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CASE STUDY | Disaster Risk Financing

MALAWI

Pioneering Adaptive Social Protection through Disaster Risk Finance

Woman carrying a bundle of firewood on her head next to a tea plantation in Malawi. Credit: wilpunt | iStock

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Malawi is among the least developed countries globally, with over 70% of its population living on less than US$2.15 per day. The economy depends heavily on agriculture, which employs two-thirds of the labor force and contributes about one-third of GDP. However, its reliance on rain-fed production leaves both the sector and the broader economy highly vulnerable to floods and droughts, resulting in unstable growth and deepening rural poverty.

The impacts of extreme weather have been severe. The 2015/2016 and 2023/2024 droughts—both linked to strong El Niño events—were among the most damaging in recent history, leaving 6.5 million and 6.1 million people in need of emergency assistance, respectively. The 2015/16 drought alone caused an estimated US$370 million in losses (5.6% of GDP). Floods in 2014 affected over one million people and caused about US$335 million in damages, while tropical cyclones such as Idai (2019), Ana (2022), and Freddy (2023) have become more frequent and intense. Cyclone Freddy alone affected 2.2 million people, with damages of roughly US$500 million and recovery needs of US$680 million.

Historically, the government relied on budget reallocations and donor aid to finance disaster response. In recent years, however, Malawi has made significant progress in establishing pre-arranged financial instruments that enable faster, more predictable recovery. The country adopted its first Disaster Risk Financing (DRF) Strategy in 2019, providing a framework for developing tools such as sovereign risk transfer through the African Risk Capacity (ARC), which serves as both a fiscal buffer and a mechanism for scaling up social protection. The government has also used two World Bank Catastrophe Deferred Drawdown Options (CAT-DDOs)—both fully utilized in 2020 and 2023—and Contingent Emergency Response Components

(CERCs) built into World Bank operations. In 2024, Malawi prepared a Contingent Emergency Response Project (CERP) to operationalize the Rapid Response Option (RRO), and it joined the five-year Regional Emergency Preparedness and Access to Inclusive Recovery (REPAIR) program to strengthen financial readiness across Southern Africa.

In 2025, the government launched its Preparedness Plan for Food and Nutrition Security Crises, establishing institutional and financial protocols for early action when food insecurity thresholds are breached. Complementing this, the World Bank's US$60 million De-risking Importation of Strategic Commodities (DISC) operation helps safeguard essential imports such as fertilizers, fuel, and medicines during crises—reinforcing Malawi's broader approach to preparedness, stability, and supply-chain resilience. Together, these instruments give the government clearer, pre-agreed options for mobilizing funds before disasters strike.

Malawi's well-established social protection system plays a central role in delivering timely assistance during shocks. By linking pre-arranged finance to delivery systems, the government can rapidly provide cash transfers to affected households. Effective disaster response requires both financial and operational readiness—having not only the resources but also the mechanisms to deliver them. Malawi's experience demonstrates how integrated systems such as the Social Cash Transfer Program can channel support efficiently, helping vulnerable communities cope with droughts and other crises.

Program

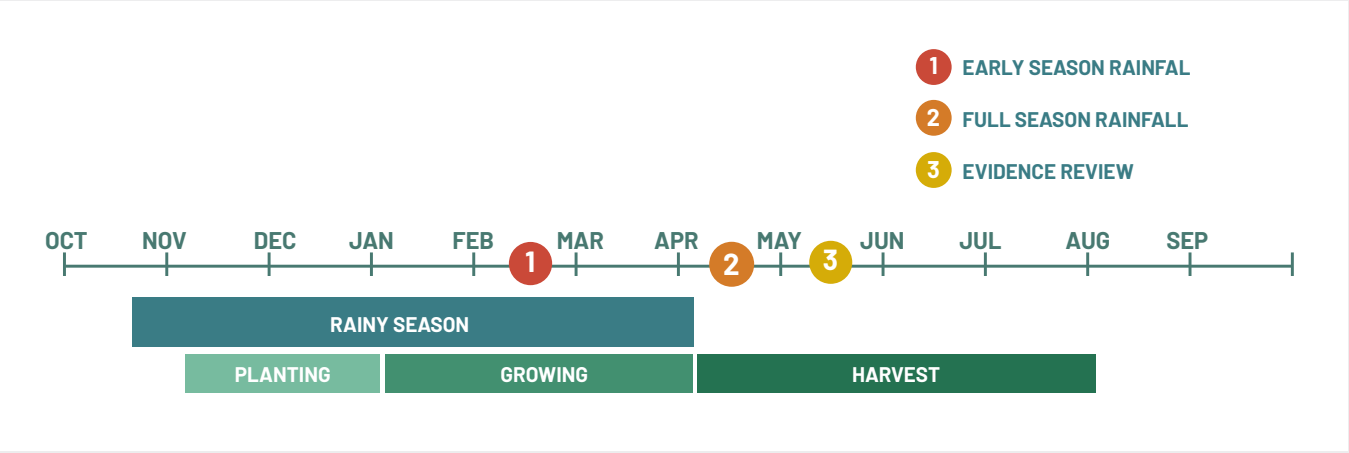
To enhance financial resilience, Malawi, led by its Ministry of Finance (MoF), is advancing a more financially resilient approach to crisis response. A key priority of its Disaster Risk Financing Strategy 2019–24 (currently under renewal) is the use of shock-responsive social protection to safeguard vulnerable households during drought. As part of this strategy, the government established a scalability mechanism that enables its two largest social protection programs, the *Social Cash Transfer Program (SCTP)* and the *Climate Smart Public Works Program (CS-PWP),* to provide additional cash to vulnerable households when droughts occur. This mechanism is supported by the World Bank's US$495 million Social Support for Resilient Livelihoods Project, which not only finances direct cash transfers but also strengthens the underlying delivery systems. Complementing this, the Global Shield Financing Facility (GSFF), a World Bank-supported multi-donor trust fund, is helping harmonize these approaches by promoting pre-arranged financing, electronic payment systems, and risk transfer instruments to ensure timely and coordinated responses.

Under the scalability mechanism, approximately 144,415 households enrolled in the SCTP and CS-PWP are eligible to receive additional support when objective drought indicator thresholds are triggered across eight districts—Blantyre, Chiradzulu, Ntcheu, Nkotakota, Thyolo, Mwanza, Nsanje, and Karonga. Together, these districts encompass around 650,000 people identified as vulnerable based on drought exposure, food insecurity, poverty incidence, and readiness of delivery systems for rapid response. The mechanism relies on satellite-based rainfall data and is overseen by a cross-departmental task force led by the MoF's Department of Economic Planning and Development and the National Local Government Finance Committee.

In designing the mechanism, the government assessed multiple risk models to determine an objective and transparent trigger for activating support and to define the thresholds for action. The final model tracks rainfall and food security indicators throughout the agricultural season, with the goal of delivering cash transfers by July, before the onset of the lean season *(see Figure 1).* This timing maximizes value for money—when food prices are lowest—and helps households avoid negative coping mechanisms such as selling productive assets, reducing food intake, or withdrawing children from school.

The scalability mechanism operates on pre-agreed rules and pre-positioned financing, enabling early, predictable response. Key design decisions included setting trigger thresholds, defining event frequency and severity, and determining both the number of households covered and the level of assistance. These parameters ultimately shaped the cost, scope, and operational feasibility of scaling up the SCTP and CS-PWP. The implementation rules were codified in a publicly available handbook, which is updated regularly to reflect lessons learned.

FIGURE 1. SHOCK-RESPONSIVE TRIGGER STRUCTURE



The design process was guided by a Disaster Risk Financing Task Force chaired by the MoF, working closely with the World Bank. The Bank supported the development of a learning roadmap and capacity building for the Department of Climate Change and Meteorological Services, enabling it to monitor rainfall triggers and calculate index values. It also helped strengthen government understanding of risk transfer instruments, including contract design, pricing, and legal and tax implications related to international reinsurers. In parallel, the government enhanced payment and registration systems, improving the efficiency and reach of emergency cash transfers.

To ensure financial readiness, the government developed a pre-arranged financing plan informed by cost analyses and drought probability assessments. After reviewing the efficiency of different DRF instruments, Malawi adopted a layered financing approach:

- A contingency fund for moderate droughts (up to US$2 million in needs); and
- A risk transfer instrument for more severe events.

The insurance premium for the risk transfer instrument was funded by a GSFF grant, specifically designed to align with the scalability mechanism's objectives. When drought indicators are triggered, both instruments release funds simultaneously to finance additional cash transfers—a process successfully applied during the 2023/24 and 2024/25 agricultural seasons. An additional US$9.5 million is available through a broader contingency window to support another 650,000 people in districts not yet covered by the scalability mechanism, or to respond to hazards beyond drought.

Results

Since its launch, the scalability mechanism has provided critical support to vulnerable households affected by drought, drawing on the contingency fund and, in recent years, the insurance policy established to backstop the fund. In both 2023/24 and 2024/25 the insurance policy was triggered, covering substantial portions of the drought response costs.

During the 2023/24 agricultural season, Malawi experienced a severe El Niño–induced drought, prompting the President to declare a State of Disaster in March 2024. Throughout this season, the government tracked rainfall conditions using remote sensing and on-the-ground data sources. By April 2024, the government confirmed that the pre-agreed trigger thresholds for the scalability mechanism had been reached, activating a vertical expansion of the SCTP and the CS-PWP across six of the participating districts—Chiradzulu, Blantyre, Karonga, Nhkotakota, Ntcheu, and Thyolo. The insurance policy subsequently made a US$6.6 million payout to the government to finance the response.

Additional support was mobilized in four other districts—Balaka, Chikwawa, Mwanza, and Nsanje—through the broader contingency fund. Payments under the scalability mechanism began in Chiradzulu in mid-July 2024, followed by distributions in mid-August across all other eligible districts. In total, approximately 140,000 households received a top-up payment of 150,000 MWK (about US$86). A rapid monitoring survey conducted shortly after disbursement found immediate improvements in household food security, although sustaining these gains over the medium term will require continued support and coordination.

Building on these results, the government is now reviewing its Disaster Risk Financing Strategy with plans to expand the scalability mechanism nationwide, covering a broader range of climate-related shocks beyond droughts.

TABLE 1. RESULTS

YEAR	DISTRICTS SUPPORTED	HOUSEHOLDS RECEIVING SUPPORT	ADDITIONAL CASH TRANSFERS ($US)
2021/22	3	84,048	6,303,577
2022/23	1	12,431	932,342
2023/24	10	140,029	11,876,590
2024/25	1	64,000	3,400,000

Children pumping water from a well in Salima during a massive drought. Credit: africa924 | iStock

Key Takeaways

Malawi's experience highlights how linking DRF with adaptive social protection (ASP) can deliver timely, cost-effective support to vulnerable households and build long-term resilience.

1. **Timely, pre-arranged finance is critical for effective response.** A DRF approach addresses the common challenge of delayed funding in ASP programs by establishing pre-arranged financial instruments and clear, objective triggers. This ensures funds are dispersed rapidly after a shock, reducing reliance on ad-hoc budget reallocations or humanitarian appeals. In Malawi, early cash transfers scheduled for July, when prices are lowest, allow households to buy up to three times more maize compared to past responses disbursed in November. Timely finance not only safeguards lives and livelihoods, but also improves cost-efficiency of the response. For instance, a delayed humanitarian response in Ethiopia was found to be seven times more expensive than an earlier one.

2. **Linking financial and operational preparedness strengthens resilience.** Integrating DRF with social protection systems enhances both fiscal and delivery readiness. Financial preparedness through contingency funds and insurance ensures resources are available when needed, while operational preparedness—through pre-identified beneficiaries, digital payments, and service provider contracts—enables last-mile delivery. This linkage has inspired broader initiatives such as REPAIR, which focuses on connecting pre-arranged financing instruments to delivery channels for timely response. In Malawi, this combination has improved budget credibility and reduced the government's contingent liabilities.

3. **Pre-agreed rules improve transparency and predictability.** DRF brings discipline and rigor to ASP programs by requiring governments to establish clear rules, processes, and triggers in advance. This minimizes the risk of politicized or delayed disaster responses and builds trust among communities and partners. In Malawi, the government published implementation guidelines and validated drought indicators with its climate and meteorological agencies, contributing to greater transparency and accountability.

4. **Government ownership and institutional capacity are essential.** Successful implementation depends on strong government leadership and cross-sectoral collaboration. In Malawi, a dedicated cross-ministerial task force, with a full-time coordinator, coordinated design and rollout, while capacity-building support from the World Bank helped the government navigate risk modeling, insurance procurement, and improvements to digital payment systems. This was also the country's first use of an insurance product directly linked to a social protection risk model.

5. **A systems approach creates opportunities to scale.** By investing in institutional foundations, Malawi has created a scalable platform that can respond to a wider range of shocks and attract additional financing. This includes leveraging international insurance markets and drawing on additional resources beyond pre-allocated funds. The model is now being expanded as part of a broader strategy to build a nationwide, shock-responsive social protection system.

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