Constraints. The retroactive financing option will apply only to the US\$50 million allocated to subcomponent 1.1 for meeting urgent food security needs. Usually, payments that the Borrower has made for a project out of its own resources before the date of the Legal Agreement are not eligible for financing under the loan. However, in some circumstances, to facilitate the prompt execution of Bank-financed projects, the World Bank allows retroactive financing; that is, the World Bank may reimburse the Borrower from the proceeds of the loan for payments that the Borrower has made before the date of the Legal Agreement for eligible expenditures¹⁴. As per the Memorandum, signed and dated on August 23, 2016, Bank Management has approved an exception to increase the retroactive financing limit from 40 percent (for Projects covered by paragraph 12 of OP10.00) to 56 percent due to the urgency of the food security crisis resulting from the ongoing drought in Malawi. Further details and conditions for retroactive financing are described in Annex 2.

¹⁴ As per BP 10, Paragraph 14, revised July 2016. **Retroactive Financing for Bank Loans.** If requested by the Borrower, the Bank may provide retroactive financing under a Bank Loan. Retroactive financing may only be provided when: (i) the activities financed by retroactive financing are related to the DOs and are included in the Project description; (ii) the payments are for items procured in accordance with the applicable Bank procurement rules; (iii) the total amount of retroactive financing is 20 percent or less of the Bank Loan amount (40 percent for Projects covered by paragraph 12 of OP10.00), noting that in extraordinary circumstances, Management may approve exceptions to this limit; and (iv) the payments are made by the Borrower not more than 12 months before the expected date of the signing of the legal agreements for the Bank Loan.



94. **The Project will also support expenditures related to food**, and as such, in accordance with OP/BP 10.00, a Memorandum dated August 19, 2016 was submitted to and approved by Bank Management for food commodities to be financed under the Grant.

D. Procurement

95. **Procurement under the proposed Project will be carried out in accordance with the requirements in the Procurement Regulations for Borrowers under Investment Project Financing (IPF).** Goods, Works, Non Consulting and Consulting Services dated July 1, 2016 and the provisions stipulated in the Financing Agreement and the Malawi Public Procurement Act (No. 8 of 2003).

96. **Open competitive approach to the market will be the preferred approach** as it provides all eligible bidders/proposers with timely and adequate information on project requirements, and provides equal opportunity to deliver the required goods or services.

97. For procurements involving National Procurement Procedures below the defined thresholds, national procurement systems will be used as defined by the Project Procurement Strategy for Development (PPSD).

98. **Procurement under the Project would be carried out and led by MoFEPD**, where the dedicated MFERP Project Implementation Unit is already housed and which will be expanded to cater to the additional procurement requirements of the MDRRP.

99. **As the Project will be using the IPF Guidelines, it is a mandatory requirement to prepare a PPCSD.** A draft PPCSD has been prepared by the Government and describes how procurement will support the development objectives of the Project and deliver Value for Money (VfM) under a risk based approach. The Bank core procurement principles of Value for Money, Economy, Integrity, and Fit for Purpose, Efficiency, Transparency and Fairness will be observed throughout the procurement process. A simplified draft PPCSD has been prepared, given its emergency nature and it provides the simplified procurement arrangements, consistent with the Bank's Core Procurement Principles. The draft PPCSD provides adequate justification for the selection methods in the Procurement Plan and the level of detail and analysis is proportional to the risk, value and complexity of procurements. As this is an Emergency Situation, the review and finalization of the PPCSD has been deferred to the project implementation phase.

100. **A draft Procurement Plan, which is an output of the PPCSD, has been prepared and agreed upon by the Bank and Government.** The draft Procurement Plan for the project outlines the procurement procedures to be used to plan and monitor implementation of investment activities. The draft plan details the activities to be carried out during the first 18 months reflecting the actual project implementation needs. As this is an Emergency situation, the Procurement Plan will be reviewed and finalized during the implementation stage, in accordance with paragraph 4.5 of the Procurement Regulations for IPF Borrowers, July 2016, Section IV.

Special Procurement Arrangements Sub-Component 1.1: Meeting Urgent Food Security Needs



101. **The project design allows for maize procurement using both NFRA and WFP.** Resources will be used (including through retroactive financing modality) to support NFRA in continued procurement of maize through local/nearby markets. Resources will also be available to WFP to support maize procurement from international markets, based on their comparative advantage in this area.

102. A system for monitoring the procurement modalities for the purchase of maize will be instituted by MoFEPD, building and improving upon the experience from MFERP.

Procurement of maize through the World Food Programme (WFP)

103. As per the procurement regulation for IPF, Section 6.48, when entering into a contract with a UN Agency, the Borrower shall use a standard form of agreement between the Borrower and the UN Agency or a case-specific template approved by the Bank. Since no standard form of agreement for WFP currently exists, the previously developed model tested in recent emergencies in the Africa region will be used.

104. As WFP is a co-signatory of the Fiduciary Principles Accord and Financial Management Framework Agreement, the Bank will be monitoring procurement and FM performance based on an annual review of WFP's external audit reports.

Procurement of maize through the National Food Reserve Agency (NFRA)

105. The Project will use NFRA for procurement of maize from local/nearby markets based on the past project experience of purchasing maize in response to the 2015 floods. This will also ensure smooth continuation of the procurement process and strengthen country systems to handle these types and magnitude of crises.

106. A Bank team comprised of senior agriculture and procurements specialists and the MFERP PIU conducted a thorough procurement and stocking capacity assessment of the NFRA. The team has concluded that in order to have sustainability in undertaking large maize procurements internationally, capacity of the NFRA will have to be enhanced through:

- a. training activities that build NFRA's capacity to handle international procurement of large volumes of maize; and
- b. setting up additional warehousing facilities in locations like Blantyre, Liwonde, Luchenza and Balaka.

107. **Frequency of Procurement Supervision and Review by the Bank.** The Bank normally carries out the implementation support mission on a semi-annual basis. Given the sensitivity and high visibility of this project, the frequency of Bank implementation support provided to the Government on procurement will be increased to trimestral during the first year of the project and after which it could be decreased based on the procurement performance of the project.



E. Social (including Safeguards)

108. **Application of Bank Safeguards Policies.** The reconstruction and scaling up of a majority of the affected irrigation schemes and water infrastructure, are to be carried out within the existing footprints and will not involve any new construction. However, based on rapid/current assessment, construction of some additional infrastructures may involve temporary or permanent displacement and therefore OP 4.12 is triggered.

109. **The Involuntary Resettlement policy is triggered due to foreseen low-to-medium civil works activities** (i.e. construction, reconstruction and rehabilitation of irrigation schemes, transmission pipelines, boreholes, deep ponds and etc.) that may require land for temporary or permanent usage. The land acquired for this purpose may lead to loss of assets, sources of income or means of livelihoods for some poor households, especially in rural communities, regardless of whether the project affected people (PAP) may need to move to another location. To ensure proper mitigation measures are set forth, especially at this very juncture where details of project footprint are still unknown, the Borrower will, using the existing RPF from MFERP prepare a Resettlement Policy Framework (RPF) to guide the preparation of site specific Resettlement Action Plans (RAP) once such details are known. Just as the ESMF and IPMP, the RPF will be fully consulted upon, reviewed by the project Social Safeguards Specialist, cleared by the RSA and publicly disclosed both in-country and InfoShop prior to project implementation.

F. Environment (including Safeguards)

110. **Safeguards Action Plan.** Based on a rapid assessment owing to the fact that the proposed Project is being prepared as an emergency operation triggered by a natural disaster event, an environmental category “B” has been assigned, and six social and environmental safeguards policies, OP/BP 4.01 (Environmental Assessment), OP/BP 4.04 (Natural Habitats), OP 4.09 (Pest Management), OP/BP 4.11 (Physical Cultural Resources) and OP/BP 4.12 (Involuntary Resettlement), OP/BP 4.37 (Safety of dams) have been triggered (Table 1). Recognizing the emergency nature of the proposed operation and the need for providing immediate assistance, while at the same time ensuring due diligence in managing potential environmental and social risks, a Safeguards Action Plan has been prepared (see Annex 2). The deferment of ESMF disclosure for the emergency project is linked to a legal covenant in the project Financing Agreement stating that the project will not be allowed to tender any civil works until the project ESMF has been disclosed publicly in-country and in the World Bank’s InfoShop. The ESMF and RPF will be prepared no later than one month after project effectiveness. In addition, upfront preparation of safeguard instruments (Environmental Management Plans (EMP) and RAP) for specific sub-projects will be required prior to bidding for such works.

111. **The sub-projects will be selected after a detailed/appropriate level of assessment**, including consultation with concerned key stakeholders. However, any activity/work having significant adverse, irreversible and long term impacts will be excluded from the scope of the project. The Safeguards Action Plan will indicate a list of activities that correspond to Category A projects and cannot be financed under this proposed operation.



112. **A comprehensive ESMF will be prepared in line with the Safeguards Action Plan.** Separate and detailed environmental and social management plans will be prepared to cover specific sub-projects to be implemented. The ESMF will clearly identify the following: (i) policy triggers for the project; (ii) screening criteria to be used for sub-project identification and selection; (iii) list out comprehensively a range of likely environmental and social impacts for the various types of works/activities envisaged under the project; (iv) applicable national/local policy and regulatory requirements; (v) measures to mitigate the identified environmental risks/issues; (vi) assessment of the institutional capacity of the implementing agency and measures for filling capacity gaps; and (vii) an estimate of the budget needed for the implementation of the ESMF and related instruments. The ESMF will also provide a list of activities that cannot be financed, and screen out activities that correspond to Category A projects, or that may trigger additional safeguards policies.

Table 1: Safeguard Policies Triggered by the Proposed Project

Safeguard Policies Triggered	Yes	No
Environmental Assessment (OP/BP 4.01)	X	
Natural Habitats (OP/BP 4.04)	X	
Forests (OP/BP 4.36)		X
Pest Management (OP 4.09)	X	
Physical Cultural Resources (OP/BP 4.11)	X	
Indigenous Peoples (OP/BP 4.10)		X
Involuntary Resettlement (OP/BP 4.12)	X	
Safety of Dams (OP/BP 4.37)	X	
Projects on International Waterways (OP/BP 7.50)		X
Projects in Disputed Areas (OP/BP 7.60)		X

G. Other Safeguard Policies (if applicable)

113. No other safeguard policies are triggered for the Project.

H. World Bank Grievance Redress

114. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's



Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.



VII. RESULTS FRAMEWORK AND MONITORING

Results Framework

COUNTRY : Malawi

Malawi Drought Recovery and Resilience Project

Project Development Objectives

The Project Development Objective is to “support the Government of Malawi to meet the immediate food security and livelihoods restoration needs of the communities affected by drought and promote recovery and resilience in key affected sectors”. In the event of a future eligible crisis or emergency, the Project may also be able to provide immediate recovery support to GoM through a proposed Contingent Emergency Response Component.

Project Development Objective Indicators

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
Name: Number of people with improved food access		Number	0.00	1600000.00	Quarterly	World Food Programme Progress Reports	PIU/DoDMA
of which number of females receiving improved food access		Number	0.00	800000.00	Quarterly	World Food Programme Progress Reports	PIU/DoDMA
Description: Number of individuals receiving the maize released for addressing immediate food security needs.							



Name: Number of households who received support to restore their livelihoods		Number	0.00	200000.00	Bi-Annual	PIU Progress Reports	PIU/Project Surveys through MoAIWD/ MLGRD/District Councils
Description: Number of households who received immediate livelihood support through the Input-for-Assets (IFA).							
Name: Number of households benefiting from agriculture inputs and/or livestock restocking		Number	0.00	160000.00	Bi-Annual	PIU Progress Reports	PIU/Project Surveys through MoAIWD/ MLGRD/District Councils
Description: Number of households benefiting from increased agriculture productivity and resilience, to be derived as direct beneficiaries from the following indicators: (i) sorghum/millet distributed, (ii) small stocks purchased and distributed, and (ii) cattle vaccinated.							
Name: Number of people benefiting from improved irrigation schemes		Number	0.00	18000.00	Bi-Annual	PIU Progress Reports	PIU/Project Surveys through MoAIWD/ MLGRD/District Councils
Description: Number of people benefiting from the strengthening of the irrigation sector, to be derived as direct beneficiaries of the following indicators: (i) treadle pumps distributed, and (ii) solar pumps installed.							
Name: Number of people benefiting from rehabilitated water supply schemes		Number	0.00	375000.00	Annual	PIU Progress Reports	PIU/MoAIWD(Water Supply) / MLGRD/District Councils



Description: Number of people benefiting from the rehabilitation and augmentation of critical water supply infrastructure, to be derived as direct beneficiaries from the number of existing boreholes rehabilitated to augment water supply in rural areas.

Name: Direct project beneficiaries	✓	Number	0.00	1600000.00	Annual	PIU Progress Reports, NFRA and WFP Reports	PIU/MoAIWD/DoDMA
Female beneficiaries	✓	Percentage	0.00	50.00	Annual	PIU Progress Reports	PIU/MoAIWD/DoDMA

Description: Direct beneficiaries are people or groups who directly derive benefits from an intervention (i.e., children who benefit from an immunization program; families that have a new piped water connection). Please note that this indicator requires supplemental information. Supplemental Value: Female beneficiaries (percentage). Based on the assessment and definition of direct project beneficiaries, specify what proportion of the direct project beneficiaries are female. This indicator is calculated as a percentage.

Intermediate Results Indicators

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
Name: Percentage of certified community schemes completed through IFA		Percentage	0.00	100.00	Quarterly	PIU Progress Reports	PIU/MoAIWD/MoLGRD/ District Councils
Description: Percentage of verified and certified community schemes completed under IFA. The indicator at the finalization of the project should equal 100%.							
Name: Percentage of beneficiaries that believe the		Percentage	0.00	75.00	Annual	Surveys	PIU/Others



IFA program effectively contributed to restore their livelihoods							
Description: Percentage of beneficiaries of component 1.2 that consider that the program has been effective in restoring their livelihoods affected by the drought. This indicator will be evaluated through a survey (questionnaire) to be delivered to a sample of the beneficiaries on annual basis. Sample will be selected to ensure representativity.							
Name: Quantity of fertilizer distributed		Metric ton	0.00	10000.00	Semi-Annual	PIU Progress Reports	PIU/DoDMA
Description: Metric tons of fertilizer provided to vulnerable households that have been affected by drought.							
Name: Quantity of maize purchased (NFRA and WFP combined)		Metric ton	0.00	91000.00	Monthly	NFRA and WFP Reports	PIU/MoAIWD
Description: Metric tons of maize purchased for addressing food security needs							
Name: Quantity of maize distributed		Metric ton	0.00	91000.00	Monthly	NFRA and WFP Reports	PIU/MoAIWD
Description: Metric tons of maize released for addressing immediate food security needs of the affected people. This indicator is a subset of the previous indicator (Quantity of maize purchased) and should have the same value at the end of the project.							
Name: Quantity of sorghum distributed		Metric ton	0.00	270.00	Semi-Annual	PIU Progress Report	DoDMA



Description: Metric tons of sorghum distributed to farmers based on agro-economic suitability and demand.							
Name: Quantity of millet distributed		Metric ton	0.00	90.00	Semi-Annual	PIU Progress Reports	DoDMA
Description: Metric tons of millet distributed to farmers based on agro-economic suitability and demand.							
Name: Number of small stocks purchased and distributed		Number	0.00	80000.00	Quarterly	PIU Progress Reports	PIU/MoAIWD(Livestock) /MoLGRD/ District Councils
Description: Number of small stock purchased and distributed to affected communities.							
Name: Number of cattle vaccinated		Number	0.00	30000.00	Quarterly	PIU Progress Reports	PIU/MoAIWD(Livestock) /MoLGRD/ District Councils
Description: Number of cattle vaccinated over a period of 3 years (particularly foot and mouth disease).							
Name: Number of treadle pumps distributed		Number	0.00	2250.00	Quarterly	PIU Progress Reports	PIU/MoAIWD (Irrigation)
Description: Number of treadle pumps distributed to affected population.PIU/MoAIWD (Irrigation)							



Name: Area covered by installed small-scale solar power drip and medium-scale solar pumps		Hectare(Ha)	0.00	675.00	Quarterly	PIU Progress Reports	PIU/MoAIWD (Irrigation)
Description: Hectares covered by the installation of small scale solar power drip kits and medium scale solar pumps and accessories to exploit groundwater resources as source of water for irrigation.							
Name: Number of existing boreholes rehabilitated		Number	0.00	1500.00	Quarterly	PIU Progress Reports	PIU/MoAIWD (Water Supply)
Description: Number of existing boreholes rehabilitated to augment water supply in rural areas							
Name: Number of small earth dams rehabilitated		Number	0.00	20.00	Quarterly	PIU Progress Reports	PIU/MoAIWD
Description: Number of small earth dams rehabilitated to augment water availability in the country as well as watershed.							
Name: Development and operationalization of system to communicate early warning information		Yes/No	N	Y	Annual	PIU Progress Reports	PIU/DoDMA
Description: This indicator will measure the development and operationalization of a system within the National Early Warning Unit in the Ministry of Agriculture, Irrigation and Water Development to ensure that the nation and international community is provided with advance information on food security prospects in the country through assessments of expected food production, cost of food commodities, food supplies and requirements. This is a binary indicator that takes a value of “Yes” or “No”. The							



operationalization of this system will be evidenced by the development and dissemination of new databases and reports on hydro climatic and food security information.

Name: Development of a coordinated contingency plan that defines early actions		Yes/No	N	Y	Annual	PIU Progress Report	PIU/DoDMA
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Description: This indicator measures the development of a coordinated contingency plan that could be used to establish the institutional and policy framework and supporting early action by connecting agriculture risk management, food security strategies, and disaster response

Name: Conclusion of a feasibility study on establishment of a contingency fund that could be used for early financing		Yes/No	N	Y	Annual	PIU Progress Reports	PIU/DoDMA
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Description: This indicator measures the completion of a feasibility study exploring mechanisms that could be used to establish a disaster contingency fund. The feasibility study will review issues related to objectives, structure, institutional location, financial characteristics, and operational design.

Name: Preparation of drought contingency plans for 5 water boards		Number	0.00	5.00	Annual	PIU Progress Reports	PIU/DoDMA
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Description: This indicator measures the preparation of drought contingency plans for all five water boards, including preparation of relevant operating procedures and triggering mechanisms to guide water restrictions during periods of drought. The numerator takes a value from 0 to 5, reflecting the number of water boards for which the preparation of drought contingency plans have been completed. The denominator takes a value of 5.

**Target Values****Project Development Objective Indicators**

Indicator Name	Baseline	End Target
Number of people with improved food access	0.00	1600000.00
Number of households who received support to restore their livelihoods	0.00	200000.00
Number of households benefiting from agriculture inputs and/or livestock restocking	0.00	160000.00
Number of people benefiting from improved irrigation schemes	0.00	18000.00
Number of people benefiting from rehabilitated water supply schemes	0.00	375000.00
Direct project beneficiaries	0.00	1600000.00
of which number of females receiving improved food access	0.00	800000.00
Female beneficiaries	0.00	50.00

Intermediate Results Indicators

Indicator Name	Baseline	End Target
Percentage of certified community schemes completed through IFA	0.00	100.00
Percentage of beneficiaries that believe the IFA program effectively contributed to restore their livelihoods	0.00	75.00



Quantity of fertilizer distributed	0.00	10000.00
Quantity of maize purchased (NFRA and WFP combined)	0.00	91000.00
Quantity of maize distributed	0.00	91000.00
Quantity of sorghum distributed	0.00	270.00
Quantity of millet distributed	0.00	90.00
Number of small stocks purchased and distributed	0.00	80000.00
Number of cattle vaccinated	0.00	30000.00
Number of treadle pumps distributed	0.00	2250.00
Area covered by installed small-scale solar power drip and medium-scale solar pumps	0.00	675.00
Number of existing boreholes rehabilitated	0.00	1500.00
Number of small earth dams rehabilitated	0.00	20.00
Development and operationalization of system to communicate early warning information	N	Y
Development of a coordinated contingency plan that defines early actions	N	Y
Conclusion of a feasibility study on establishment of a contingency fund that could be used for early financing	N	Y
Preparation of drought contingency plans for 5 water boards	0.00	5.00



ANNEX 1: DETAILED PROJECT DESCRIPTION

COUNTRY : Malawi

Malawi Drought Recovery and Resilience Project

Introduction and Summary

115. **The MDRRP responds to the government's request to support its immediate and medium term drought recovery needs and resilience building program.** The MDRRP proposes a balanced approach of: (i) addressing pressing food security needs; and (ii) supporting medium-term drought recovery and resilience building for sectors that have been most impacted and prioritized for livelihood recovery (agriculture, irrigation, water resources and water supply, and disaster risk reduction). The proposed project approach and design supports the Bank's ongoing dialogue with the GoM and development partners towards financing critical resource gaps in the food security sector in meeting the pressing food and nutritional needs of the severely drought-affected communities. Consistent with the Bank's mandate and comparative advantage, it also supports the request for resilience building activities to restore and promote sustainable livelihoods and strengthen the capacity of the Government in drought preparedness, risk reduction and mitigation.

116. **The MDRRP Project constitutes a set of multi-sectoral interventions designed to address the drought impact and resulting needs identified in both the FIRP and the PDNA.** It is in line with the GoM's Drought Recovery Strategy detailed in the PDNA, which adopts a people-centered approach to drought recovery with the vision of strengthening resilience of the population and promoting sustainable development. The MDRRP will support affected communities in the transitional recovery period and help build greater medium-term sustainability and longer-term drought resilience in the key affected sectors. The table below provides a summary of the four MDRRP components.

Project Components	Bank Financing (US\$M)
Component 1: Improving Food Security and Sustainable Livelihoods	80.0
Component 2: Enhancing Drought-Resilience and Preparedness	19.0
Component 3: Contingent Emergency Response Component	0.0
Component 4: Project Management	5.0
Total Costs	104.0

117. **It may be noted that the allocation and distribution of resources proposed under the MDRRP is commensurate and proportional to the distribution of impact and needs across and within sectors as determined under the PDNA.** Such 'impact and needs proportionality' will remain a key operational principle during project implementation as well, particularly in respect of project decisions on resource allocation within and across project components and sub-components, and within and across the drought-affected districts. It is also important to note that within the confines of the proposed project components, the Project will retain flexibility during the course of implementation to adjust and locally adapt the proposed interventions and sub-projects, as well as retain the space for reallocating funds across the sub-components and sub-projects within the various project components.



Component 1: Improving Food Security and Sustainable Livelihoods – SDR57.4 million (US\$80 million equivalent)

118. This component includes: (i) delivery of immediate food support to meet the critical needs of the populations affected by the drought; (ii) restoration of livelihoods for the predominantly agricultural community and households in drought-affected areas through input-for-asset interventions; (iii) upscale and enhancement of agriculture productivity by promoting drought-resistant crops and livestock production; and (iv) increase in irrigated land and enhancing farmer's capacity to cope with drought.

Sub-Component 1.1: Meeting urgent food security needs – US\$50 million

119. **Summary of Drought Impact on Food Security.** The 2014/15 flooding, followed by this 2015/16 drought has severely affected food production and food security in the country. The annual food security assessment conducted in May 2016 by the Malawi Vulnerability Assessment Committee (MVAC) estimates that a minimum of 6.5 million people (or 39 percent of the country's projected population of 16.8 million) will not be able to meet their annual food requirements during the 2016/2017 consumption period. This represents an increase of 129 percent from 2.8 million people assisted during the last 2015/16 response and will be the largest humanitarian response in the country's history. This follows a 14 percent drop in maize production in 2016 over last year following a second bad season of El Nino induced drought that left a maize production deficit of approximately 728,000 MT. In response to the current situation and in preparation for the 2016-2017 lean season, a FIRP has been prepared which estimates that from July 2016 to March 2017, 261,666MT of maize and associated costs are needed to respond to the food crisis, which amounts to US\$233.8 million. As of August, 2016, a food security financial gap analysis has identified a funding gap of US\$54.8 million, which includes a priority provisioning of 62,666 MT of maize.

120. **Sub-component description.** This sub-component will contribute towards meeting the critical food needs of drought affected populations by financing the procurement and distribution of maize. As agreed with the Government, the US\$50 million allocated for food security needs will be split into: (i) US\$7.5 million for financing the domestic procurement of maize (approximately 21,000MT) through the NFRA; and (ii) US\$42.5 million for financing the international procurement of maize (approximately 70,000MT) and the corresponding distribution of maize through the WFP.

121. **Approval of Request to Finance Food Expenditure and Retroactive Financing.** In accordance with OP/BP 10.00 and the *Instructions: Preparation of Investment Project Financing: Situations of Urgent Need of Assistance or Capacity Constraints ("Other Instructions: Selected Expenditures Proposed to be Financed under the Loan - (3) Food Expenditures, Page 24)*, a Memorandum dated August 19, 2016 was submitted to and approved by Management to request that expenditures related to food be financed under the Grant. Additionally, as approved in the Memorandum, signed and dated on August 23, 2016, the project will support retroactive financing up to US\$50.0 million, as governed by Bank policy. Retroactive financing will specifically be utilized to extend urgent support to the GoM to purchase and distribute maize to meet the pressing food and nutritional needs.

122. **Procurement and Channeling of funds.** All food would be procured in accordance with World Bank Procurement Regulations for IPF Borrowers: Procurement in Situations of Urgent need of



Assistance or Capacity Constraints effective from 1 July 2016. To ensure transparency in the procurement of the maize, Bank-compliant procurement practices successfully utilized for maize purchases under the ongoing MFERP will be applied by the Government for maize purchases under MDRRP. The maize procurement mechanism will depend on the grain markets, and include flexibility to fully utilize availability from the local markets and then go to the international markets. Procurement from local (regional) markets will be done through the NFRA, and based on their comparative advantage, procurement from international markets will be done through the WFP. The drawdown of the maize from the SGR will follow existing modalities, where all quantities will have to be approved through SGR/Commercial Maize Marketing Committee. WFP will support the distribution of the food commodities to the affected beneficiaries. The DoDMA will coordinate the humanitarian operations in line with its mandate. The PIU will continue to use and scale up the existing mechanisms of MFERP to monitor quantity and quality of the maize received into the storage facilities of the SGR and verify that such maize has been distributed to drought affected people through a receipt verification report.

Sub-Component 1.2: Improving Livelihoods and Building Resilience through Input Distribution – US\$15 million

123. **Summary of Impact of Drought on Livelihoods.** Based on the 2016 PDNA, crop production alone accounts for 83 percent of the losses (\$198.7 million) due to poor yields and production levels caused by moisture stress. This follows a further reduction in maize production by 14.7 percent (induced by drought) as compared to previous year which was already down by 30 percent over the proceeding normal year. Significant reduction in maize production has been observed across all the districts, with the highest recorded in Shire Valley Agricultural Development Division (SVADD) (63 percent), Machinga ADD (39 percent) and Blantyre ADD (29 percent). In view of these substantial agricultural losses and food price inflation, the component will support distribution of inputs (improved maize seeds and fertilizers) to vulnerable households, while promoting community assets.

124. **Sub-Component description.** This component will provide immediate livelihood support to vulnerable households that have been affected by drought through a scaling up of the ongoing IFA program under the MFERP. IFA provides farm inputs to beneficiaries for the upcoming season and other in-kind assistance, in return for their participation in labor-intensive community infrastructure repair schemes. The proposed Project will scale up the existing IFA schemes to address a new set of beneficiaries in 15 districts where IFA is currently underway and extend support to an additional nine districts affected by the drought. The sub-component will focus on providing improved seeds and fertilizer packages to about 200,000 households. In return, the key assets to be improved will include rural feeder roads, catchment management (of public in nature) and irrigation/infrastructure repairs. Such interventions will create jobs, while ensuring that farmers use the inputs to improve their food production and recover from the food crisis that has been induced by drought. The repair of rural feeder roads will also facilitate the distribution of food and other relief supplies to drought affected communities over a sustained period.

125. **This sub-component will target 200,000 households (19 percent of food secure individuals identified in the MVAC) with inputs.** The inputs will comprise approximately 10,000 MT fertilizers and 2000 MT of hybrid maize seeds which will be distributed to farmers under rain-fed and irrigated maize production. The inputs will be procured by the PIU through competitive tender by private sector to



source and transport the inputs to beneficiary access points. This will enable beneficiaries to meet their immediate needs, and in return households will participate in labor-intensive community development work (assets) like maintenance of rural feeder roads, irrigation schemes, catchment management (public in nature), re-forestation (tree planting on a community land, etc.), to be appropriately prioritized through the district councils. Such asset creation had been proposed through the PDNA to support efforts towards mitigating effects of drought while providing employment to the vulnerable households. Upon the completion of the asset, each beneficiary will receive a voucher for seed and fertilizer valued at US\$52. This activity supports and complements the MOAIWD's FISP that helps farmers with subsidized inputs that can be accessed using coupons.

Sub-Component 1.3: Increasing Agriculture Productivity and Resilience – US\$3 million

126. **Summary of Losses in Agriculture Sector.** According to the estimates from the PDNA, agriculture is the hardest hit sector that has experienced the largest economic impact due to a significant loss in crop production. Agriculture, which accounts for nearly 30 percent of Malawi's GDP, has suffered estimated losses of up to US\$ 240.7 million across rain-fed crops and livestock.

127. **Crop production alone accounts for 83 percent of these losses (US\$ 198.7 million) due to poor yields and production levels caused by moisture stress.** Cereals (maize, rice, sorghum, and millet) accounted for nearly 60 percent of all crop losses, followed by 39 percent incurred by cash crops (tobacco, groundnuts, cotton and chilies). As a supply shock to Malawi's predominately agrarian economy, the drought drove up food prices notably for maize resulting in food price inflation. The overall inflation is expected to remain high during 2016, mainly driven by food price inflation.

128. **Dry spells have led to the distress sale of livestock by farmers as a coping mechanism in order to access food.** More animals have been sent to the market for slaughter than breeding, depleting the livestock national herd. This has largely affected the value of livestock on the market, incurring losses up to an estimated US\$47 million. This includes US\$15.7 million in anticipated damages, i.e. death of animals due to poor conditions (increased emaciation, increased incidences of livestock diseases, and reduction in milk production due to inadequate feed availability and water).

Table 2: Summary of PDNA Estimated Losses and Needs in the Agriculture Sector

Agriculture	Losses		Needs	
	Estimated Cost (MWK)	Estimated Cost (US\$)	Estimated Cost (MWK)	Estimated Cost (US\$)
Crops	139,131,046,786	198,758,638	28,381,676,400	40,545,252
Fisheries	21,830,782,225	31,186,832	7,047,165,300	10,067,379
Livestock	7,550,547,900	10,783,990	369,299,700	527,571
Total	168,510,621,986	240,729,460	35,798,141,400	51,140,202

129. **Sub-component Description.** In view of these substantial agricultural losses, the PDNA agriculture recovery strategy recommends uplifting the national and household level food availability and building greater drought resilience for smallholder farmers. This sub-component will promote the growing of drought-resistant crops and livestock production. This would require increasing crop and



livestock production by utilizing available water resources, “climate-smart” agriculture, crop diversification, as well as exploring innovative financing mechanisms. In order to increase the capacity of farming households to cope with droughts, the MDRRP will focus on: (i) production and distribution of drought tolerant crops (sorghum and millet) to selected communities (US\$0.9 million); and (ii) restoring and enhancing livestock production of selected communities through provision of small stock and vaccination of animals against major diseases (US\$2.1 million).

- a. **Sub-component 1.3.1 Upscaling drought tolerant crops to selected communities through provision of planting materials (US\$0.9 million).** The project will finance the production of at least 270MT and 90 MT improved sorghum and millet foundation seeds respectively through the MoAIWD’s Department of Research Services. These seeds will be distributed to community farmer groups (at least 90,000 households) based on agro-economic suitability and demand and link them to community seed banks to promote sustainable production of such improved drought tolerant crops in order to strengthen their resilience. The targeted beneficiaries will be trained on seed production, crop production and utilization of the targeted crops.
- b. **Sub-component 1.3.2 Restoring and enhancing livestock production of selected communities through provision of small stock and vaccination (US\$2.1 million).** The project will finance the procurement of livestock vaccination by the Department of Animal Health and Livestock Development (DAHLD) in MoAIWD, to vaccinate over 30,000 cattle over the next three years. The project will also finance the procurement of 80,000 small livestock (goats) through government or government contracting of NGOs by inviting competitive bids. Small livestock will be distributed to approximately 40,000 households in selected districts affected by drought in the first year through ‘pass-on’ arrangements in order to ensure sustainability. Additional 60,000 households will benefit from this activity over the next three years due to a multiplier effect.

Sub-Component 1.4: Climate Smart Irrigation – US\$12.0 million

Summary of Impact of Drought on Irrigation. The effects of the drought on the irrigation sector center around the losses of production and increases in costs associated with irrigated crops. The 2015-16 drought has led to losses in irrigated crops amounting to US\$31.9 million. Due to drought, production has been possible for one irrigation cycle rather than two/three in normal years. Furthermore, there have been increased production costs due to increase in pumping requirements, digging of new shallow wells, changes in water abstraction points and losses due to crop failure.



Table 3: Summary of PDNA Estimated Losses in Irrigation Sector

Id No.	Description	Northern Region (MKW)	Central Region (MKW)	Southern Region (MKW)	Estimated Cost (MKW)	Estimated Cost (US\$)
1	Loss of production (Maize)	1,613,959,875	6,709,585,410	10,190,666,970	18,514,212, 255	26,448,874.65
2	Loss of production (Rice)	0	1,828,085,310	1,716,928,898	3,545,014,207.50	5,064,306.01
3	Loss due to increased production					
	Due to increase in pumping	3,336,000	15,012,000	21,684,000	40,032,000.00	57,188.57
	Due to digging of new shallow wells	13,200,000	25,119,857	39,275,528	77,595,385.31	110,850.55
	Due to change of intake position	1,992,000	8,964,000	12,948,000	23,904,000.00	34,148.57
4	Loss due to crop failure	9,380,000	42,210,000	60,970,000	112,560,000.00	160,800.00
Total Loss		1,641,867,875	8,628,976,577	12,042,473,395	22,313,317,847	31,876,168.35

130. **Sub-component description.** This component will support the restoration, enhancement and improvement of critical irrigation schemes in order to boost agriculture production and efficient use of water. These will include: (i) restoration of irrigable land of 1000 ha in selected 12 districts and increase in efficiencies of water diversion, conveyance and water application; (ii) installation of small scale solar powered irrigation drip kits and accessories in 75 ha in 10 districts; (iii) installation of medium scale solar pumps and accessories in 600 ha in seven districts; (iv) procurement and distribution of 2250 treadle pumps in nine districts; (v) technical assistance for feasibility studies, engineering design and construction supervision, as well as capacity building of farmers for sustainable utilization and management of irrigation schemes and infrastructure in all 24 drought affected districts; and (vi) technical support in the implementation of the catchment management activities for the catchments of the rivers feeding the targeted irrigation schemes following the National Catchment Guidelines.



Table 4: Summary of Irrigation Intervention: Target Beneficiaries and Area

Id No	Description	Targeted Number of Beneficiaries	Target Area (Ha)
1	Procurement and distribution of treadle pumps (2250)	11,250	600
2	Reconstruction of schemes	10,000	1000
3	Installation of solar powered drip kits	750	75
4	Installation of solar pumps for medium scale schemes	6000	600
5	Capacity building	5544	
6	Catchment management interventions of soil and water conservation	4800 (200 beneficiaries /district)	1,200 (minimum of 50 ha / district)

131. **To ensure sustainability of the irrigation interventions, the sector will target farmers that are well organized in groups and are willing to grow high value crops for value addition** and where possible, can engage in demand driven contract farming. Efforts will be made to link these groups to Village Savings and Loan groups. Female-headed households, Child-headed households, and HIV/AIDS infected and affected households will be specially targeted in the implementation of these activities. The Department of Irrigation will ensure that all preparatory work for swift implementation of activities is undertaken before individual sub-projects. Such work will involve: development of tender documents, development of a training program for staff and farmers, identification of VSLs that can be linked to the farmer groups, and development of technical specifications for solar pumps and drip systems. Integrated approaches will be promoted whereby irrigation investments can be implemented with other interventions such as water supply. Boreholes for irrigation can be used for domestic water supply as well as livestock use. The DLRC will, in support of these activities, also undertake preparatory activities which include delineation of hotspots in catchments of the rivers feeding the irrigation schemes and sensitization and training of staff and farmers on the activities to be implemented in order to protect the catchments. The irrigation sector interventions are targeting to restore about 2,800 ha of irrigated land targeting about 28,000 beneficiaries as shown in the Table above.

Component 2: Enhancing Drought-Resilience and Preparedness – SDR13.6 million (US\$19 million equivalent)

132. This component will finance the rehabilitation and augmentation of selected critical water infrastructure, as well as improvement in water resources catchment management. It will also finance technical assistance to DoDMA for strengthening country's drought resilience. Specific activities to be supported are categorized in the following sub-components:

Sub-Component 2.1: Rehabilitating and Augmenting Critical Water Supply Infrastructure – US\$9 million



133. **Summary of Impact of Drought on Water Supply Sector.** Reduction in water availability and accessibility due to the drought has adversely impacted water supply sector. Damages to the sector have incurred as a result of dried up water supply sources (intakes), the need for relocation of the conveyance systems resulting from relocation of intakes and sources, drying up of some boreholes and vandalism to the water supply infrastructure due to struggle over scarce water sources. At the household level, economic activities have been disrupted as a result of family members spending long hours in search of water. Water service providers have incurred losses in revenue due to the reduction in the amount of water supplied to consumers. Furthermore, low water levels at intake points have affected the water quality, resulting in increased water treatment costs. Finally, scarcity of water has affected the sanitation and hygiene situation in the communities, especially in urban areas where use of water borne systems is prevalent. There is also an increased risk of water-borne diseases as households prioritize water for drinking purposes over water for personal hygiene.

134. Existing water supply infrastructure (boreholes, intakes etc.) have suffered damages which can be reasonably attributed to the drought. Damages have mainly occurred due to vandalism of water supply infrastructure such as pipelines by people frustrated by the non-availability of water. There are also reports of breakdown of water pumping equipment due to heavy turbid water as a result of lowering levels of water and drying up of boreholes and water intakes. In all, according to the estimates from the PDNA, drought has caused damages to the tune of US\$ 11.8 million.

Table 5: Distribution of Damages in Water Supply and Sanitation Infrastructure by Region

Description	Southern Districts	Central Districts	Northern Districts	Total (US\$)
Boreholes	5,419,357	4,326,214	606,500	10,352,071
Piped Water Supply Intake	265,000	57,357	14,357	336,714
Conveyance System	1,114,286	0	0	1,114,286
Total Damages	6,798,643	4,383,571	620,857	11,803,071

135. **Sub-component description.** This component will finance the rehabilitation and augmentation of critical water supply infrastructure in order to restore water services to drought-affected areas in the south (all districts), central (all districts) and northern (Rumphi and Mzimba) regions. This will include: (i) construction of around 60 improved surface water intake structures for existing rural piped water supply schemes; (ii) construction of approximately 30km new transmission pipelines to affected areas; (iii) rehabilitation of approximately 1,500 existing boreholes to augment water supply in rural areas; (iv) construction of around 35 emergency high-yielding boreholes to augment water supply to urban areas; (v) technical assistance for feasibility studies, engineering design and construction supervision of the above investments; and (vi) drought contingency planning for five water boards (Northern Region Water Board, Central Region Water Board, Lilongwe Water Board, Blantyre Water Board, Southern Region Water Board), including preparation of relevant operating procedures and triggering mechanisms to guide water restrictions during periods of drought.

136. Drought contingency plan consists of three stages: Stage 1: mild water shortage conditions; Stage 2: severe water shortage conditions; and Stage 3: critical water shortage conditions. Five water boards will establish a programmed response for each stage which would effectively reduce water



consumption to the available supply. The boards will also prepare for periodical provision of information about the contingency plan, including conditions under which water allocation is to be initiated or terminated and the district's policies and procedures for water allocation.

137. This sub-component will also provide support to strengthen community management structures for rural water supply (WUAs), through support to refresher training for existing WUAs, formation and training of new WUAs, and technical backstopping of WUAs by District team. Rehabilitation of the above water supply infrastructure will be undertaken with due consideration to sanitation standards and requirements.

Table 6: Summary of Intervention in Water Supply by Region

Description	Southern Districts	Central Districts	Northern Districts	Total Number	Total Cost (US\$)	Beneficiaries
water intake structures	20	17	3	60	450,000	1,440,000
construction of new transmission pipelines				30	2,250,000	
rehabilitation of existing boreholes				1500	1,800,00	375,000
construction of high-yielding boreholes				37	1,500,000	56,250
drought contingency planning for water boards	3	1	1	5	1,200,000	
Technical assistance for design and supervision					1,800,000	
Total					9,000,000	1,871,250

Sub-Component 2.2: Strengthening Water Resource and Catchment Management – US\$8 million

138. **Summary of Impact of Drought to Water Resource.** The 2015-16 drought conditions have severely stressed the water resource availability in the country, and the situation is likely to worsen. The impact of drought has enhanced the need of increasing water conserving in the country. Furthermore,



due to drought damage to dam embankments, both as a result of farmers encroaching the edge of reservoirs for cultivation purposes, and livestock attempting to access scarce water resources. Such activity has weakened the soil structure of embankments and lead to siltation. PDNA field assessments revealed that 35 dams across the Southern, Central and Northern districts of the country have experienced some level of damage. Increasing the availability of water resources is crucial for socio-economic growth, development and resilience building of the country. In addition, there is a need to enhance adaptive watershed management in the country, which restore and increase the forest cover in water catchment areas in the country through planting of trees, and implementing other soil and land management interventions.

139. **Sub-component description.** This sub-component will finance rehabilitation of critical and duly prioritized small earth dams and associated catchments, as well as construction of new water harvesting structures (excavated tanks) in order to augment water availability in the drought-affected areas. This will include: (i) rehabilitation of around 20 small earth dams; (ii) construction of around 28 water harvesting structures; (iii) water resource catchment rehabilitation and protection for selected hotspot areas; and (iv) technical assistance for feasibility studies, engineering design and construction supervision.

140. The above activities will complement similar water resources activities implemented under MFERP and SRBMP, and will follow the same implementation principles and approach.

Sub-component 2.3: Strengthening Drought Resilience (Technical Assistance) – US\$2 million

141. **Sub-component description.** As the drought is unfolding in Malawi, stakeholders have recognized that the current DRR system is under pressure and suffers from capacity gaps which make it difficult for the Government to manage and own a national response. This component will provide technical assistance to meet specific drought-related gaps which were identified through the Post-Disaster Needs Assessment. The activities identified below complement the existing MFERP and pipeline projects including the Additional Financing for the Strengthening Safety Net Systems Project (MASAF IV), the Resilience DPO, the Agricultural Commercialization Project, and technical assistance which is being used to draft and implement the Agriculture Risk Management Strategy. Complementary financing for sub-components (2.3.1), (2.3.2) and (2.3.3) is available through the EU/Africa, Caribbean and Pacific (ACP), Africa Disaster Risk Financing Initiative, a GFDRR/WB program implemented by GFDRR Labs, GSURR, and the Finance & Market's Disaster Risk Financing and Insurance Program.

142. **Sub-Component 2.3.1: Strengthening the ability to operationalize existing early warning tools.** This component will strengthen coordination across ministries and departments so that existing drought early warning systems (information systems, market monitoring systems, and risk models) are used to communicate warnings and make recommendations about mitigation measures that can be taken in the early stages of drought.

143. Early warning systems (information systems and risk models) have advanced in recent years but more focus is needed on (i) disseminating this information, particularly down to community level; and (ii) developing strategies for using this information to trigger early action. A specific focus of this activity will be strengthening the institutional policies and procedures that guide DODMA's and the National



Early Warning Unit in the MoAIWD to make use of this information as the production and harvest season unfold. The main activities will include: (i) Improving surveillance of climatic factors affecting food supplies; (ii) enhancing capacity in food security data generation, collection and analysis, and interpretation and dissemination of the analyzed data; (iii) expanding the number of people who receive security early warning alerts; (iv) improving data collection for the Malawi Food Balance Sheet, including a thorough analysis on possible inclusion of other commodities in the current balance sheet; (v) monitoring of market price and supply information, domestically and internationally; and (vi) identifying early actions that can be triggered by early warning at pre-defined time periods across the production season.

144. **Sub-Component 2.3.2: Strengthening the institutional and policy framework and supporting early action by connecting agriculture risk management, food security strategies, and disaster response.** This component will support an effort led by DoDMA and MoAIWD to draw on the experience of the current drought response, in particular the planning tools used by different actors and agencies, to develop a coordinated contingency plan that identifies, in a sequenced way, actions that can be taken at pre-defined time periods as drought is unfolding. It should use early warning information to set pre-defined triggers for action, and draw on the experience of neighboring countries (Kenya and Uganda) who are in a similar way looking to use data and information to shift forward action and response plans. A coordinated contingency planning process should be supported by operational policies and procedures that pre-define not only the substance but the dates of (i) critical thresholds and triggers; (ii) feasible early mitigation measures and actions; (iii) communication plans; and (iv) decisions needed.

145. **Sub-Component 2.3.3: Feasibility study on early financing through establishment of contingency fund.** This component will support a feasibility study exploring mechanisms that could be used to establish a disaster contingency fund. The feasibility study will review issues related to objectives, structure, institutional location, financial characteristics, and operational design. Since a number of countries in the region are exploring this issue at the same time (including Kenya, Mozambique, and Cabo Verde), this component will include support to connect with and share knowledge across the region.

146. **Sub-Component 2.3.4: Scaling up civil protection communities in eight drought-affected districts.** This component will support establishing and building capacity of district and community disaster risk management structures (civil protection committees) in eight districts¹⁵ affected by the drought but which are not yet being supported through other programmes. The component will also help to conduct multi-hazard risk assessment, including drought, support the development of contingency plans and mainstream DRR in District Development Plans in the eight districts. The component will also build the capacity of national and district level stakeholders in drought risk assessment and management.

Component 3: Contingent Emergency Response Component (CERC)– US\$0 million

147. This contingent emergency response component is included under the project in accordance with OP/BP 10.00, paragraphs 12, for situations of urgent need of assistance. This will allow for rapid

¹⁵ The districts are Ntchisi, Lilongwe, Dowa, Mwanza, Neno, Mzimba, Kasungu and Mchinji



reallocation of project proceeds in the event of a natural or man-made disaster or crisis that has caused or is likely to imminently cause a major adverse economic and/or social impact.

148. To trigger this component the Government needs to declare an emergency or provide a statement of fact justifying the request for the activation of the use of emergency funding. To allocate funds to this component the government may request the Bank to re-allocate project funds to support response and reconstruction.

149. If the World Bank Group agrees with the determination of the disaster, and associated response needs, this component would allow the government to request the Bank to re-categorize and reallocate financing from other project components to cover emergency response and recovery costs. This component could also be used to channel additional funds should they become available as a result of an emergency.

150. Disbursements would be made against a positive list of critical goods or the procurement of works, and consultant services required to support the immediate response and recovery needs. A specific Emergency Response Operations Manual will apply to this component, detailing financial management, procurement, safeguards and any other necessary implementation arrangements.

Component 4: Project Management – SDR3.6 million (US\$5 million equivalent)

151. This component will finance the following activities: (i) incremental operating costs of the PIU and the relevant line departments responsible for the implementation of various project components and subcomponents; (ii) technical designs for the reconstruction and rehabilitation of infrastructure included under various Project components; (iii) supervision quality control and contract management of reconstruction and rehabilitation sub-projects; and (iv) audit, studies and assessments required under various Project components.

Table 7: Overall Cost Summary for all Project Components

Activity	Estimate (US\$M)	Category
Component 1: Improving Food Security and Sustainable Livelihoods	80.00	
Sub-Component 1.1: Meeting Urgent Food Security Needs	50.00	
Local Procurement of maize (NFRA)	7.5	Goods
International Procurement of maize (WFP)	23.5	Goods
Distribution of maize to the affected communities (WFP)	19.0	Services (including Management fee)
Sub-Component 1.2: Improving Livelihoods and Building Resilience through Input Distribution	15.00	
Procurement of Materials	3.6	Goods and Minor Works
Procurement and Redemption of Inputs	8.4	Goods
Sub-Component 1.3: Increasing Agriculture Productivity and Resilience	3.00	



Upscaling drought tolerant crops	0.9	Goods
Livestock Production	2.1	Goods
Sub-Component 1.4: Climate Smart Irrigation	12.00	Works, Goods and Services
Rehabilitation of existing schemes	3.45	Works
Solar powered irrigation drip kits	0.84	Goods
Solar powered pumps and accessories	5.55	Goods
Treadle pumps	0.51	Goods
Technical assistance for feasibility studies, engineering design and construction supervision	0.90	Services
Capacity building of farmers for sustainable utilization and management of irrigation schemes and infrastructure in all 24 drought affected districts	0.75	Goods, Services, operating costs
Component 2: Enhancing Drought-Resilience and Preparedness	19.0	
Sub-Component 2.1: Rehabilitating and Augmenting Critical Water Supply Infrastructure	9.00	
Construction of water intakes	0.45	Works
Construction of new transmission pipelines	2.25	Works
Rehabilitation of existing boreholes for rural water supply	1.80	Works
Construction of high-yielding emergency boreholes for urban water supply	1.50	Works
Technical assistance for feasibility studies, engineering design and construction supervisions	1.80	Services
Technical assistance for Drought Contingency planning in five water boards, capacity building of WUAs	1.20	Services
Sub-Component 2.2: Strengthening Water Resource and Catchment Management	8.00	
Rehabilitation of 20 small earth dams	2.00	Works
Construction of 28 water harvesting structures (excavated tanks)	1.96	Works
Water Resource Catchment Protection for selected hotspot areas	2.2	Works, goods and services, operating costs
Technical assistance for feasibility studies, engineering design and construction supervision	1.84	Services
Sub-Component 2.3 Strengthening Drought Resilience	2.00	
Improve Food Security Early Warning System		Services
Early Financing		Services
Early Action		Services
Component 3: Contingent Emergency Response Component	0.0	
Operational Costs of Project Implementation unit		Works
Construction Supervision and Contract Management		Works
Quality Control and External Audits		Works



Project Studies and Assessments		Works
Component 4: Project Management	5.00	
Grand Total	104.00	



ANNEX 2: IMPLEMENTATION ARRANGEMENTS

COUNTRY : Malawi

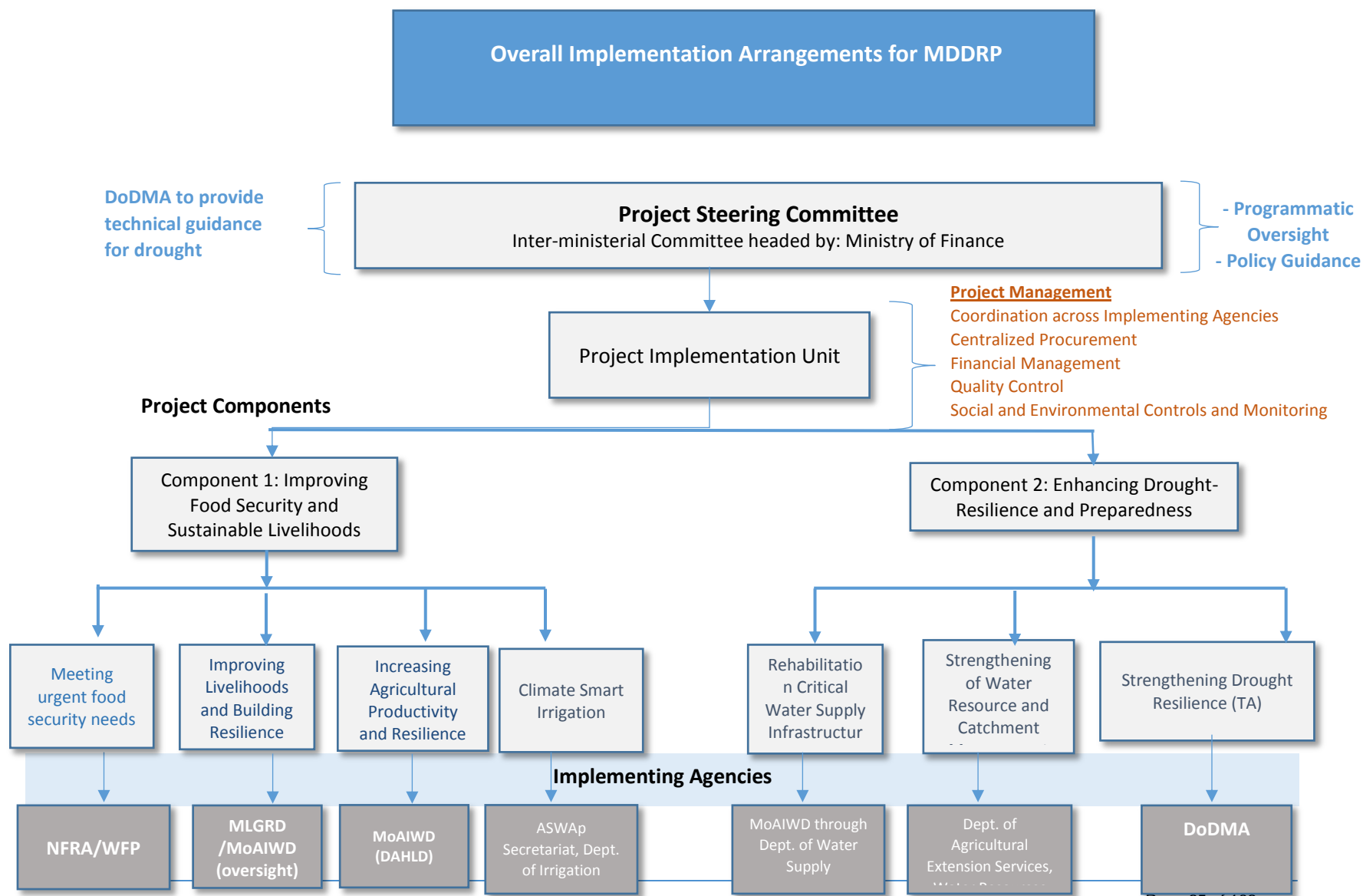
Malawi Drought Recovery and Resilience Project

Project Institutional and Implementation Arrangements

152. **Use of Existing MFERP Institutional Structures.** The proposed Project will benefit from the expertise and the existing implementation arrangements developed for the ongoing MFERP, which also supports a multi-sectoral disaster recovery. The overall implementation arrangements proposed and agreed with GoM for the MDRRP are summarized below, and detailed and illustrated in Annex 2. The GoM and the PIU will develop and maintain a detailed Project Implementation Manual (PIM) to specify the roles and responsibilities of various segments and tiers of the project's implementation apparatus as well lay out technical and operational decision making processes.

153. **Project Steering Committee (PSC).** The MDRRP will use a PSC as its apex decision-making body, utilizing and building upon the existing PSC in place for the MFERP. The PSC, chaired by the MoFEPD, would be composed of representatives from the MoFEPD, MoAIWD, MoLGRD and DoDMA. The Chief Executive Officers of NFRA, and relevant Water Boards would also be represented on the PSC. This committee would provide oversight for project implementation as well as central policy guidance as required on a periodic basis.

154. **Project Technical Committee (PTC).** The MoFEPD will chair the PTC. The MoAIWD would act as the lead technical agency for implementation and report to the MoFEPD. Further in order to ensure efficient and effective technical decision making and support to the Project, a dedicated MDRRP PTC will be established to provide technical guidance at both strategic and operational levels, as well as help resolve technical issues that are brought to its attention. The PTC will comprise of technical specialists and Directors/Department Heads from each implementing sector or agency. The PTC will also serve as the primary mechanism for ensuring the implementation of the inter-ministerial and inter-departmental coordination modalities. It will also manage the respective roles and responsibilities set out for the various implementing entities and departments as further specified in the PIM. The Project Technical Committee will report to the Project Steering Committee





155. **Project Implementation Unit (PIU) for MDRRP.** The existing PIU for the Bank-funded MFERP will be scaled up and its capacity augmented to take on the additional responsibility of providing implementation oversight for the MDRRP. However, there will be a clear bifurcation of decision making, implementation, fiduciary and safeguards management functions, roles and responsibilities of existing and additional PIU staff between MFERP and MDRRP. This could take the shape of a modified PIU structure with two Project Implementation Cells (PICs), one for the existing MFERP and the other for the new MDRRP. A National Coordinator will be appointed to supervise and support each Project Coordinator of MFERP and MDRRP. The enhanced PIU will focus on quality and process oversight, financial management, centralized procurement, inter-ministerial reporting arrangements, contract management, monitoring and evaluation and ensuring social and environmental safeguards compliance. Figure 1 illustrates the structure of proposed commonalities and bifurcation across MFERP & MDRRP implementation. The following table provides more specific details on the capacity enhancements proposed by the existing PIU to additionally manage MDRRP implementation as well as on how functional bifurcation will be maintained across the two projects.

156. **PIU capacity enhancement.** To achieve the above, the existing PIU will strengthen its capacity to oversee the implementation of the components and sub-components introduced under the MDRRP, with particular emphasis on building technical capacity for those sectors not previously covered under MFERP (related to agriculture, livestock and water supply). Similarly, the PIU will need to enhance its capacity to extend outreach to the 24 drought affected districts, of which nine are additional to what was previously covered under MFERP. The PIU will recruit a National Coordinator and an MDRRP Coordinator, as well as FM, M&E and Safeguards specialists for dedicated fiduciary responsibilities under the MDRRP, along with additional sector specialists for agriculture and public works. It will also establish an additional PIU regional structure in Kasungu to support implementation in Central districts. Additional administrative assistants will also be recruited to support the financial and procurement aspects of the project and for smooth conduct of operations at the regional office.



Figure 1: PROPOSED COMMONALITIES AND BIFURCATION ACROSS MFERP & MDRRP IMPLEMENTATION

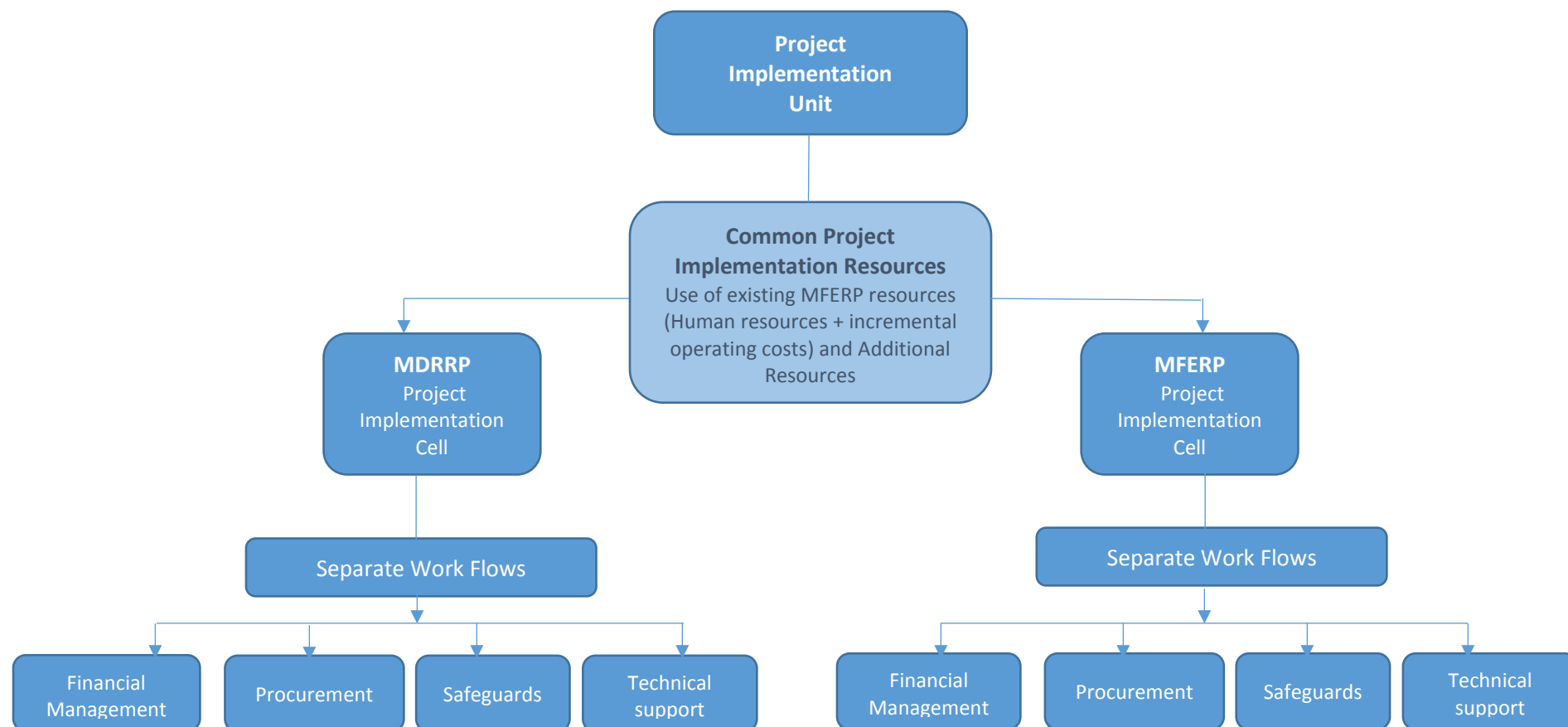




Table 8: Bifurcation¹⁶ of Roles and Responsibility Of MFERP PIU To Implement MDRRP

Consultant/ Officer	MFERP Functions	MDRRP Functions	Remarks
National Coordinator	Overall coordination of MFERP	Overall coordination of MDRRP	Overall leadership of the two projects and management interface between government and the Donor
MFERP Coordinator	Coordination of MFERP		Reporting to the National Coordinator ensuring results of MDRRP
MDRRP Coordinator		Coordination of MDRRP	Reporting to the National Coordinator ensuring results of MFERP
Finance Management Specialist	Full overall financial oversight of MFERP	Full overall financial oversight of MDRRP	Financial compliance and accountability of the two projects
M+E specialist	Full overall M+E oversight MDRRP	Full overall M+E oversight of MDRRP	Managing reporting and results framework
Procurement Specialist	Full overall Procurement oversight of MFERP	Full overall Procurement oversight of MDRRP	Preparation, coordination of implementation of Procurement Plan
Agriculture specialist		Full overall responsibility of agriculture support components of MDRRP	Coordination of component 1 of MDRRP
Disaster Management Specialist	Full overall DRM oversight of MFERP	Full overall RDM oversight of MDRRP	Ensuring separation but complimentary functions between the two projects
Senior Civil Engineer	Overall civil and Works oversight of MFERP	Overall civil and Works Coordination of MDRRP	Contract management
Social Safeguards Specialist	Full overall guidance and oversight of SS in MFERP	Full overall guidance and oversight of SS in MDRRP	Full compliance in both projects

¹⁶ Additional positions proposed to manage the implementation of MDRRP: National Coordinator, MDRRP Coordinator, Agriculture specialist, Assistant Financial Management Specialist, Assistant M&E specialist, Assistant Safeguards Specialist, Project Accountant, Civil Engineer, M&E and Public Works Coordinator, Administrative Assistant and additional support staff.



Communications Specialist	Overall communications responsibilities of MFERP	Overall communications responsibilities of MDRRP	Responsible for community sensitization of both projects
Assistant Procurement Specialist	Responsible for procurement MFERP		Supporting the Proc Specialist
Assistant Procurement Specialist		Responsible for all procurement in MDRRP	Supporting the Proc Specialist
Assistant FMS	Responsible for Financial management functions of MFERP		Supporting the overall Financial Management Specialist in MFERP
Assistant FMS		Responsible for Financial management functions of MDRRP	Supporting the overall Financial Mgt Specialist in MDRRP
Assistant M+E Specialist	Responsible for MFERP		Supporting the overall M+E Specialist
Assistant M+E Specialist		Responsible for MDRRP	Supporting the overall M+E Specialist
Assistant Safeguards Specialist		Responsible for safeguards in MDRRP	Located in Blantyre or Zomba Field Office
Project Accountants	Support responsibility of Assistant FMS in MFERP	Support responsibility of Assistant FMS in MDRRP	Located in the PIU office and regional offices of BT, ZA; one more to be added in Kasungu office
Civil engineer		Support works and rehabilitation works in a field office MDRRP	New positions located in Field Office
M+E and PW Coordinator		Coordinate M+E and IFA program in a field Office MDRRP	New positions located in Field Office
Civil engineer (Blantyre and Zomba)	Support works and rehabilitation works in a field office MFERP	Support works and rehabilitation works in a field office MDRRP	Existing regional field offices
M+E and PW Coordinator (Blantyre and Zomba)	Coordinate M+E and IFA program in a field Office MFERP	Coordinate M+E and IFA program in a field Office MDRRP	Existing regional field offices
Administrative Assistants	New	Support Implementation in the Regional field Offices (MDRRP)	Provide administrative functions to both projects
Support staff	New	Support Implementation in the Regional field Offices (MDRRP)	Provide administrative functions to both projects



Table 9: Allocation of Roles and Responsibilities for Implementation of MDRRP

Sector	PIU	Line Ministry/Department/ Institution
Meeting urgent food security needs MoAIWD & NFRA	<ul style="list-style-type: none"> ✓ Procurement guidance and oversight for maize purchase ✓ Finalizing procurement packages for maize purchase ✓ Seek Bank no-objections ✓ Prepare payment documents ✓ Certify delivery of maize to project beneficiaries through independent means ✓ Payment to maize suppliers ✓ Monitoring and reporting on distribution of maize 	<ul style="list-style-type: none"> • Identify procurement mechanisms and sources of Maize. • Advise on policy guidelines • Prepare work plans and budget for procurement and distribution of maize • Carry out procurement as per government procedures and under PIU oversight • Participate in procurement procedures • Advise on quality determination • Ensure delivery of Maize to the silos • Ensure transparent and proportionate distribution of maize to flood affected communities • Ensure all documentation to satisfy withdrawal conditions are in place • Verify the quality and quantity of Maize to the specifications
WFP (as a Specialized Supplier)	<ul style="list-style-type: none"> ✓ Seek Bank no-objections ✓ Prepare payment documents ✓ Certify delivery of maize and non-maize commodities to project beneficiaries through independent means ✓ Payment ✓ Follow up on distribution of maize 	<ul style="list-style-type: none"> • Prepare work plans and budget for procurement and distribution of maize • Distribution of maize and non-food items • Reporting • Verify the quality and quantity of Maize to the specifications
Livelihoods Support: MoAIWD	<ul style="list-style-type: none"> ✓ Work Planning and budgeting for IFA and other PWP ✓ Social safeguard Screening of sub projects ✓ Verification of subprojects ✓ Verification of beneficiaries ✓ Consultation with communities and districts ✓ Manage all Procurement processes for inputs ✓ Prepare Bid documents for inputs and submit them for no objections ✓ Certification of works and 	<ul style="list-style-type: none"> • Consultation with communities • Prepare Bill of Quantities • Identify supervising engineers • Supervise community procurement for local artisans • Supervise contractors • Certification of works • Distribution of inputs • Site supervision and technical quality



	<ul style="list-style-type: none"> ✓ payment of contractors ✓ Quality control ✓ Monitoring and reporting ✓ Coordination with stakeholders implementing IFA, CFW and Public Works Interventions 	
<p>Agriculture, and Animal Health</p> <p>MoAIWD</p>	<ul style="list-style-type: none"> ✓ Verification of beneficiaries ✓ Consultation with communities and districts ✓ Procurement procedures goods and works ✓ Prepare Bid documents for goods and services ✓ Certification of works and payment of contractors ✓ Quality control ✓ Monitoring and reporting 	<ul style="list-style-type: none"> • Work planning and Budgeting • Technical expertise and guidance • Preparing TORs for consultancy services • Providing specification for goods including vaccines • Preparation of bid documents and specifications for goods • Supervision & Technical Quality Assurance • Farmer training • Monitoring and evaluation and reporting
<p>Irrigation, Water Supply, Water and Resource Management:</p> <p>MoAIWD</p>	<ul style="list-style-type: none"> ✓ Quality and Process Oversight ✓ Procurement of contractors and supervision consultants ✓ Seek Bank no-objections ✓ Contract management oversight and controls ✓ Financial reporting ✓ Monitoring and evaluation ✓ Participate in Field Supervision through regional field offices ✓ Preparation of bid documents and specifications for goods ✓ Contract Management, in conjunction with supervising consultants who will also conduct certification and payment of works 	<ul style="list-style-type: none"> • Work planning and Budgeting • Identification of interventions and schemes including hot spots for catchment conservation • Preparation of TORS and designs • Participation in procurement of works and services • Site Supervision & Technical Quality Assurance • District Irrigation Engineers will assist in certification and payment of works. • Certification and Payment of works • Capacity building of farmers • Contract management
<p>Disaster Risk Management:</p> <p>DODMA</p>	<ul style="list-style-type: none"> ✓ Quality and Process Oversight ✓ Procurement of goods and services ✓ Seek Bank no-objections ✓ Contract management oversight and controls ✓ Financial reporting ✓ Monitoring and evaluation 	<ul style="list-style-type: none"> • Development and operationalization of Recovery Framework for Government's overall Recovery Program • Lead the prioritization process of all interventions • Coordinate with NFRA, WPF on distribution of food • Report on effectiveness of distribution and



	<ul style="list-style-type: none"> ✓ Certify progress reports ✓ Payment of consultants 	<p>achievements</p> <ul style="list-style-type: none"> • Design recommendations for how to make better use of early warning systems • Work with stakeholders to identify and define early actions. • MoFEPD to assist DoDMA with design and research of feasibility study on establishing a contingency fund. • Coordinate with other players in drought disaster resilience • Certify completion • Arrange and manage trainings/seminars/workshops
Social and Environmental Safeguards: Environment Affairs Department (EAD)	<ul style="list-style-type: none"> ✓ Development of Safeguard Policy Documents ESFM, RPF, IPMP ✓ Procurement of Consultants ✓ Payment of Consultants ✓ Disclosure of ESMPs and RAPs ✓ Certification of ESMP implementation ✓ Quality control ✓ Monitoring and reporting 	<ul style="list-style-type: none"> • Oversight on sector works planning and budgeting for Safeguards • Technical expertise and guidance • Preparing TORs for consultancy services • Providing specification for Consultants • Monitoring of ESIA and ESMP approval processes • Supervision and Technical Quality Assurance • Frontline staff capacity building • Monitoring and evaluation and reporting

Specific Implementation Arrangements for Component 1.2: Improving Livelihoods and Building Resilience through Input Distribution

157. **Approach.** This sub-component will broadly adopt the IFA approach that has been successfully implemented in Malawi for over the past 12 years, and currently being implemented by MFERP. The approach blends in elements of the MASAF with regard to cash-for-works elements. It has been designed as a hybrid between traditional farm input subsidy in Malawi and traditional public works programs. Customarily, participants work for one month (20 working days) on a community asset and, in return, receive a voucher for farm inputs with the objectives of reducing food insecurity and improving rural infrastructure and developing public assets. More specifically, the names of participants are listed in a community project roster, which is verified by the district and monitored by the PIU. Following the one month of work, the district verifies the completed scheme and provides the participant with a voucher. The PIU contracts a supplier, who goes to the communities and gives participants farm inputs in exchange for the voucher. The suppliers then submit the vouchers to the PIU for payment.

158. **Eligibility criteria.** The selection of specific infrastructure projects will be guided by the screening criteria, to include the key assets as described below. The PIU will update the guidelines for selecting assets to be included in the programme and sensitize all districts before implementation of the project. A harmonized approach will be used with that of existing MFERP, MASAF and other similar public works programs being implemented by other stakeholders. This harmonized approach will ensure



complementarity in asset creation, better spreading of the interventions in the affected communities and reduced contradiction in the implementation of public works programs. An Input for Assets manual that was developed by Ministry of Agriculture will be used to guide implementation. Assets to be targeted for IFA activities under the MDRRP will meet the following eligibility criteria:

- a. Repair and reconstruction of community assets or new assets that increase resilience to future droughts and flooding and that have wide public benefit. These could include rural feeder roads, catchment management, DRR structures (e.g. dykes, embankments) and small scale irrigation structures.
- b. The asset must address the priority needs of the majority of the community.
- c. The asset must render improved services to the beneficiaries and contribute toward poverty reduction.
- d. The asset must be suitable for reconstruction or rehabilitation using simple and appropriate labor-based methods that are gender sensitive.
- e. The size of the task must be suited to the available population within the work catchment.
- f. The unskilled labor proportion is at least 50 percent of the cost of the works.
- g. Assets for private use will be excluded.

District level

159. **Within the drought affected districts, the District Executive Committee will appoint a technical committee with staff drawn from technical services** within the respective district administration offices, such as Ministry of Agriculture (Department of Extension), public works, Departments of Irrigation and Forestry or Land resources. The selection of staff will depend on the assets being constructed or rehabilitated. The committee will oversee the technical appraisals, detailed costing and technical inputs during implementation. These activities may be contracted out to a qualifying NGO in districts where there are significant constraints on staff resources.

160. **If the proposed activity is considered to be viable, the lead technical unit will prepare the bill of quantities and work schedule.** The information will then be submitted to the PIU based in the district using pre-agreed formats for approval.

161. **An assessment of the technical feasibility of the proposed asset to be developed under the IFA program will be undertaken by staff from the relevant technical service,** including desk and field verification and the review of detailed costing submitted by district specialists. The appraisal will include confirmation of the community's commitment to constructing or rehabilitating the asset and ensure that it represents one of the priority interests of the majority of the affected population within the Project focal area, as priority will be placed on recovery from drought. The assessments are to be verified by Outreach Office staff from the PIU and ADDs where applicable.

Community Level:



162. **A Project Management Committee (PMC) will implement component activities in the targeted areas.** The members will be residents of the area and chosen for their leadership qualities. They need not be drawn from among the participants of the IFA program. However, the carrying out of activities will follow the IFA approach. The PMC will have at least ten members of whom at least 50 percent will be women. The holders of the principal positions must be numerate and literate. The membership of the PMC is voluntary and committee members will not receive remuneration. Keeping with the current practice in Malawi, village or group heads would not be members of the PMC. PMC members will be liable for de-selection if they do not follow the guidelines for selecting beneficiaries or procedures for distributing vouchers. The committee will (i) oversee the selection of workers using the relevant criteria; (ii) supervise the work; (iii) endorse the labor register for the preparation of voucher payments; and (iv) oversee the distribution of vouchers to workers.

163. **Once the component-specific activity tasks are quantified in detail, the number of local laborers required to complete the work within the given timeframe will be estimated.** People within the Project focal area will be informed about the nature of the work, duration, form of remuneration and criteria that will be used to select beneficiaries. If they are interested in being considered for such employment, they will be informed of where, when (time and date) and with whom (for example, the PMC) they may register their interest. The PMCs will prepare a list of qualifying laborers. A grievance redress mechanism is being developed under the MFERP, and will be used for this program as well.

164. **The responsibility for the overall execution of the tasks lies with the foremen/women, the workers' committee and the PMC.** Technical oversight will be provided by the district technical services, working closely with the PIU outreach offices. The work norms will conform to agreed standards. The system will also be flexible to accommodate short periods of workers' non-availability. Upon the completion of work, an asset management committee will be formed to take over formal responsibility for operating and maintaining the asset.

165. **The procurement procedure will follow established IFA processes with the District Technical Unit** securing quotations from suppliers and contractors and the District Project Officer overseeing the process.

Categorization of Schemes

166. The irrigation schemes to be rehabilitated under IFA will be categorized under the following categories, according to size [hectares (ha)]:

167. **Mini Irrigation Schemes – up to 10 ha.** Mini schemes are small in nature, and therefore, the work will involve small maintenance works to restore functionality of the schemes. In many cases, it is only the water intake that is made out of concrete and the rest of the field canals are earthen. In some cases, the intake, the main canal and distribution boxes are brick lined and the rest of the canals (secondary and tertiary) are earthen. Most of the works under IFA will therefore maintain the intake of the schemes to ensure that they properly function.



168. **Small-Scale Irrigation Schemes – from 10 ha to 20ha.** The small-scale irrigation schemes have substantial investments covering the intake, main canal and in many cases the secondary canals. Under the project, the focus will again be on the repair and maintenance of the irrigation schemes (as under mini-irrigation schemes). Since the Water Use Associations (WUAs) are already established in the schemes, the project will not provide additional interventions at this level, other than working with such existing structures to determine the works needed.

Financial Management

169. MDRRP FM will be centralized at the existing MFERP PIU which, apart from its main secretariat in Lilongwe, has two regional offices (with an additional regional office to be added for the MDRRP). An FM assessment was made to evaluate the adequacy of the PIU to handle FM requirements of the MDRRP in addition to existing operations of the MFERP. The specific objectives of the assessment were to determine whether: (i) the entity has adequate financial management arrangements in place to ensure the funds will be used for the purposes intended in an efficient and economical manner and also capable of correctly and completely recording all transactions and balances related to the Project; (ii) the Project's financial reports will be prepared in an accurate, reliable and timely manner; (iii) the Project's assets will be safely guarded; and (iv) the Project will be subjected to auditing arrangements acceptable to the Bank.

170. The PIU has just finalized the computerization of its accounting systems with a chart of accounts that can accommodate the requirements of the proposed Project. The PIU has vast experience in financial management for Bank-financed projects and has been producing required reports on time and correctly since the MFERP project started in June 2015. The project has a well-qualified FMS, and has just completed the recruitment of an equally qualified AFMS who is supported by two experienced Project Accountants. The project has two regional offices in Zomba and Blantyre that has a Project Accountant amongst its staffing, responsible for back stopping district councils in finance management and accounting issues.

171. To enhance the PIU's FM capacity because of the increase in coverage of the activities from 15 districts with MFERP alone to 24 districts with the inclusion of the proposed MDRRP project, an additional regional office will be required in order for all districts to have acceptable FM arrangements in place. Undertaking activities of the additional project, MDRRP, will increase the volume of work in FM and consequently additional finance staff at the level of assistant FMS will be required at the secretariat in Lilongwe and also two additional staff at accounts assistant level at each outreach office in order to ensure timely processing and reporting.

172. **Funds flow will be as follows.** There will be one designated account for the project to be managed by the PIU. The PIU will also open Malawi Kwacha operating accounts at the secretariat and outreach/regional offices. The districts will also have exclusive operating accounts for the project. Funds will flow from the Bank to the DA accounts then to the Kwacha operating accounts. Funds for district activities will go the project's outreach bank accounts except for the districts' incremental costs funds requirements which will go to districts' operating accounts. Funds required for the purchase of maize by WFP will be transferred from the PIU bank account to WFP account or, where direct transfers will be



necessary, the PIU will prepare withdrawal applications for direct transfer from the Bank to the WFP account.

173. **Overall the FM Assessment concluded that the PIU FM arrangements meet the Bank's minimum requirements** under (1) Bank Directive: Financial Management Manual for World Bank Investment Project Financing Operations (Catalogue number OPCS5.05-DIR.01) Issued (Retrofitted): February 4, 2015 and effective from March 1, 2010; and (2) Bank Guidance: Reference Material-Financial Management in World Bank Investment Project Financing Operations (Catalogue Number OPCS5.05-Guid.02) Issued and effective February 24, 2015. The residual risk rating for the MDRRP is **Substantial** due to inherent risks in government control environment.

174. **Budgeting arrangements.** The budgeting processes will be informed by the Project's annual work plans that will be based on the PAD as agreed upon between the Bank and the GoM. The PIU will manage the budget processes for the Project. The budget will be incorporated into the newly upgraded TOM2PRO accounting package used by the MFERP PIU that has introduced a better budgeting module in its upgrade.

175. **Accounting arrangements.** The computerized system used by the PIU has a chart of accounts that will capture Project components, sub-components, activities and disbursement categories. The new project will be configured in the existing accounting software. The detailed procedures and policies are being documented in the Project Finance Management and accounting manuals. The PIU outreach offices will manage operations funds for the districts and account for them to the PIU secretariat by means of liquidation reports. This is one major mitigation measure that will ensure funds are properly used and accounted for. This is based on the MFERP experience that when funds were sent directly to districts, there were delays of liquidation and lack of proper documentation to support use of funds. The outreach offices are already staffed with one accountant but with additional work due to the proposed project, it is recommended to recruit two accounts assistant for each outreach office and one assistant FMS at the secretariat to coordinate FM issues for the new project.

176. **Internal control and internal auditing arrangements.** The Internal audit function in the proposed project will be done by the internal audit unit within the MoFEPD. Internal control systems, policies and procedures will be maintained according to the existing manuals being used by MFERP. The manual will be updated to include aspects peculiar to the proposed project.

177. **Financial reporting arrangements.** The PIU will produce consolidated quarterly unaudited Interim Financial Reports (IFRs) for the project, reporting on all project sources and use of funds. The PIU will be responsible for the consolidation of any financial reports on the project including those arising from activities in districts and WFP. The districts and WFP will be providing periodic liquidation reports to the PIU detailing how resources are being used duly supported by appropriate documentation. The IFRs are to be produced on a quarterly basis and submitted to the Bank within 45 days after the end of the calendar quarter. The reporting requirements will be incorporated into the accounting packages to enable automatic generation of the IFRs. The IFRs submitted to the Bank will have the following minimum information:

- Statement of sources and uses of funds by category;
- Statement of uses of funds by Project activity/component.



- DA activity statement;
- Bank statements for both the designated and project accounts;
- Summary statement of DA expenditures for contracts subject to prior review; and
- Summary statement of DA expenditures not subject to prior review.

178. The PIU will also prepare the consolidated Project's annual audited accounts/financial statements or such otherwise as agreed to by the Bank. The Project will prepare its accounts in accordance with international public sector accounting standards. The accounts/financial statements will be comprised of:

- a) A statement of sources and uses of funds/cash receipts and payments, which recognizes all cash receipts, cash payments and cash balances controlled by the PIU and separately identifies payments by third parties on behalf of the entity.
- b) The adopted accounting policies and explanatory notes: The explanatory notes will be presented in a systematic manner with items on the statement of cash receipts and payments being cross referenced to any related information in the notes.
- c) A management assertion that Bank funds have been expended in accordance with the intended purposes as specified in the relevant Bank Legal Agreement.
- d) Auditing arrangements: the PIU and the Bank will agree on the Terms of Reference to be used for recruitment of either the National Audit Office or private sector external auditors. The audited financial statements will be submitted to the Bank within six months after the end of the fiscal year along with the management letter.

Disbursements

179. The project will use IFR based disbursement.

180. The total amount available to the Project is IDA Grant (Grant #D1440) of US\$104 million.

181. **Retroactive financing.** The project will support retroactive financing as governed by Bank policy (OP 10.00, Paragraph 12, revised July 1, 2016), including for Projects in Situations of Urgent Need of Assistance or Capacity Constraints.

- a) **Justification for Retroactive financing:** As a result of the ongoing 2015-16 drought, Malawi is likely to experience the worst food shock in a decade and has requested retroactive financing to meet its immediate food security needs. While the GoM has received contributions and pledges from various development partners to accommodate food requirements for the July to December 2016 period, the country is still facing a resource gap of over US\$54 million to address food needs from January to March 2017. Retroactive financing is therefore required in order to (i) meet the food needs from December 2016 - March 2017; (ii) allow enough time to procure, transport and pre-position food commodities in affected areas prior to the onset of rains in December; and (iii)



procure food commodities at a relatively lower cost by September, before commodity prices peak during the lean season.

b) **Eligible amount of retroactive financing:** The project will support retroactive financing for up to US\$50 million for component 1.1 – Meeting Urgent Food Security Needs. In light of the urgent and immediate need to procure and pre-position required food commodities to respond to the drought and food insecurity situation, and as per the Memorandum signed and dated on August 23, 2016, Management has approved an Exception to increase the retroactive financing limit from 40 percent (for Projects covered by paragraph 12 of OP10.00) up to 56 percent.

c) **Period of Retroactivity.** The date from which eligible expenditures can be covered under the retroactive financing for this project is September 30, 2016 (declaration of state of disaster by the GoM) up to the date of signature of the Financing Agreement.

d) **Eligible expenditures.** Activities related to the Project's Development Objectives and included in the Project Description of the Legal Agreement. The categories of Eligible Expenditures that may be financed out of the proceeds of the Financing are specified in the Legal Agreement.

e) **Farm input vouchers.** The workers (beneficiaries) conducting small public works under the project will be given vouchers by the PIU in exchange for their services completed and accepted by the PIU. The workers will exchange such vouchers from suppliers hired by the PIU in exchange for farm inputs (i.e. goods items acceptable to the association including fertilizers). The suppliers would then submit invoices, supported by physical redeemed vouchers, to the PIU in exchange for cash payments for the value of the vouchers (cost of goods provided). Value of the vouchers and the particular commodity against which they are redeemable will be specified in project operations manual.

f) **WFP management fees.** The MOU between WFP and the Government will specify how the twinning fees will be paid to WFP once the agreement is finalized. The frequency and documentation required for disbursements will be reflected in the operations manual upon conclusion of such agreement.

g) **Procurement rules.** Any contracts signed prior to project effectiveness which qualify for retroactive financing should follow the World Bank's "Procurement in Investment Project Financing and Other Operational Procurement Matters", which came into effect on July 1, 2016, and the provisions stipulated in the Legal Agreement. Additionally, from the list of the contracts the Government proposes to be considered for retroactive financing, the World Bank team will advise the Government which contracts will be subject to procurement prior review that the Bank team will conduct before confirming if the contracts have been procured in accordance with the Bank Guidelines and therefore are eligible for Bank financing. The rest of the contracts will be subject to procurement post review.

h) **Ineligible expenditures.** If the Bank determines that any amount of the Grant was used to pay for an expenditure that is not eligible pursuant to the Legal Agreement, the Bank requires the Borrower to refund an equivalent amount or, exceptionally, to provide substitute documentation for



other eligible expenditures. It is important to note that the borrower makes any payments in expectation of retroactive financing entirely at its discretion and without commitment on the part of the Bank to make a loan for the operation or to finance such payments.

182. Funds flow arrangements. Funds flow arrangements for the Project are as follows:

- a) The PIU will open at the secretariat level US\$DA and Malawi Kwacha operating account with a commercial bank acceptable to the Bank. The PIU will also open operating accounts for the project in outreach offices and districts. These accounts will be used for operations in the districts. While outreach bank accounts will be used for all operations in the districts except district operating costs, the district accounts will only be used for their incremental operating costs in the management of the project.
- b) The Project will prepare a six-month cash flow forecast based on agreed work plans then submit a withdrawal application request to the Bank (IDA) through MoFEPD. The six-month forecast will be revised quarterly and the resultant funds requirements will be used to replenish the DAs.
- c) Project expenditures can be paid from either the DA or Project account.

183. IDA disbursement methods

- a) **Special commitments and direct payments.** Special commitments using irrevocable letters of credit will be used as well as direct payments to suppliers for works, goods and services upon the Borrower's request.
- b) **Advances.** The Project will receive funds into the DA using the report based disbursement method. IDA will make the initial disbursement to the Project after receiving a withdrawal application with a six months cash flow forecast. This withdrawal application should be prepared within one month after project effectiveness. Thereafter, IDA will disburse into the respective DA based on quarterly IFRs, which would provide actual expenditures for the preceding quarter (three months) and cash flow projections for the next two quarters (six months). The IFR will be reviewed by the Bank's Financial Management Specialist (FMS) and approved by the Task Team Leader before the Bank's loan department processes the request for disbursement.
- c) **Reimbursements.** The Government can request a reimbursement in cases where Project activities have been pre-financed. Activities most likely to be eligible for retroactive financing include SGR restocking and the livelihoods restoration subcomponents of the Project, financed out of the Government's own resources prior to the date of signing this agreement as per section IV.B. (a) of the Grant agreement.

184. The IDA Disbursement Letter will contain details concerning the aforementioned disbursement arrangements. Based on the outcome of the FM risk assessment, the following implementation support plan is proposed. The objective of the implementation support plan is to ensure the project maintains a satisfactory financial management system throughout the project's life.



Implementation Support Plan

185. Based on the outcome of the FM risk assessment, the following implementation support plan is proposed. The objective of the implementation support plan is to ensure the project maintains a satisfactory financial management system throughout the project's life.

FM Activity	Frequency
Desk reviews	
Interim financial reports review	Quarterly
Audit report review of the program	Annually
Review of other relevant information such as interim internal control systems reports.	Continuous as they become available
On site visits	
Review of overall operation of the FM system	Every four months to districts on rotational basis and half yearly for secretariat head office (Implementation Support Mission)
Monitoring of actions taken on issues highlighted in audit reports, auditors' management letters, internal audit and other reports	As needed
Transaction reviews (if needed)	As needed
Capacity building support	
FM training sessions	During implementation and as and when needed.

186. Conclusion of the assessment: The conclusion of the assessment is that the financial management arrangements meet the Bank's minimum requirements under (1) Bank Directive: Financial Management Manual for World Bank Investment Project Financing Operations (Catalogue number OPCS5.05-DIR.01) Issued (Retrofitted): February 4, 2015 and effective from March 1, 2010; and (2) Bank Guidance: Reference Material-Financial Management in World Bank Investment Project Financing Operations (Catalogue Number OPCS5.05-Guid.02) Issues and effective February 24, 2015.

Procurement

187. Procurement under the proposed Project will be carried out in accordance with the **World Bank Guidelines, Procurement Regulations for Borrowers under Investment Project Financing: Goods, Works, Non Consulting and Consulting Services dated July 1, 2016 ("Procurement Regulations")** and the provisions stipulated in the Financing Agreement and the Malawi Public Procurement Act (No. 8 of 2003). As the project will be using the IPF, it is a mandatory requirement for the project to prepare a Project Procurement Strategy for Development (PPSD) which is a strategy to be prepared by the Government that describes how procurement in IPF operations supports the development objectives of



the project and deliver Value for Money (VfM). The Bank's core procurement principles of Value for Money, Economy, Integrity, and Fit for Purpose, Efficiency, Transparency and Fairness will be observed throughout the procurement process.

188. **An open competitive approach to the market will be the Bank's preferred approach** as it provides all eligible bidders/proposers with timely and adequate advertisement of project requirements, and provides equal opportunity to provide the required goods or services.

189. The use of World Bank Standard Procurement Documents for contracts under International Competitive Procurement and consultant's contracts involving international consultants beyond a threshold that will be defined in the Procurement Plan would be mandatory.

190. **For procurements involving National Procurement Procedures below the defined thresholds, national procurement systems will be used as defined by the PPSP.**

191. For each contract to be financed under the Project, the various procurement or consultant selection methods, the need for pre-qualification, estimated costs, prior review requirements, and time frame will be agreed between the Government and the Bank in the PPSP and Procurement Plan (PP). The PPSP and Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

192. Procurement under the Project would be carried out and led by the Ministry of Finance, Economic Planning and Development, where a dedicated Project Management Unit has already been established.

193. **Project Procurement Strategy for Development (PPSP).** The project has prepared a simplified draft PPSP as the project is of an emergency nature and simplified procurement arrangements are consistent with the Bank's Core Procurement Principles of value for money, economy, integrity, fit for purpose, efficiency, transparency and fairness. The PPSP addresses how procurement activities will support the development objectives of the project and deliver the best Value for Money under a risk based approach. The PPSP provides adequate justification for the selection methods in the Procurement Plan and the level of detail and analysis is proportional to the risk, value and complexity of procurements.

194. **The prepared draft PPSP and Procurement Plan** will be reviewed and finalized during the implementation stage, in accordance with paragraph 4.5 of the Procurement Regulations, July 2016, Section IV.

195. **Procurement Plan.** A Procurement Plan, which is the output of the PPSP, outlines the procurement procedures to be used and helps to plan and monitor implementation of investment activities, will be finalized and agreed upon by the Bank and Government. The draft Procurement Plan for the project has been prepared detailing the activities to be carried out during the first 18 months reflecting the actual project implementation needs. The plan will be completed during the implementation stage. The procurement plan provides (i) a brief description of the activities/ contracts for the goods, works, non -consulting services and/or services; (ii) the selection methods to be applied;



(iii) estimated cost of each individual contract; (iv) time schedules; (v) Bank review requirement; and (vi) any other relevant procurement information. For each contract to be financed under the project, different procurement methods, the estimated cost, prior review requirements and time frame will be agreed between the Borrower and the Bank. The Procurement Plan will be updated annually, or as needed throughout the duration of the implementation of the project, and implemented in a manner in which it has been agreed and approved by the Government and the Bank.

196. **Procurement Risk.** Based on previous experience, the Government implementing agencies have a good understanding of how the market functions in Malawi for general goods, construction and maize. There is open competition and no monopolies by individual bidders. Under civil works, prequalification is done by ensuring that only contractors registered with the Malawi National Construction Industry Council within a particular category are allowed to bid. Furthermore, the Government has knowledge in packaging of goods, services and civil works in economical packages to attract bidders who would normally not be interested in small non-economical packages. This attracts qualified bidders to offer good prices and complete contracts within a stipulated period resulting in value for money. The major risk is that the project will be using the New Procurement Guidelines, Investment in Project Financing, which will require major training by all project components in order to achieve the project objectives.

Special Procurement Arrangements for Maize under Component 1.1: *Meeting Urgent Food Security Needs*

197. **Maize Procurement.** Meeting urgent food security needs of the country due to prolonged drought and floods, which affected most parts of the country resulting in food shortage especially maize which is the country's staple food, is the first priority of the project. The project will support direct procurement of maize through the National Food Reserve Agency (NFRA) and the World Food Program (WFP), and operational costs for distributing maize to drought affected households.

198. The major problem is that there is limited stock of maize within Malawi and the region due to the drought which has affected Southern Africa and therefore the majority of maize has to be imported from outside the region.

199. Maize has to be quickly purchased within the September – November 2016 window when prices are favorable locally and in order that it can reach the intended beneficiaries before the onset of the rainy season which makes distribution very difficult. The success of this exercise will depend on efficient planning and management of contracts under NFRA and WFP for maize procurement.

200. The project design allows for maize procurement using both NFRA and WFP. Resources will be used (including through retroactive financing modality) to support NFRA in continued procurement of maize through local/nearby markets. Resources will also be available to WFP to support maize procurement from international markets, based on their comparative advantage in this area. WFP will manage tenders to the regional and international market. NFRA will procure maize within Malawi using open national competition, whilst WFP will procure maize using its own procedures which have been reviewed and found acceptable to the Bank and using standard contract templates that have been designed.



201. MoFEPD will take a lead role in devising and institutionalizing a project specific, rules-based maize procurement and import strategy that clearly defines the roles of specific actors, to make timely decisions on maize procurement, based on ongoing assessments of maize supply dynamics from international markets, local availability of maize and maize prices and future climatic and market uncertainties.

202. There are two different aspects of the New Procurement Framework that will be applied:

a) Maize procurement within the country using NFRA, paragraphs 6.15 and 6.18 of the Procurement Regulations, July 2016 will be applied as the NFRA has local experience in maize procurement in the country and has maize silos where the purchased maize can be stored. NFRA has successfully procured maize under the MFERP using national systems. The same approach will be used where NFRA will advertise in the local paper that it will require the determined quantity (in MT) of non GMO maize for human consumption and the maize will be delivered to its silos and warehouses at Kanengo in Lilongwe. Purchase of maize is on a first come basis where lines with loaded maize queue up to deliver the maize. The process involves weighing, inspection before a local purchase order is signed between NFRA and the vendor, and a goods received note is issued. Payment will be made to the vendor by the Project Implementation Unit within 48 hours.

b) Paragraph 6.47 of the Procurement Regulations, July 2016 will be applied in the procurement of maize using WFP due to its exceptionally qualified experience in circumstances of urgent need of food assistance. WFP will sign a contract with GoM using a standard form of agreement between the Borrower and the UN Agency or a case-specific template approved by the Bank. Based on the NFRA/WFP split, WFP will procure the determined amount of maize (in MT) which will be distributed to the drought/flood affected districts. The contract arrangement will also include transaction costs to be paid to WFP for overhead costs, procurement, transportation and distribution of the maize.

203. **A system for monitoring the procurement modalities for the purchase of maize** in a manner that maximizes procedural efficiency, transparency and accountability, will be instituted, building and improving upon the experience from the MFERP.

204. **Procurement Capacity Enhancement of the NFRA.** A Bank team comprised of senior agriculture and procurements specialists and the MFERP PIU conducted a thorough procurement and stocking capacity assessment of the NFRA. The team has concluded that in order to have sustainability in undertaking large maize procurements internationally, capacity of the NFRA will have to be enhanced through:

a) training activities that build NFRA's capacity to handle international procurement of large volumes of maize; and

b) setting up additional warehousing in locations like Blantyre, Liwonde, Luchenza and Balaka.

205. **The task team and Bank project will provide both immediate and medium term support on maize procurement** through local procurement/logistics specialists to ensure that: (i) the tenders issued by NFRA are written in such a way that commercial sector actors can/will respond; (ii) a list of pre-qualified suppliers is drawn up, to ensure that firms participating in the tender have the capacity to



manage the import process; and (iii) agreement is reached with Government to identify a mechanism that will provide grain trading companies with confidence that they will be paid.

206. **Assessment of PIU.** As the project will be using the current MFERP PIU, there is low risk as it has performed adequately as it followed both Bank and Government procurement procedures for award of contracts. Contract management as well as record keeping has been generally good and there has been no misprocurement declared. However, since the project is embarking on a new project with new activities, the capacity of the PIU should be increased with extra procurement staff in order to avoid serious delays of implementation and production of poor quality documents. It is further recommended that due to increased workload, increased technical staff appropriate for the various project components should also be hired as Technical Assistance to support the project.

207. **Risk of Fraud and Corruption.** Fraud and corruption and financial mis-management are rife in Malawi and due to the use of simplified procurement procedures as per OP 11.00 for this project, there is an increased risk of fraud and corruption, in particular with regard to the abuse of simplified procurement procedures because contractual terms and conditions may not be observed or applied.

208. **Due to the risks noted, the following mitigation measures are proposed:** (i) training on World Bank procurement procedures as the project will be using the New Procurement Regulations and Strategic Tracking of Emails in Procurement (STEP); (ii) attending short procurement courses within the region at a later stage by key personnel handling procurement; (iii) strengthening of the complaint handling mechanism; and (iv) post review by the Bank as per the risk rating. Upon the application of the proposed mitigation measures, the residual risk is still rated as Substantial.

Table 10: Procurement Risk and Mitigation measures

Risk Factor	Initial Risk	Mitigation Measure	Residual Risk
Record keeping and documentation	Moderate	<ul style="list-style-type: none"> All implementing agencies will maintain all procurement records duly catalogued and indexed that will facilitate easy access to information 	Low
Fiduciary Risk relating to main principles of the Bank Procurement Guidelines	High	<ul style="list-style-type: none"> Experienced procurement staff/consultant shall be positioned to guide implementing agencies Attend training in Bank procurement procedures Conduct training on new Bank procurement procedures Regular supervision support and monitoring 	Substantial
Inefficiencies and delays in procurement process	High	<ul style="list-style-type: none"> Regular monitoring through procurement plan. 	Substantial
Insufficient competition in procurement	High	<ul style="list-style-type: none"> Aggregation of smaller contract packages wherever feasible 	Substantial



Risk Factor	Initial Risk	Mitigation Measure	Residual Risk
Contract Management	High	<ul style="list-style-type: none"> Disclosure of all contract awards in UNDB Magazine for prior contracts and post review contracts in local newspapers and website of Office of Director of Public Procurement 	Substantial
Probability of staff handling procurements being transferred	High	<ul style="list-style-type: none"> Continue dialogue with Government to retain trained staff 	Substantial
Fraud and corruption risks [including collusion and outside interference] in contracting process	High	<ul style="list-style-type: none"> Disclosure of procurement plan Disclosure of contract awards Creating awareness on effects of fraud and corruption Regular reviews such as PPR, internal Audit, external audit etc. 	Substantial
Weak complaint redress system	High	<ul style="list-style-type: none"> Disclosure of complaint redress procedure through Office of the Director of Public Procurement. Bi-annual report of all complaints received and action taken. 	Substantial
Overall Risk	High		Substantial

209. **Frequency of Procurement Supervision and Review by the Bank.** The Bank normally carries out the implementation support mission on a semi-annual basis. The frequency of Bank implementation support provided to the Government on procurement may be increased or decreased based on the procurement performance of the project.

210. **Review by the Bank.** The Bank will prior review the following contracts:

- Works: All contracts more than US\$7 million equivalent;
- Goods: All contracts more than US\$1 million equivalent;
- Non-Consulting Services: All contracts more than US\$1 million equivalent;
- Consultancy Services: All contracts more than US\$200,000 equivalent for firm and US\$300,000 for works supervision;
- Consultancy Services: All contracts more US\$100,000 equivalent for individuals.
- All contracts to be issued on single-source or direct contracting basis will be subject to prior review. Prior review thresholds will be reviewed and modified based on project performance. In addition, the Bank will carry out an annual ex post procurement review of the procurement falling below the prior review threshold mentioned above.

211. **Post Review.** All contracts below the specified prior review threshold value shall be subject to Post Review and this will be undertaken one year after project effectiveness.

Environmental and Social (including safeguards)



212. **Application of Bank Safeguards Policies.** The reconstruction and scaling up of a majority of the affected irrigation schemes and water infrastructure, are to be carried out within the existing footprints and will not involve any new construction. **However, based on rapid/current assessment, construction of some additional infrastructures may involve temporary or permanent displacement and therefore OP 4.12 is triggered.**

213. **The Involuntary Resettlement policy is triggered due to foreseen low to medium civil works activities** (i.e. construction, reconstruction and rehabilitation of irrigation schemes, transmission pipelines, boreholes, deep ponds and etc.) that may require land for temporary or permanent usage. The land acquired for this purpose may lead to loss of assets, sources of income or means of livelihoods for some poor households, especially in rural communities, regardless of whether the project affected people (PAP) may need to move to another location. To ensure proper mitigation measures are set forth, especially at this very juncture where details of the project footprint are still unknown, the Borrower will, using the existing RPF from the MFERP, prepare an RPF to guide the preparation of site specific RAP once such details are known. Just as the ESMF and IPMP, the RPF will be fully consulted upon, reviewed by the project Social Safeguards Specialist, cleared by the RSA and publicly disclosed both in-country and InfoShop no later than one month after project effectiveness.

ENVIRONMENTAL AND SOCIAL SAFEGUARDS ACTION PLAN

214. **Retroactive financing for the Project only applies to Sub-component 1.1 – Meeting urgent food security needs.**

215. **The arrangements made under the existing Bank-financed MFERP currently under implementation can be used for the project, and the Environmental and Social Management Framework (ESMF) and Resettlement Policy Framework (RPF) will also be used as reference for the elaboration of safeguards instruments for the proposed MDRRP.** MFERP has been classified as an environmental assessment category B project and triggered safeguards policies OP 4.01 Environmental Assessment, OP 4.04 Natural Habitats, OP 4.09 Pest Management, OP 4.37 Safety of Dams, OP 4.11 Physical Cultural Resources and OP 4.12 Involuntary Resettlement. The Government has used harmonized safeguards instruments and trained district-level environmental staff on screening. Additionally, the Government will strengthen the existing safeguard team implementation unit within the PIU, which will manage environmental and social safeguards within the new Project's activities. The Government intends to use the local government systems in order to maximize the best practices from the systems. Potential environmental and socially adverse impacts have been identified and mitigation measures have been considered in readiness for implementation. The District Environmental Officer will be responsible for screening the proposed asset for land and resettlement issues and conduct environmental screening in line with the established procedures under the ESMF. Activities to be screened may include the construction or scaling up of irrigation schemes, transmission pipelines, etc. Project components that require land acquisition, compensation and resettlement of displaced persons will be reviewed under the framework for land acquisition and compensation, but should in principle be avoided.

216. **The components under MDRRP that would trigger environmental safeguard policies are:** Component 1: Improving Food Security and Sustainable Livelihoods (community public works) and



component 2: Enhancing Drought-Resilience and Preparedness. The four environmental safeguard policies that would be triggered are: (i) OP 4.01 Environmental Assessment; (ii) OP 4.09 Pest Management; (iii) OP 4.04 Natural Habitats; and (iv) OP 4.37 Safety of Dams. Initial evaluation of the scope of activities and potential scale of impacts from construction and rehabilitation activities have assigned the Project environmental category B. This category requires a partial assessment of impacts and, in line with safeguard requirements, an ESMF (including an Integrated Pesticide Management Plan) will be prepared by the Government. The ESMF will act as a guide to manage potential adverse impacts and consist of a set of methodologies, procedures and measures to facilitate adequate environmental management (risk management and impacts) related to the works financed under the project and whose specific location is unknown or may change during project implementation. It will (i) establish procedures for screening all proposed sub-projects for their potential adverse environmental and social impacts; (ii) specify measures for managing, mitigating and monitoring environmental impacts during project operation; and (iii) outline training and capacity-building arrangements needed to implement the ESMF provisions.

217. Project activities that would trigger environmental impacts include rehabilitation and construction works of irrigation schemes, water intake and drainage structures, transmission pipelines, and headwork of irrigation schemes. Construction related to negative environmental impacts would include clearance of trees, noise nuisance, soil erosion, dust emissions, solid and liquid wastes and pollution of surface and ground water resources among others. It is also important to recognize the practice of HIV/Aids prevention and sensitization on non-tolerance of inappropriate contacts with underage girls in communities to help ensure a healthy migrant labor force of contractors and communities for civil works during construction periods.

218. Negative environmental impacts from operations of irrigation schemes and other facilities may include the following: increase in water logging and salinization of land, increase in pests and diseases, conflict in use of water resources with upstream or downstream users and poor sanitation. In general the extent and significance of the negative impacts will be localized and could be managed with appropriate interventions during the planning and implementation of sub-projects.

219. In line with Environmental Assessment OP 4:01, the Government will prepare an ESMF to guide the mainstreaming of environmental planning for the Project. An ESMF provides screening procedures for typical anticipated environmental and social impacts for all Project activities and the preparation of an Environmental and Social Management Plan. The screening process has been prepared as part of the requirements of the OP 4.01 Environmental Assessment, and will complement the National Environmental Policy and Guidelines for Environmental Impact Assessment (EIA) in Malawi (1997) which requires environmental and social screening for developments projects.

220. Timeline of the Preparation of Safeguard Instruments. The ESMF, RPF and IPMP will be prepared no later than one month after project effectiveness. In addition, upfront preparation of safeguard instruments (EMP & RAP) for specific sub-projects will be required prior to bidding for such works.

221. The environmental and social screening process consists of four steps. (i) review of environmental and social impacts checklist for projects; (ii) screening of impacts from the sub-projects



and sites; (iii) assignment of environmental categories; and (iv) preparation, review and approval of an environmental action plan. The screening process will be carried out using a screening form to be attached in the ESMF. A District Environmental Sub-Committee under the supervision of the District Commissioner will carry out the environmental and social screening. OP 4.11 is also triggered and the ESMF will include a procedure for chance finds.

222. An Integrated Pesticide Management Plan will promote the use of biological or environmentally friendly control of pests on irrigation schemes and reduce reliance on synthetic chemical pesticides. The Integrated Pesticide Management Plan will also promote integrated approaches that ensure that the health and environmental hazards associated with the use of pesticides are minimized. The plan will also include safer guidelines for the use of recommended and environmentally friendly pesticides on Bank-funded rehabilitated irrigation schemes.

223. Environmental monitoring, evaluation and reporting on environmental and social management will be part of the project implementation process and local authority reporting system. During construction, contractors will keep records of all activities done on the Project site, which will be submitted to the District Council for consolidation. The District Lands Officers and District HIV/Aids Coordinators will be responsible for monitoring at the local level on a quarterly basis. Compliance with environmental and social screening will be generated from annual reports, evaluation reports and feedback meetings and implementation support missions.

224. Awareness on Environmental Mitigation Measures: The ESMF will also outline provisions for the awareness/orientation sessions for environmental and social training aimed at contractors of civil works, staff from respective implementing agencies and local councils. Appropriate training will cover areas such as: screening of projects, policy and legal framework on environment and construction, disposal of solid and liquid waste from premises, and measures to prevent the spread and contraction of HIV/Aids. Environmental and social rules for contractors will be incorporated within construction bids and contracts to enhance obligations on contractors.

Social

225. The components triggering OP 4.12 are: Component 1: Improving Food Security and Sustainable Livelihoods (community public works) and Component 2: Enhancing Drought-Resilience and Preparedness.

226. Most of the drought-affected areas are high-density rural areas. Information sourced from preliminary PDNA reports indicates that the majority of drought-affected people are resource-poor rural smallholder farmers. The affected population includes socially and economically disadvantaged groups, such as women and children, aged and physically challenged citizens. Droughts not only lead to a loss of access to water, crops but also to a loss of social cohesion, livelihood systems, and other employment opportunities.

227. Land and natural resources are basic assets of production and livelihood systems in rural areas in Malawi, including flood-affected areas. Land tenure is predominantly through the customary land tenure system in which households own land for cultivation that is passed on to new generations.



However, common properties, such as graveyards, rivers, community forests, hills and grazing lands are vested into the trust of local leadership.

228. The national HIV/Aids prevalence rate in Malawi is 12 percent of the adult population. Nevertheless, prevalence rates vary from one region to the other and from rural to urban areas. The highest rate is in the Southern Region at 20.5 percent and lowest in the Northern Region at 10.2 percent. The prevalence rate is 17.1 percent in urban areas and 10.8 percent in rural areas. The Malawi Government National HIV/Aids Policy (2012) highlights that migrant workers (mobile populations) and women are among categories of people vulnerable to the transmission of HIV/Aids and other sexually transmitted diseases. Recruitment of migrant workers is anticipated during both rehabilitation and reconstruction of public infrastructure. Single male migrant workers would be at an increased likelihood of contracting or transmitting HIV/Aids in the project area. Moreover there is also an increased possibility of these workers engaging in inappropriate contact with underage girls in the affected communities. Appropriate measures to mitigate these risks will be formulated in consultation with relevant stakeholders and listed in site specific Environmental and Social Management Plans (ESMP).

229. **The RPF will be prepared providing guidance on the mitigation of social and economic losses among local communities.** In addition, the framework will include measures to promote gender equality and a social inclusion framework to address the recovery needs of the disproportionately affected vulnerable/marginalized groups, specifically those living in scheduled caste habitations without the benefit of agricultural land, secure housing and incomes. The RPF will provide guidelines for free and informed consultation with the communities, ensuring community capacity building and participation, grievance redress, information disclosure and independent monitoring and evaluation.

230. **The RPF will also guide possible land acquisitions and resettlement issues** for the new sites of irrigation schemes, water intake infrastructure and pipelines. The RPF includes: (i) resettlement screening process; (ii) description of typical socio-economic impacts; (iii) eligibility criteria for compensation and methods of delivery; (iv) guidelines for voluntary land donations, methods of valuation of the affected properties; (v) preparation of resettlement action plan; (vi) provisions for preparation of checklists on resettlement and training in resettlement exercises; (vii) mechanisms to minimize resettlements and restrictions to access assets; and (viii) resettlement monitoring systems.

231. **Resettlement screening process:** The screening process consists of four steps: (i) screening of the sub-projects and sites; (ii) assignment of resettlement categories and preparation of a resettlement action plan; (iii) review and approval of resettlement action plan; and (iv) payment of compensation. The screening process will be carried out using a screening form as outlined in the RPF. The District Executive Committee under the supervision of the District Commissioner will carry out the resettlement screening. Monitoring, evaluation and reporting on resettlement issues will be part of a project implementation process and local authority reporting system. Compliance with resettlement screening will be generated from monthly reports, evaluation reports, feedback meetings and implementation support missions.

232. **The RPF will include provisions on the orientation of resettlement** for members of the District Environmental Sub-Committee, contractors of civil works (rehabilitation and reconstruction of irrigation schemes, transmission pipelines, etc.), staff of the relevant implementing agencies, and the Department of Lands and Valuations to enhance knowledge of best practices in resettlement exercises. Appropriate



orientation would cover areas such as: policy and legal framework on resettlement and compensation, screening, census of affected persons, use of screening forms, gender issues, methods of valuation of assets, eligibility criteria, administration and delivery of compensation among others.

Table 11: Triggered Safeguards

Safeguard Policies	Triggered?	Explanation
Environmental Assessment OP/BP 4.01	Yes	<p>The MDRRP will trigger this policy due to the involvement of civil works (rehabilitations, construction works) of public infrastructure in drought-affected areas. Civil works could possibly generate negative externalities such as: soil erosion and siltation, loss of trees, pollution to surface and ground water resources, soil erosion, dust emissions, solid and wastes.</p> <p>Components under the Project that would trigger this safeguard policy are community public works activities, rehabilitation and reconstruction of irrigation schemes, water intake infrastructures, provision of agricultural inputs such as fertilizers and pesticides, and works of irrigation schemes.</p> <p>The exact location, scope and scale of specific sub-project investments are not known at this stage. An ESMF will be prepared which will provide the criteria and procedures for screening sub-project investments and guide the preparation of site-specific environmental and social management plans. The ESMF will also assess the institutional capacity of the implementing agency and provide measures for capacity building along with an estimate of the budget needed for the implementation of the ESMF. The ESMF will also provide a list of activities that could be financed by the Project and screen out activities that correspond to Category A projects.</p> <p>Initial appraisal of the proposed activities under the MDRRP has been classified as Category B under OP 4.01. The MDRRP will not fund large-scale new infrastructure development projects (e.g. dams or power stations), but rather small to medium size rural infrastructural rehabilitation and reconstruction works in localized sites across the country (spread around 15 flood-affected districts).</p>



		The justification for classification of category B is that most of the Project will focus on medium size rehabilitation and re-construction projects for irrigation schemes, water intake infrastructures, provision of agricultural inputs such as fertilizers and pesticides, head works of irrigation schemes. The anticipated scale of potential adverse environmental or social impacts on human populations are site-specific, few if any of them are irreversible and in most cases, mitigation measures could be designed to address the impacts. An environmental and social management plan and abbreviated resettlement action plan for sub-projects can be used to address the impacts.
Natural Habitats OP/BP 4.04	Yes	Because of the sensitivity of the Lower Shire area (situated within the proximity of natural reserves and flood prone areas), it is possible that the ecological balance of the area could be affected, including natural reserves. Restoration of some livelihood activities, such as bee keeping and nature-based enterprises, may affect some protected wildlife reserves in rural communities.
Forests OP/BP 4.36	No	N/A
Pest Management OP 4.09	Yes	The Project will support the rehabilitation of irrigation schemes and increase agricultural productivity. This involves investments in the agriculture sector that will enhance production and will likely increase the use of pesticides. However, the Project will not finance the procurement of pesticides. In cases where pesticides are used within existing production systems, the Project will promote the use of integrated pest management and the safe use, storage, and disposal of agro-chemicals. Irrigation schemes may use pesticides to control pests on schemes. An Integrated Pest Management Plan (IPMP) will be prepared to provide guidance on the proper use of pesticides.
Physical Cultural Resources OP/BP 4.11	Yes	<p>The Project may trigger this policy if contractors during rehabilitation and reconstruction of public infrastructure discover archeological sites, historical sites, remains and objects, including graveyards and/or individual graves.</p> <p>The GoM will prepare Chance Find Procedures for Contractors to guide them in the proper management of physical cultural properties in case they are found.</p>
Indigenous Peoples OP/BP 4.10	No	N/A
Involuntary Resettlement OP/BP 4.12	Yes	Rehabilitation and construction of irrigation schemes, transmission pipelines and water intake infrastructures may



		<p>require land for temporary or permanent use. The land acquired for this purpose may lead to loss of assets for some households. Potential risks are: loss of access to land/assets and loss of income sources or means of livelihoods whether or not affected people must move to another location.</p> <p>A RPF will be prepared to guide procedures on all sub-projects in incidences of land acquisitions, in cases of negative social impacts to people such as losses of assets, loss of income sources, loss of access to assets and income sources.</p>
Safety of Dams OP/BP 4.37	Yes	The project will involve the rehabilitation of small dams or construction of small water retaining structures. The likely impacts to be generated by such activities will be of low significance and localised. However, to ensure quality and safety in the design and construction or rehabilitation of these structures, the policy on safety of dams has been triggered
Projects on International Waterways OP/BP 7.50	No	N/A
Projects in Disputed Areas OP/BP 7.60	No	N/A

Safeguards Monitoring

233. Environmental monitoring, evaluation and reporting on environmental and social management will be part of the project implementation process and local authority reporting system.

During construction, contractors will keep records of all activities done on the Project site, which will be submitted to the district council for consolidation. The District Lands Officers and District HIV/Aids Coordinators will be responsible for monitoring at the local level on a quarterly basis. Compliance with environmental and social screening will be generated from annual reports, evaluation reports and feedback meetings and implementation support missions.

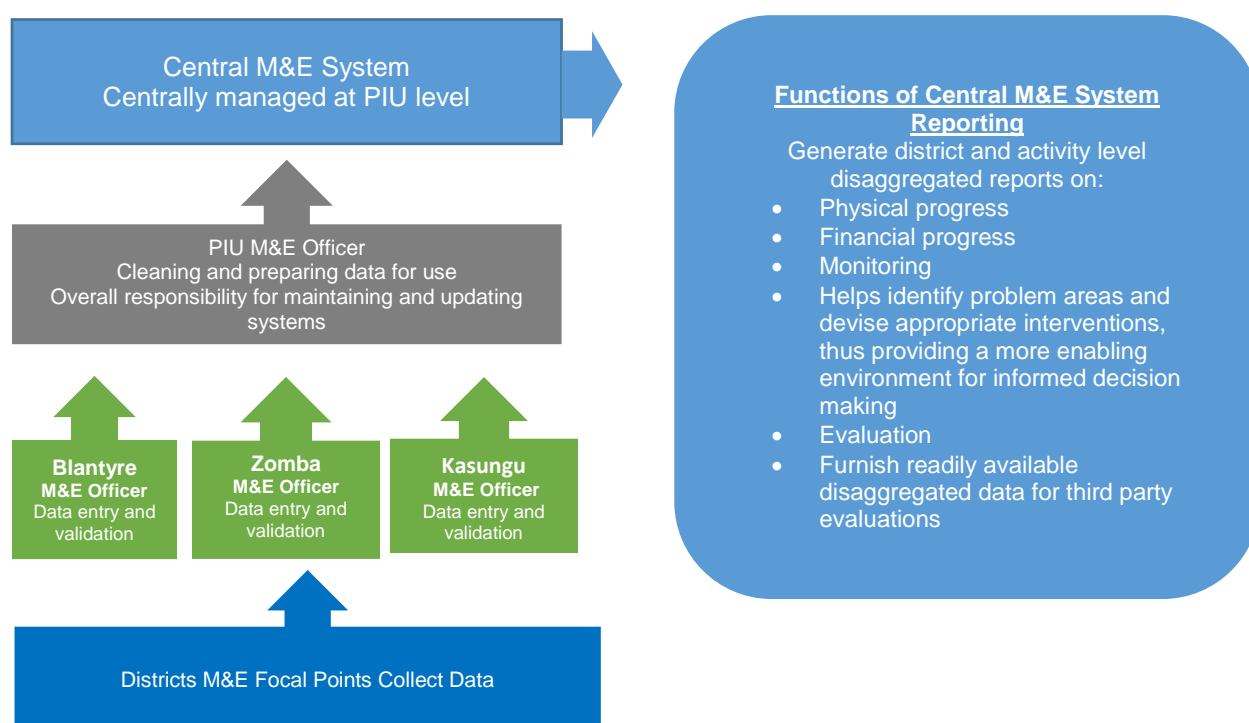
234. Specific to resettlement screening, the District Executive Committee, under the supervision of the District Commissioner, will carry out the screening. Monitoring, evaluation and reporting on resettlement issues will be part of a project implementation process and local authority reporting system. Compliance with resettlement screening will be generated from monthly reports, evaluation reports and feedback meetings and implementation support missions.

235. Specific to safeguards, the Government has already used harmonized safeguards instruments and trained district-level environmental staff on screening. This set-up will be used for the MDRRP and the ESMF and RPF will be adopted for this Project to monitor potential environmental and socially adverse impacts. The District Environmental Officer will be responsible for screening the proposed asset for land and resettlement issues and conduct environmental monitoring in line with the established procedures under the ESMF.



Monitoring and Evaluation

236. **Monitoring and Evaluation.** The PIU will be responsible for the overall monitoring and evaluation (M&E) of the Project, using the Project's results framework to issue quarterly updates on the overall project implementation. The PIU will be responsible for operationalizing the Overall Results Framework for monitoring and evaluating the Project at a consolidated level through a Results Monitoring System. The PIU will make use of, and scale up, the existing systems set up for M&E for MFERP to apply to the MDRRP. To monitor and track the progress regarding the indicators for component 1.1, WFP will work closely with the PIU in order to link up their monitoring system to that of the PIU.



237. **The project's overall M&E system will be built from the existing MFERP M&E's system, which shall be enhanced and/or improved to include specific indicators as required by the Project's results framework.** This system shall comprise at least the following elements: (i) standardized spreadsheet-based monitoring tables; (ii) standardized reporting templates that capture "lesser" but "more structured" information; (iii) a central and functional relational database that stores systematic project data; and (iv) a more systematic Critical Path Method (CPM)-based software for the physical and financial progress monitoring of various sub-components and sub-projects, which would allow to identify at an early stage critical activities and potential bottlenecks, and make necessary corrections on a timely manner.



238. **Data collection.** The PIU shall establish a data collection system to obtain data from affected districts and sectors and carry out community-level surveys on a periodic basis to record baseline data in line with indicators included in the project results monitoring framework. Data collected shall be used to update baselines, presenting and targeting indicator values for all sub-components and results reporting to the PSC and the Bank on a routine basis. It will use the MFERP data collection system as a vehicle to quickly build, scale-up and operationalize similar data flows and data collection arrangements for the MDRRP.

239. **Physical, Financial and Quality Monitoring.** In parallel, there will be component, subcomponent and subproject level implementation monitoring and evaluation that will involve the various national, district and community-level implementing organizations. Supervision and monitoring roles will be divided according to the work performed and specific results being achieved, then relayed to the PIU for consolidation. Implementation monitoring will also form the basis for the payment system for contractors for work completed.

240. **Implementation Support.** Implementation support will generally entail both routine and ad-hoc quality checks at various stages of implementation. Periodic monitoring will include process reviews/audits, reporting of outputs and maintaining updated records. Broad thematic areas that will be supervised and monitored include the following: (i) Social and Environmental Monitoring; (ii) Regular Quality Supervision & Certification; (iii) Periodic Physical Progress and Process Monitoring and Third-Party Quality Audits; and (iv) Results Monitoring and Evaluation.

241. **Procurement monitoring.** All procurement activities at the component, subcomponent and subproject levels will also be closely monitored by Procurement Specialists in the PIU.

Role of Partners (if applicable)

242. **The Project has been designed through a rigorous multi-stakeholder and multi-partner process of drought impact and needs assessment spread over months.** The PDNA led by the Government also afforded opportunities for close collaboration with key UN agencies and other partners. In the aftermath of the PDNA, the Bank task team continued to work closely with a range of public sector stakeholders from various central line ministries as well as the drought affected districts towards establishing and further prioritizing the needs identified in the PDNA through systematic prioritization workshops. Subsequently the Bank worked closely with the FIRP team and development partners such as DFID to establish the basis strategic parameters and operational principles that underpin the proposed design and approach of the MDRRP.

243. **Project implementation will also follow an inclusive and consultative process with key development partners through existing donor coordination mechanisms.** This will help ensure close strategic harmonization and operational coordination across the inter-related interventions (food supply in particular) under various development partner programs being contemplated to contribute towards the broader drought recovery program. The project team will also continue to leverage and promote the drought recovery and resilience strategy agreed under the PDNA to influence the drought recovery planning and implementation of various development partners.



244. Finally, implementation of the single-largest project component on maize procurement and distribution will be carried out through WFP to make use of and scale up existing, transparent and well-functioning mechanisms for food supply to the drought affected communities - in keeping with international partnership arrangements, norms and standards agreed between the Bank and UN agencies.



ANNEX 3: IMPLEMENTATION SUPPORT PLAN

COUNTRY : Malawi

Malawi Drought Recovery and Resilience Project

Strategy and Approach for Implementation Support

245. The strategy for the Bank's implementation support for the proposed project has been developed based on the nature of the project and its risk profile. The Systematic Operations Risk Rating Tool (SORT) rates the overall implementation risk as Substantial, with the following elements considered to be substantial or high: (i) Political and Governance; (ii) Macroeconomic; (iii) Institutional Capacity for Implementation and Sustainability; and (iv) Fiduciary. The risks emanate from the sensitive nature of project interventions, targeting criteria and geographical coverage and the weak **institutional coordination across various implementing entities**.

Implementation Support Plan (ISP)

246. **The Bank's Implementation Support Plan for the Project draws from the emergency nature of the Project and the lessons learned from past Bank projects in the country.** The core principles underlying the MDRRP Implementation Support Plan are: (i) the need for intensive risk-based implementation support¹⁷, since the Project has been prepared using rapid procedures that did not allow time for very detailed appraisal; and (ii) maximizing the use of national staff, international staff and consultants on a needs basis. The plan will be regularly reviewed and revised as required.

247. **The ISP includes frequent review of implementation performance and progress.** The Bank team will monitor progress on several fronts including: (i) key performance indicators as defined in the Results Framework and the Project's contributions to broader programmatic outcomes for recovery; (ii) central Project-level and district-level sub-project implementation; (iii) independent verification of Project activities; (iv) proper fiduciary management of all activities carried out by the PIUs and other implementing agencies; (v) reconciliation of payments with contracts; (vi) supervision of large numbers of district-level procurement activities; and (vii) monitoring of key legal covenants.

248. **Information from various sources will be used to assess and monitor the progress of the Project throughout its implementation.** In addition to the data generated through the Project's Management Information System and Monitoring & Evaluation systems, the Bank will also review the findings and results of third-party assessments and environmental and social audits that will be undertaken during the course of project implementation.

249. **In addition to formal semi-annual implementation support missions and field visits to the districts and the Project components target areas, continuous support will be provided to the PIU and component implementing entities, given the relative complexity of the Project.** The semi-annual Implementation Status Reports (ISR) will be produced to provide Bank management and the public with

¹⁷ Including for implementation, fiduciary and safeguards risk mitigation.



progress updates, tracking risk development and efficacy of mitigation measures. In addition to ISRs, periodic briefings will also be prepared for the management.

250. **The Bank's Procurement, Financial Management, and Environmental and Social Safeguards Specialists will also provide timely and effective support.** In addition to carrying out an annual ex-post review of procurement that falls below the prior review thresholds, the Procurement Specialist will provide routine support to the procurement agencies on a needs basis. The FMS will review all financial management reports and audits and take necessary follow-up actions as per the Bank procedures. These team members will also help identify capacity building needs to strengthen procurement and financial management capacity. Semi-annual inputs from the environmental and social specialists will be required throughout the Project, and both formal implementation support missions and routine field visits will ensure that the ESMF is implemented in accordance with the Bank safeguard policies. The project will also conduct a comprehensive fiduciary assessment of implementing agencies to reduce fiduciary risks.

Implementation Support Plan and Resource Requirements

251. **The following Implementation Support Plan reflects the preliminary estimates of the skill requirements, timing, and resource requirements over the life of the Project.** Keeping in mind the need to maintain flexibility over Project activities from year to year, the plan will be reviewed annually to ensure that it continues to meet the implementation support needs of the Project.

Time	Focus	Skills Needed	Resource Estimate	Partner Role
First twelve months	<ul style="list-style-type: none"> • Project launch • Initialization of Project components • FM systems functioning effectively • Procurement practices following Bank norms • ESMF in place 	<ul style="list-style-type: none"> • Team lead • FM, Procurement • Safeguards Specialist • DRM Specialist • Water Resources, Irrigation/agriculture and WASH Specialist/s 	<ul style="list-style-type: none"> • \$50,000 • \$60,000 • \$60,000 	<ul style="list-style-type: none"> • Fully staffed up PIU to operationalize Project components • Contract local Malawian support firms for various tasks • Strengthened DoDMA leading the resilience building
12-24 months	<ul style="list-style-type: none"> • Monitor implementation of Project activities • FM, Procurement, Safeguards • Mid-Term Review 	<ul style="list-style-type: none"> • Team lead • FM, Procurement • Safeguards Specialist • DRM Specialist • Water Resources, Irrigation and WASH Specialist/s 	<ul style="list-style-type: none"> • \$40,000 • \$50,000 • \$50,000 	<ul style="list-style-type: none"> • Prepare comprehensive Project progress and results monitoring reports in advance of each mission



				<ul style="list-style-type: none"> • Update implementation and procurement plans routinely • Organize field visits • Mid-term review • Prepare pre-closure review
24 – 48 months	<ul style="list-style-type: none"> • Monitor implementation of Project activities • Mid-Term Review • FM, Procurement, Safeguards 	<ul style="list-style-type: none"> • Team lead • FM, Procurement • Safeguards Specialist • DRM Specialist • Water Resources, Irrigation and WASH Specialist/s 	<ul style="list-style-type: none"> • \$30,000 • \$50,000 • \$50,000 	<ul style="list-style-type: none"> • Prepare comprehensive Project progress and results monitoring reports in advance of each mission • Update implementation and procurement plans routinely • Organize field visits • Project Closing

Skills Mix Required

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
<ul style="list-style-type: none"> • Team lead • FM, Procurement • Safeguards Specialist • DRM Specialist • Water Resources, Irrigation and WASH Specialist/s 		<ul style="list-style-type: none"> • Routine support • Jan 2017 • May 2017 	<ul style="list-style-type: none"> • Project will likely become effective by January 2017 with the first mission occurring by the start of February 2017.
<ul style="list-style-type: none"> • Team lead • FM, Procurement • Safeguards Specialist 		<ul style="list-style-type: none"> • Routine Support • Nov 2017 • April 2018 	<ul style="list-style-type: none"> • Task team to support smooth start-up following effectiveness • Ensure safeguard arrangements are built into implementation plans



<ul style="list-style-type: none">• DRM Specialist• Water Resources, Irrigation and WASH Specialist/s • Team lead• FM, Procurement• Safeguards Specialist• DRM Specialist• Water Resources, Irrigation and WASH Specialist/s		<ul style="list-style-type: none">• Routine Support• Nov 2018• April 2019	<ul style="list-style-type: none">• Review implementation, commitment and disbursement status• Ensure safeguards arrangements are built into implementation plans• Support to monitor progress of activities, in-depth technical review of implementation; make adjustments to implementation plan if needed • Review implementation, commitment and disbursement status • Support to monitor progress of activities, in-depth technical review of implementation;
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ANNEX 4: PROJECT ECONOMIC ANALYSIS

252. Malawi is currently experiencing consecutive disasters, which have severely affected food production and food security in the country. The investment activities under the Project are thus aimed at resolving the emergency situation in the drought-affected areas with immediate benefits as well as medium and long-term economic impact. Consistent with the Bank's mandate and comparative advantage, it supports the request for resilience building activities to restore and promote sustainable livelihoods and strengthen the capacity of the Government in drought preparedness, risk reduction and mitigation. In an economy that is heavily dependent on the agricultural sector, it is crucial to understand the implications of impacts on food security and agriculture. In order to assess the economic relevance and value addition of this Project, this section will analyze: i) economic impact of 2015/16 drought, especially on agriculture; and ii) the economic and financial rates of return for IFA and irrigation (sub-components 1.2 and 1.4).

A. Economic Impact of 2015/16 Drought

253. **Impact on GDP.** According to World Bank estimates, the GDP growth for 2016 is projected to be 2.6 percent¹⁸, revised from 5.0 percent¹⁹, with the late onset of rains and erratic dry spells having depressed expectations for agricultural production. The double shock of drought and floods in 2015 reduced agricultural production, leading to food shortages which in turn pushed up the rate of inflation. A consecutive year of drought has led to another poor performance in the agricultural sector with continued large food shortages and GDP growth now expected to remain weak.

Table 12: Projected Impact of Drought on GDP growth

Year	Estimates of GDP impact	
	Initial GDP Growth Projection (September 2015)	Revised GDP Growth Projection (April 2016)
2016	5.0	2.6

Source: World Bank staff estimates

254. **Impact on Agriculture.** The major impact of the drought has been on the agriculture sector, which is the most significant driver of economic growth. The losses in agriculture are estimated at US\$230.6 million, 63 percent of total impact of drought²⁰, equivalent to 10 percent loss in growth in the sub-sector. The drought conditions that affected agriculture had a strong impact on slowdown in Malawi's overall economic performance. Output in the agricultural sector is projected to contract by 2.2 percent during 2016.²¹

¹⁸ World Bank, Malawi Economic Monitor- Absorbing Shocks, Building Resilience, May 2016.

¹⁹ World Bank staff estimates using MFMod, September 2015 projection

²⁰ The recent Malawi Drought PDNA estimates that the total impact of drought is US\$365.9, which is equivalent to 5.6 percent of Malawi's GDP, with damages amounting to US\$36.6 million and losses (projected to March 2017) US\$329.4 million.

²¹ World Bank, Malawi Economic Monitor – Absorbing Shocks, Building Resilience, May 2016.



Table 13: Selected macroeconomic indicators

National Accounts and Prices	Year				
	2012	2013	2014	2015	2016 est.
GDP at constant market prices (percentage change)	1.9	5.2	5.7	2.8	2.6
Agriculture	-1.2	5.9	6.1	-2.0	-2.2
Industry	1.8	5.5	5.1	4.4	4.2
Services	3.8	4.7	5.7	5.1	4.6
Consumer prices (annual average)	21.3	27.3	23.8	21.7	20.8

Source: World Bank staff estimates and National Statistical Office (CPI actuals)

255. **Impact on Maize Production:** In FY 2014-15, the Agricultural Production Estimates Survey (APES) revealed that maize, the key crop in terms of food security, recorded a 30.2 percent year-on-year drop in production. In FY 2015-16, the third round APES estimates a 14.7 percent contraction in maize production. This is on top of the 30.2 percent contraction recorded in the previous season that resulted in an aggregate production decline of 44.9 percent over the past two years. The decline in maize production is estimated to cost the country 2.2 percentage points of foregone GDP growth (against a SADC average of 0.1 percent)²². Consequently, the MVAC estimates that 6.5 million people or 39 percent of the population will face food insecurity, the highest level recorded since the FY 2002-03 food crisis. The reduced output will also necessitate the importation of maize as a relief measure, which is likely to increase pressure on the import bill.

256. **Impact on Maize Price.** The drought has led to lower agricultural production and this would drive up food prices, in particular maize. Price of maize was estimated at US\$450 per MT during the Post Disaster Needs Assessment conducted in June, 2016. Given the scarcity of maize in the Africa region and increasing demands, in preparation of the lean season, the price of maize is expected to increase. In order to meet the food needs from December 2016 – March 2017 and pre-position the food commodities in all the affected areas, food commodities needs to take place as soon as possible, in order to mitigate the risk of higher costs which could result from pipeline constraints and/or increase in prices.

257. **Impact on Inflation.** The overall inflation is expected to remain high during 2016, mainly driven by the food component. Food constitutes 50.2 percent of the consumption basket in the Consumer Price Index (CPI). Given that the drought has led to lower agricultural production, in particular maize, this would drive up food prices and create persistence in an already high food inflation. Furthermore, non-food inflation is likely to be indirectly affected through a possible exchange rate depreciation and higher public domestic borrowing. The exchange rate would depreciate if the negative impact on the trade balance, associated with lower agricultural export earnings and higher food imports, outweighs the positive effect of aid inflows in the Balance of Payments. A depreciated exchange rate would make imports more expensive and drive up non-food inflation.

²² World Bank, *El Niño drought in SADC: Economic Impacts and Potential Mitigation Solutions*, June 2016.



258. **Socio-economic Impacts.** As a result of the drought, the incidence of poverty is also expected to rise in the country. The bottom 40 percent of the population is estimated to experience an 11.8 percent decrease in their consumption, by far the largest in the SADC region²³. This reflects the high share of maize in rural households' consumption baskets as well as the drop in real incomes of farmers as result of the fall in production and rising prices. This further compounds the existing situation where Malawi has the third lowest income per capita and the third highest poverty rates in the SADC region²⁴.

B. Economic and Financial Analysis of the select project components

259. **Value Addition and Rationale for Bank Financing of the Project.** The Bank's financing of the proposed activities is commensurate with its international mandate and comparative advantage for supporting countries in sustainability recovering from natural disaster shocks and building their resilience towards future disaster risk reduction and mitigation. In the case of this project, the Bank's specific value addition lies in: (a) addressing the large financing resource gap that exists in the multi-partner response (of US\$54 million) towards meeting the urgent and unprecedented food security and nutritional needs of the severely drought affected communities across the country in the early recovery period; and (b) supporting sustainable medium-term drought recovery and resilience building for sectors that have been most impacted and prioritized for livelihood recovery, including agriculture, irrigation, water resources and water supply and sanitation, and disaster risk reduction. The project makes use of the Bank's global leadership and expertise in shaping, leveraging and financing an integrated multi-sectoral disaster response that ensures that critical recovery interventions are implemented in a synchronized and simultaneous manner. Financing such programmatic multi partner recovery programs also leverages the Government's and Bank's convening power for the coordination of interventions among stakeholders, and helps establish comprehensive program oversight and monitoring mechanisms to improve governance and accountability.

260. The Project comprises both direct and indirect quantifiable and unquantifiable benefits that are expected to accrue for the drought-affected population, surrounding communities and the economy as a whole.

261. **Economic analysis of financing provisioning of maize.** Procurement and distribution of maize to meet immediate food security needs is likely to have a positive economic impact on households, especially those whose livelihoods have been affected due to drought. This component would substantially moderate the effects of price and supply shock during the coming lean season. It is also likely to reduce the economic burden on households as resources freed up from the purchase of maize could be used for securing essential food (non-maize) and other commodities. Additionally, provision of maize for meeting household nutritional requirements will lessen the likelihood of negative coping mechanisms, such as the selling of livelihood and other productive assets, which would have long lasting economic impact.

²³ World Bank, *El Niño drought in SADC: Economic Impacts and Potential Mitigation Solutions*, June 2016.

²⁴ World Development Indicators, Poverty Headcount ratio at \$1.90 per day (latest available estimate) and GDP per capita (Constant 2010 US\$) in 2015.



262. **Economic Analysis of Input for Assets and Irrigation Investment**²⁵. Given the difficulties associated with estimating all the Project's benefits, the quantitative focus was only based on benefit and cost streams of IFA and irrigation sub-components. These two subcomponents together however constitute a significant proportion of the project's physical scope of work, and constitute a sizeable portion of the project's financial resource allocation as well.

263. **The analysis confirms favorable return on the IFA and irrigation components, revealing respective Financial Rate of Return (FRR) of 13 percent and 22 percent and an Economic Rate of Return (ERR) of 27 percent and 26 percent using a 5 percent discount rate.** The assessment was undertaken to ascertain the net costs and benefits of the proposed activities of labor intensive community infrastructure through input for assets and irrigation activities which include reconstruction of damaged irrigation schemes, installation of small scale solar powered drip kits and accessories, installation of medium scale solar pumps and accessories and procurement and distribution of treadle pumps. The analysis also includes assessing whether the targeted households would derive sufficient benefits from the Project investment through their involvement.

264. **Cost Stream.** These include incremental crop production costs, investment costs for irrigation infrastructure rehabilitation and reconstruction, IFA costs, operation and maintenance costs of irrigation networks at 1 percent of investment costs with an expected life cycle of 25 years, and project management cost at 25 percent of total cost.

265. **Assumptions.** The analysis for the irrigation sub-component assumes a 0.2-ha average farm per family, which translates into 8,000 beneficiaries on approximately 1,600 ha of cultivated land area. The total component cost for irrigation is estimated at US\$12 million. For IFA, the analysis assumes 64,000 ha of land (of which 16,000 ha is from irrigated/winter IFA beneficiaries assuming a 0.2 ha average farm per family and 48,000 ha is from the rain-fed IFA beneficiaries assuming a 0.4 ha average farm per family) translating into 200,000 households. The component cost is US\$15 million. The model assumes three crops whose cultivation may expand under irrigation. Maize is the dominant one for food security purposes and for the distribution of improved maize seed and fertilizer for IFA of which the majority is for rain-fed agriculture (upland fields). Tomatoes were used as a proxy for other vegetables due to widespread farming in project area. Rice will be grown on a smaller proportion compared to maize and horticulture as it is not a major crop in the schemes that are being rehabilitated and reconstructed. The cropping pattern and intensity for irrigated crops is envisaged to increase with the latter moving from 72 percent to 130 percent. The increase is estimated at 86 percent from 56 percent during the wet season and 44 percent from 16 percent in the dry season. For IFA, the model has assumed that 60 percent of the beneficiaries will participate during the rain-fed (summer) cropping season while the remaining 40 percent will be under irrigated winter cropping. The cropping intensity for irrigated IFA is considered and is assumed to remain the same at 25 percent largely because land for irrigation is available during the winter (dry) season only²⁶. In terms of pricing, the World Bank Global Prospects Commodity data for 2016 was used to estimate import parity prices for the ERR calculation. Financial prices for non-traded inputs and outputs based on prevailing market prices in Malawi in July 2016 were used for the FRR calculation. Currency conversions were based on official Reserve Bank of Malawi average exchange

²⁵ This analysis adopts a model that was used for the financial and economic analysis of the MFERP with similar assumptions.

²⁶ IFA schemes are mostly accessed during the dry season after owners of land have harvested their rain-fed crops



rate for July 2016 of US\$1 equal to MK 716.05. As expected, the ERR is higher than the FRR. This is because maize is the major crop for both irrigation and IFA whereby its economic price (the import parity price) is higher than its financial price. In addition, the import parity price for a bag of fertilizer is lower than the financial price.

266. **Incremental Labor Demand and Daily Return.** The results in Table 14 and 15 below show that the Project will raise employment opportunities and wage earnings with labor requirements increasing by 37 person-days and 8 person-days and wages by MWK 4,877 and MWK 3,666 per day for irrigation and IFA, respectively. The household farm income would also significantly increase by about MWK 233,610 and MWK 27,496 per household for irrigation and IFA, respectively.

Table 14: Incremental Labor Demand and Return per Day (Irrigation)

	Without Project	With Project
Weighted average labor (person-days)	28	65
Incremental labor due to Project (person-days)		37
Weighted average gross margin return to labor (MWK/day)	2,934	4,877
Incremental labor income due to Project (MWK/day)		1,944
Household income per plot (MWK)	81,954	315,564
Incremental labor income per household (MWK)		233,610

Source: World Bank staff estimates

Table 15: Incremental Labor Demand and Return per Day (IFA)

For IFA, the cropping intensity is the same for both with and without project scenarios. As a result, there are no incremental labor demands and returns for the without project scenario.

	Without Project	With Project
Weighted average labor (person-days)		8
Incremental labor due to Project (person-days)		8
Weighted average gross margin return to labor (MWK/day)		3,666
Incremental labor income due to Project (MWK/day)		3,666
Household income per plot (MWK)		27,496
Incremental labor income per household (MWK)		27,496

Source: World Bank staff estimates

267. **Sensitivity Analysis.** The results in Table 16 and 17 below show that the ERR and FRR is robust with respect to cost increases, benefit reductions and delays in realizing benefits. The model was subjected to sensitivity tests assuming a 10 percent cost increase, 10 percent benefit reduction and two-year lag in benefits.



Table 16: Estimated Economic Rates of Return

	Combined	Irrigation	IFA
ERR for overall component	26.5 percent	25.8 percent	27.0 percent
ERR if cost increases by 10 percent	24.4 percent	23.4 percent	25.1 percent
ERR if benefit decreases by 10 percent	24.6percent	23.7 percent	25.3 percent
ERR if benefits lag by 2 years	18.3 percent	17.0 percent	19.2 percent

Source: World Bank staff estimates

Table 17: Estimated Financial Rates of Return

	Combined	Irrigation	IFA
FRR for overall component	16.7 percent	22.1 percent	13.0 percent
FRR if cost increases by 10 percent	15.0 percent	19.9 percent	11.7 percent
FRR if benefit decreases by 10 percent	15.2 percent	20.1 percent	11.8 percent
FRR if benefits lag by 2 years	11.7 percent	14.7 percent	9.3 percent

Source: World Bank staff estimates

ANNEX 5: SUMMARY OF THE FOOD INSECURITY RESPONSE PLAN (FIRP), THE POST DISASTER NEEDS ASSESSMENT (PDNA) AND THE GAP ANALYSIS

268. **In response to the current situation in Malawi, and in preparation for the 2016/2017 lean season, DoDMA has led the preparation of FIRP** on behalf of the Government under the cluster system and in collaboration with key UN agencies. The main strategic objective of the FIRP is to provide immediate life-saving and life-sustaining assistance to the drought-affected population through the provision of essential food, commodities, and health-focused interventions. The FIRP estimates that around US\$395.1 million is needed for humanitarian responses to cover the immediate and early recovery needs of the 6.5 million affected population in 24 districts. In terms of food security alone, FIRP estimates that 349,385 MT of food commodities (specifically, maize of 261,666 MT) and associated costs are needed to respond to the food crisis from July 2016 to March 2017, which amounts to US\$233.8 million.

269. **Complementary to the FIRP, the GoM, with the assistance of the World Bank and the UN, conducted a PDNA** to estimate the impacts of the drought, develop and align sector recovery strategies, and identify corresponding immediate to medium and long term recovery needs. While the FIRP's objective is to address the humanitarian needs generated by the crisis and set the basis for recovery, the PDNA focuses more on medium to long-term measures towards sustainable recovery and resilience building of the affected population. The PDNA estimates drought related damages and losses at US\$366 million, with the agriculture sector making up the largest proportion (US\$256 million), followed by the irrigation (US\$31.9 million) and water supply and sanitation (US\$19.1 million) sectors. Recovery needs across all sectors, including food security, have been estimated at US\$500.2 million over a period of three years. The food security needs make up over half (54 percent) of the total recovery costs, i.e. an



estimated US\$268 million. Excluding food security, recovery needs are most concentrated across the agriculture, social protection, nutrition, and water supply and sanitation sectors.

Table 18: Overview of PDNA Impacts (Damages and Losses) and Recovery Needs across all Sectors

	Cost (US\$)		
	Damages	Losses	Recovery
Productive Sectors			
Crops	-	198,758,638	40,545,252
Livestock	15,772,527	31,186,832	10,067,379
Fisheries	-	10,783,990	527,571
Irrigation	-	31,876,168	14,101,063
Trade & Industries	-	8,768,583	4,997,417
Productive Sectors Total	15,772,527	281,374,212	69,711,111
Physical Sectors			
Energy	-	5,888,561	2,893,521
Environment & Forestry	4,245,524	1,501,786	6,560,350
Transport	-	-	15,331,000
Water Resources	1,400,000	-	10,707,143
Water Supply & Sanitation	11,803,071	7,377,773	20,991,643
Physical Sectors Total	17,448,596	14,768,119	56,483,656
Social Sectors			
Food Security	-	-	268,459,014
Education	3,358,929	6,946,445	12,285,922
Health	-	14,303,878	13,514,120
Nutrition	-	11,970,568	33,425,537
Social Protection	-	-	42,908,343
Human and Social Impact	-	-	-
Social Sectors Total	3,358,929	33,220,892	370,592,937
Cross-cutting Issues			
DRR	-	-	2,926,609
Contingency Financing	-	-	-
Cross-cutting Issues Totals	-	-	2,926,609
Total with Food Security	36,580,052	329,363,222	500,241,884
Total Without Food Security	36,580,052	329,363,222	231,782,869



270. In spite of contributions and pledges from various countries and development partners²⁷ based on food security needs outlined in FIRP, a large financing resource gap exists to meet the urgent and unprecedented food security needs arising out of the 2015/16 drought (Table 20). Based on current contributions, the Government's SGR Committee has observed that 60,000 MT of maize will be allocated from the SGR by the Government for immediate use, until October, and an additional 60,000 MT will be procured through WFP for consumption in November and December 2016. However, no food procurement or contributions have been secured or pledged to address the needs from January to March 2017, which is the leanest period and the time when the roll-out of food response is expected to reach over 4.76 million people (Table 19). According to the Bank's gap analysis (Table 20), and based on data obtained from WFP and government sources, the country still faces a resource gap estimated at US\$55 million to address the immediate food security needs. There are no additional donor contributions to cover the financing shortfall. Given the time requirements for procurement, transportation, and prepositioning of food commodities before the expected onset of rains in December (when most of the drought-affected areas will become inaccessible), procurement of food commodities needs to take place as soon as possible, in order to mitigate the risk of higher costs which could result from pipeline constraints and/or an increase in prices.

Table 19: Food Security Monthly Roll-Out Plan – Beneficiary Targets

Month	Beneficiaries to reach
Jul-16	223,358
Aug-16	928,049
Sep-16	1,577,334
Oct-16	2,771,801
Nov-16	4,352,301
Dec-16	4,628,316
Jan-17	4,763,284
Feb-17	4,763,284
Mar-17	4,763,284

Source: Food Insecurity Response Plan, GoM

Table 20: Drought Recovery Food Security Resource Gap Analysis (in million US\$)²⁸

Food Security Components		Needs	Govt		China	DFID	USAID	Norway	WFP	Japan	World Bank		Resource Gap US\$ million	
			AFDB	IMF							ASWAP	MFERP	Total	Gap
Maize/Cereal	US\$ mn	88.0	19.0	49.0	11.0	3.8	22.2	-	1.8	1.1	3.5	6.0	117.4	(29.4)
	Ton	261,555.0	34,734.9	89,579.5	6,500.0	8,918.0	30,279.0		3,371.0	1,919.6	9,879.0	15,627.0	200,808.0	60,747.0
Pulses	US\$ mn	37.3	-	-	-	-	10.6	-	0.1	0.8	-	-	11.5	25.8

²⁷ African Development Bank, IMF, DFID, USAID, WFP, Norway, Japan, China

²⁸ World Bank Task Team analysis as of August 2016



	Ton	52,311.0					13,140.0		127.0				13,267.0	39,044.0
Supercereals	US\$ mn	9.5	-	-	-	-	-	-	8.4	-	-	-	8.4	1.1
	Ton	15,536.0							9,883.0				9,883.0	5,653.0
Supercereals plus	US\$ mn	9.4	-	-	-	-	-	-	-	-	-	-	-	9.4
	Ton	10,358.0											-	10,358.0
Vegetables Oils	US\$ mn	7.8	-	-	-	-	20.0	-	-	-	-	-	20.0	(12.2)
	Ton	9,625.0					6,120.0						6,120.0	3,505.0
Transaction Cost		81.8	-	-	-	14.0	7.0	0.8	-	-	-	-	21.8	60.0
Totals	US\$ mn	233.8	19.0	49.0	11.0	17.8	59.8	0.8	10.3	1.9	3.5	6.0	179.1	54.8
	Ton	349,385.0	34,734.9	89,579.5	6,500.0	8,918.0	49,539.0	-	13,381.0	1,919.6	9,879.0	15,627.0	230,078.0	119,307.0

271. **In addition to food insecurity, the drought caused extensive damage and losses to non-food sectors, increasing vulnerability in the poorest areas of Malawi.** Over the next year, immediate recovery needs for the non-food sectors is estimated at US\$87.6 million (FIRP), while the medium-term recovery needs over the next three year period for non-food sectors totals US\$231.8 million per the PDNA. Across both plans, agriculture (including irrigation), water supply and sanitation and the restoration of livelihoods through various social protection schemes have been identified as the most critical areas in need of funding and technical support. To date (Table 20), much of the drought response has focused on the most acute humanitarian needs including food, but humanitarian action alone will be unable to break the cycle of recurrent crises. Therefore, while simultaneously ensuring that immediate and pressing food needs are met, the most effective way to handle recurring shocks is by building the capacity of vulnerable communities to withstand the impact and recover from their effects. International experience demonstrates that a multi-sector response – addressing urgent humanitarian needs and long-term coping mechanisms - is the optimal way to ensure sustainable drought recovery and resilience to future events.