DISASTER RISK FINANCING STRATEGY

AND

IMPLEMENTATION PLAN

(2019-2024)

Ministry of Finance, Economic Planning and Development
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Acronyms

DRF	Disaster Risk Financing Strategy
DRM	Disaster Risk Management
MDAS	Ministries, Department and Agencies
MGDS	Malawi Growth and Development Strategy
NRS	National Resilience Strategy
GoM	Government of Malawi
MNSSP	Malawi National Social Support Programme
NDRM	National Disaster Risk Management
NDPRC	National Disaster Preparedness and Relief Committee
DPRF	Disaster Preparedness and Relief Fund
PDNA	Post Disaster Needs Assessment
NFR	National Food Reserve Agency
NGO	Non-Governmental Organization
SCTP	Social Cash Transfer Programme
UBR	Unified Beneficiary Register
MoFEPD	Ministry of Finance, Economic Planning and Development.
CFS	Critical success factor
NDRMF	National Disaster Risk Management Fund
DPR	Disaster Preparedness and Relief
DoDMA	Department of Disaster Management Affairs
GDP	Gross Domestic Product
PFM	Public Finance Management
NFRA	National Food Reserve Agency

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Foreword

Disasters cause a broad range of social, economic, fiscal and environmental impacts, with potentially long-lasting, multi-generational effects. The human and economic costs of these catastrophes are huge, with figures likely to increase with a growing population, climate change, environmental degradation and urbanization. The financial management of these disasters has been a key challenge leading to the diversion of resources from longer-term development investments to meet immediate relief and recovery needs. It is, therefore, indispensable that proper mechanisms are put in place to help in managing the fiscal impacts of disasters.

As the Minister responsible for Finance, with my desire of ensuring that fiscal impacts of disasters are well managed, I commissioned the development of the Disaster Risk Financing Strategy. This strategy is aimed at ensuring that disasters are better anticipated, better prepared for and that we build back better in the aftermath of disasters thereby contributing to the achievement of the strategic theme of the Malawi Growth and Development Strategy of becoming a "Productive, Competitive and Resilient Nation".

This strategy highlights financial options that will be explored and developed in the next five years to reduce fiscal vulnerability arising from disasters by amongst others, ensuring that both ex-ante and ex-post instruments are being implemented; the timeliness of the funds for disaster response; by embracing the principle of layering of disaster instruments; by ensuring effective post-disaster spending; and by making use of best available data. I am fully convinced, therefore, that the effective implementation of this strategy will go a long way towards mitigating the fiscal impacts of disasters.

HON. GOODALL GONDWE, MP.
MINISTER OF FINANCE ECONOMIC PLANNING
AND DEVELOPMENT

Preface

Management of Fiscal Impacts from disasters is the highest priority of the Ministry of Finance, Economic Planning and Development. This is mainly because over the last decade the intensity, frequency, and economic impact of disasters have been increasing leading to large fiscal losses. With this in mind, the Disaster Risk Financing Strategy sets forth the vision that is aimed at solving the liquidity challenges in the aftermath of disasters by developing a portfolio of ex-ante financial instruments.

This strategy complements the mitigation and preparedness measures that are already being implemented by MDAs through the coordination of DoDMA. This strategy will contribute to improved information on risks and expected costs of disasters. It will also help make financial resources readily available when catastrophes occur, thereby ensuring timeliness of funds to finance response activities, and increase discipline.

We would like to thank all those who have contributed to the development of this strategy. In particular, let me acknowledge the World Bank for technical and financial support, the Disaster Risk Financing team for guiding the process and drafting the strategy. Special thanks to the entire task force and to all stakeholders for their contributions in the development of this strategy.

It is our expectation that this Strategy if fully implemented will result in a more pro-active financial planning for disasters in the next five years.

CLIFF CHIUNDA
SECRETARY TO THE TREASURY

1. Introduction

In recent past years, Malawi has experienced severe disasters which have resulted in fiscal pressure and macroeconomic instability. The intensity, frequency, and economic impact of disasters have been increasing due to climate change, rapid population growth, rapid urbanization, and environmental degradation. Disasters in Malawi have led to losses in human life and damages in infrastructure which result in long-term adverse consequences on economic growth, development and poverty reduction.

The Government of Malawi (Government) recognizes the importance of mitigating these events and has therefore developed a legal and regulatory framework to strengthen the management of disaster risks. For instance, the Government enacted the Disaster Preparedness and Relief (DPR) Act (1991) which established the Department of Disaster Management Affairs (DoDMA). In addition, the Government developed the National Disaster Risk Management (NDRM) Policy (2015) and is in the process of developing a National Resilience Strategy (NRS, 2018) to guide disaster risk management in the country. Furthermore, the Government is in the process of enacting a Disaster Risk Management (DRM) Bill to enhance the governance, coordination, and implementation of DRM programmes.

1.1 Social impacts of disasters

Between 1949 and 2017, six major droughts have affected approximately 26.4 million people and killed about 500 people. Strong El Niño conditions compound the effects of droughts across most parts of the country and have resulted in severe crop failure, particularly in the Southern Region and parts of the Central Region. In 2003/2004, drought affected more than 6 million of the population. Whilst in 2015/2016, at least 40 percent (6.7 million) of the population became food insecure in 24 drought-affected districts.

Furthermore, from 1995 to 1998, floods affected about 5.2 million of the population. Between 2001 and 2003, over 3 million of the population across the country were affected by floods. In 2015 alone, floods affected over 1.1 million people, displaced 230,000 people and killed 106 people. Public and private infrastructures were damaged in 17 flood affected districts.

Households lost assets and livelihoods and were therefore pushed further into poverty. The quality and quantity of meals worsened after disasters. School drop outs due to starvation increased both at primary schools and secondary schools. Furthermore, in some families, headship changed as some household members migrated in search of livelihood. Water scarcity also forced women to walk long distances to fetch water.

In the aftermath of disasters, the country has also experienced health related challenges. Often, people affected by disasters live in temporary camps where access to safe water and adequate sanitation is a challenge, and this compromises the standard hygiene practices leading to out breaks of diseases such as cholera. For example, the cholera outbreaks in 1998/1999, 2001/2002 where over 25,000 and 33,546 cases of cholera were reported, respectively, were associated with disasters. Also, productive time is lost as people tend care for the sick, further exacerbating negative economic impacts of disasters.

1.2 Economic and fiscal impacts of disasters

In 2016, drought related damages and losses to the economy amounted to US$ 370 million, which was equivalent to 5.6 percent of GDP. Droughts had the greatest impacts on agriculture (US$ 263 million), followed by the utility (US$ 14 million) and manufacturing sectors (US$ 6.9 million).

In 2015, damages and losses due to floods amounted to about US$ 335.0 million, equivalent to 5 percent of GDP. The subsectors most hit by the 2015 floods were housing (US$ 139.0 million), agriculture (US$ 68.0 million), transportation (US$ 50.0 million), water and sanitation (US$ 26.0 million), education (US$ 12.0 million), health (US$ 12.0 million) and industry and trade (US$ 11 million). Costs for repairing and reconstruction of infrastructure placed an additional burden on the national budget. Estimates suggest that floods with a 20-year return period lead to a decrease of GDP by 3.2 percent while increasing government expenditure by 1.3 percent.

1.3 Rationale for Disaster Risk Financing Strategy

In recent years, Malawi has experienced severe disasters resulting in insignificant human, social, economic, and fiscal costs. It is expected that disasters will increase in severity and frequency due to climate change, rapid population growth, rapid urbanization, and environmental degradation. It is, therefore, important for the government to assess the economic and fiscal impacts of disasters to reduce disaster risks and ensure timely availability of financial resources for disaster preparedness, response, recovery, and reconstruction which can reduce financial distress, and ultimately the human and economic cost of disasters.

Currently, Government relies, to a substantial extent, on external assistance to finance disaster response which is not only unpredictable but also untimely in most instances. Furthermore, the government has resorted to short-term borrowing and budget reallocations. It would, therefore, be more cost-effective to arrange financing ex-ante according to a risk layering approach to mitigate the financial impact of disaster events of different frequency and severity. Typically, optimal combinations of risk financing instruments include a combination of risk retention and risk transfer instruments.

It is in this context that this Disaster Risk Financing Strategy (DRFS) has been developed, which outlines strategic priorities and financial instruments to be adapted. The DRF strategy will enhance Malawi's financial resilience to disasters through sound risk assessments; a portfolio of adequate disaster risk finance instruments; mechanisms and clear rules which ensure that resources are channeled efficiently to intended beneficiaries; and continued disaster risk reduction efforts.

The DRF strategy will, therefore, act as a reference document for all relevant stakeholders such as the Department of Meteorology; Ministry of Agriculture, DoDMA, Ministry of Homeland Security and internal Affairs; Ministry of Defense, Ministry of Transport, Insurance companies; Reserve Bank of Malawi and Local Councils in understanding the fiscal risks of disasters as well as financial instruments that the country will employ in the next five years to anticipate, prepare and better respond to natural disasters.

2. Legal and institutional framework for disaster risk management and financing

2.1. Policy framework for disaster risk management

Malawi has comprehensive frameworks for climate and disaster risk management but lacks a disaster risk financing strategy. Malawi's climate and disaster risk management policy frameworks emanate from regional and international agreements and frameworks such as the Kyoto Protocol (1992), the Hyogo Framework for Action (2005), the Sendai Framework for Disaster Risk Reduction (2015), and the African Strategies for Disaster Risk Reduction 2004. These have informed Malawi's overarching development planning document, Malawi Vision 2020, which is now being implemented through the third Malawi Growth and Development Strategy (MGDSIII). The MGDS III includes DRM as one of the cross-cutting areas to be mainstreamed by all planning sectors.

The NDRM Policy provides strategic, comprehensive and coordinating guidance for achieving "national resilience towards disasters". The National Resilience Strategy (NRS) 2018-2030 is aligned to the MGDS III to guide the implementation of the disaster risk interventions. The NRS includes measures to achieve national goals outlined in the NDRM and Malawi National Social Support Program (MNSPP) II, which among others promotes shock-sensitive social protection. However, most outcomes in these policy frameworks remain unmet largely because of inadequate and untimely financing.

Until now, Malawi has no policy document which addresses disaster risk financing. This DRF Strategy, therefore, is developed to fill this gap.

2.2. Policy framework for public financial management of disasters

The Malawi Public Finance Management (PFM) Act (2003) sets the overarching framework for PFM in Malawi. The Act legally mandates the Ministry responsible for Finance to manage public finances and be the principal financial advisor to the Ministries, Departments and Agencies (MDAs) in the country.

In accordance with section 24 of the Act, the Minister of Finance, Economic Planning, and Development (MoFEPD) manages and presents the Vote for Unforeseen Expenditure to the National Assembly with a proposed appropriation not exceeding two per cent of the total national budget. The Minister may use funds from the unforeseen expenditure vote in exceptional circumstances (including disasters) upon Cabinet approval. In an event of a disaster, the Minister transfers funds to nominated Vote of Unforeseen Expenditure such sum or sums as he considers necessary up to but not exceeding the amount of the balance from time to time available in this vote.

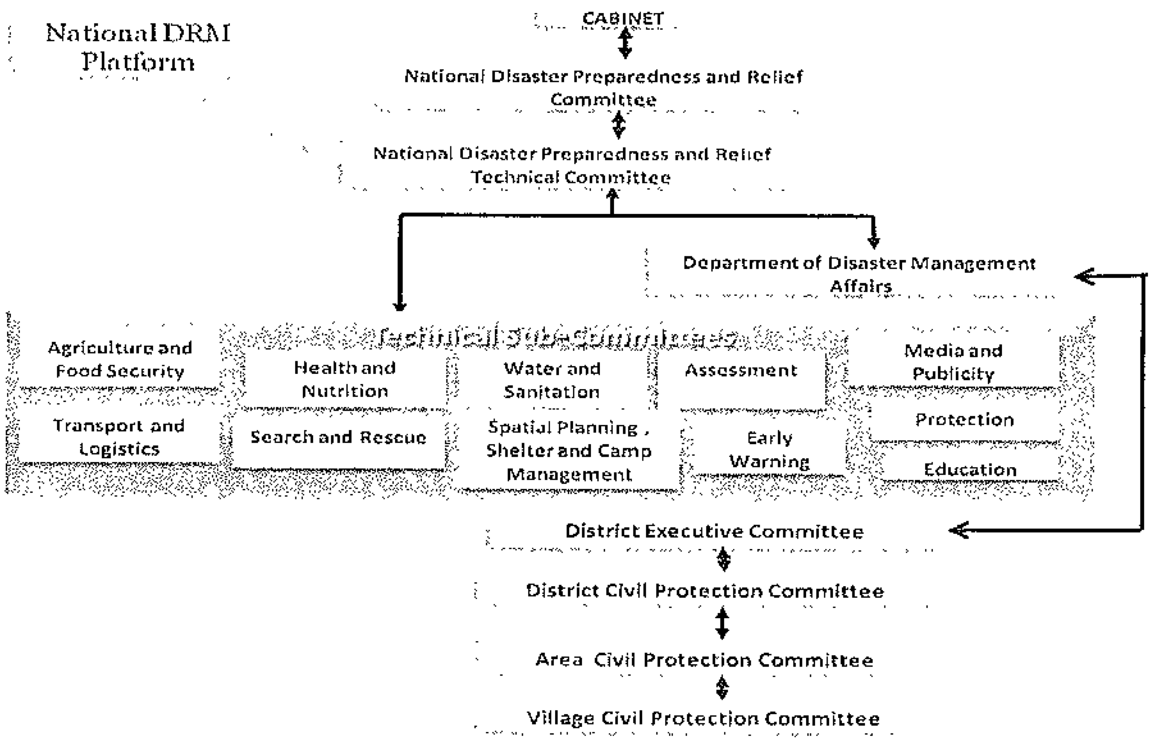
The Local Government Act (1998) authorizes local authorities to mobilize resources for discharging any function of the local authorities. The Act mandates the MoFEPD to disburse at least 5 percent of the national budget to local authorities in line with the National Local Government Financing Committee approvals. However, most local authorities receive under 2 percent of the funds due to fiscal constraints of the central Government. This, in addition to limited ability to raise their own resources and partial decentralization, means that local governments can typically not meet costs resulting from disasters.

2.3. Institutional framework for disaster risk management

The Disaster Preparedness and Relief Act (DPR) of 1991 has provisions for coordinating and implementing disaster risk management initiatives in the country. It established DoDMA, the National Disaster Preparedness and Relief Committee, and the Disaster Preparedness and Relief Fund. The Act also empowers the President to declare the State of Disaster. Figure1 illustrates the institutional framework for vertical and horizontal coordination at national and district level.

Although there is a linkage between MoFEPD and the DRM framework, MoFEPD does not have a clear mandate to call for DRF meetings within the existing institutional arrangement. Therefore, there is a need to strengthen the role of MoFEPD to manage fiscal risks of disasters. Further, it would be ideal to include a technical committee on DRF in the current institutional arrangement.

Figure 1: An Institutional arrangement for DRM in Malawi



3. Vision and Mission Statement

3.1. Vision

"Towards innovative and comprehensive disaster risk financing"

3.2. Mission statement

"To proactively manage economic and fiscal risks as well as protect public finances against disasters thereby reducing human, social, economic, and fiscal impacts."

3.3. Core values

- Transparency and Accountability
- Inclusiveness
- Innovativeness

- Integrity, honesty and shared responsibility
- Professionalism
- Comprehensiveness

3.4. Basic Principles

In executing this strategy, the government will be guided by the following principles.

3.4.1. Timeliness of Funds

Government will recognize the fact that speed matters in responding to disasters, even if not all resources are needed at the same time. Government will, therefore, ensure that funding is made available at the right time during every phase of disaster response. Understanding the timing of needs is essential.

3.4.2. Layering financial instruments to address different risks

The government recognizes the fact that no single instrument can address all the fiscal risks of disasters. A combination of appropriate financial instruments will be utilized including self-financing (risk retention) and risk transfer (e.g., insurance), to minimize the cost and optimize the timing of funding disaster needs.

3.4.3. Effective disbursement of disaster related funds

Targeted and pre-arranged disbursement mechanisms will support the fast and efficient distribution of funds to clusters and beneficiaries. To achieve this, Governments will use the existing institutional frameworks, programs, such as the UBR, and expertise to effectively allocate, disburse, and monitor response, recovery, and reconstruction funds. Further, collaboration between the Ministry of Finance and the public entities tasked with spending post-disaster funds will be strengthened.

3.4.4. Accurate data and information

Government recognizes that to make sound financial decisions, the right information is required. Sound decision making requires actuarial analysis and tools to help in understanding and evaluating alternative financial instruments and strategies; user-friendly interfaces to bridge the gap between policy makers and underlying technical models, and quantitative analysis to leverage financial markets and private sector solutions. Government will, therefore, invest in risk information, models, and tools to assess hazards, exposures, and potential impact of losses.

4. Strategic Priorities

For the period from 2019 to 2024, the Government has identied six strategic priorities to strengthen the management of fiscal risks associated with disasters. They include the following:

- identify and quantify disaster related economic and fiscal risks;
- establish a portfolio of sovereign disaster risk financing instruments;
- develop options for private risk transfer to complement sovereign risk financing instruments;
- incorporate disaster risk analysis in the planning of public investments; and
- strengthen coordination and institutional capacity for disaster risk financing and management.

4.1. Identify and quantify disaster related economic and fiscal risks

4.1.1. Existing risk assessments

Sound estimates of potential economic and fiscal impacts of disasters are the basis for adequate and timely financial planning, including the adoption of cost effective financial instruments. Historical information and Post-Disaster Needs Assessment (PDNA) whilst useful to illustrate the potential economic and financial impacts of disasters, cannot replace sound estimates of future losses. This information is key for optimal financial planning and is estimated using probabilistic catastrophe modelling. Such models use the following key inputs: information on hazards and estimates of their likely occurrence at different magnitudes; exposures of people and economic assets; and vulnerability of such assets and populations to the impact of a given disaster.

An integral assessment of fiscal risks can help strengthen the management of public finances and macroeconomic stability. Existing risk assessments are scattered, not up to date and partial and do not form a sound basis for financial planning. The Government will, therefore, prioritise the following activities to improve disaster related economic and fiscal risk information:

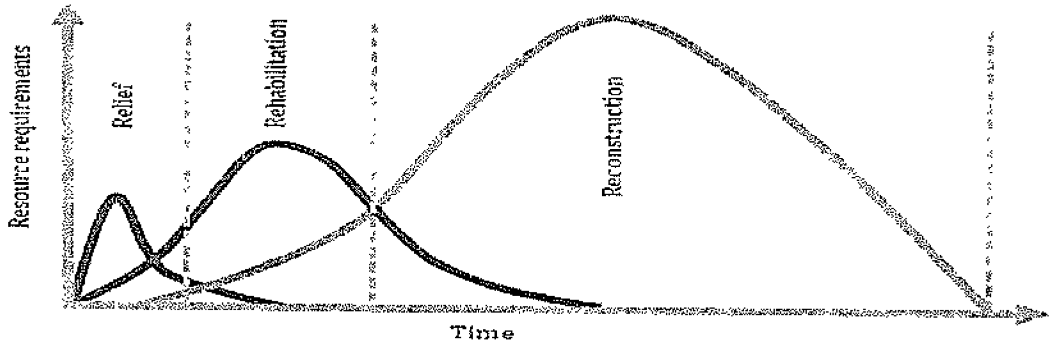
- Develop and populate a national database of public assets to improve information on the exposure of public assets to disasters, including infrastructure and public buildings. This will help to improve understanding of the country's disaster related contingent liability;
- Create and/or update probabilistic disaster risk assessment;
- Build capacity to understand fiscal and economic risks to inform policy decisions on retention and risk transfer to the market; and
- Incorporate updated disaster risk information into economic and fiscal planning to increase financial preparedness for disasters. In addition, this will support decision making regarding investments in disaster risk management.

4.2. Establish a portfolio of sovereign disaster risk financing instruments

Previously, the Government has reactively responded to disasters largely by using the unforeseen vote and relying on external assistance. However, the resources mobilized have been insufficient and have often arrived late. Furthermore, Government's focus has primarily been on disaster response rather than disaster risk reduction.

International experience suggests that the impact of disasters on public finances is most efficiently mitigated through the adoption of a portfolio of financial instruments which account for the temporal dimension of resource requirements after a shock. A combination of different financial instruments may be used to meet the Government's need for resources across time (see Figure 2) as not all resources are needed at once.

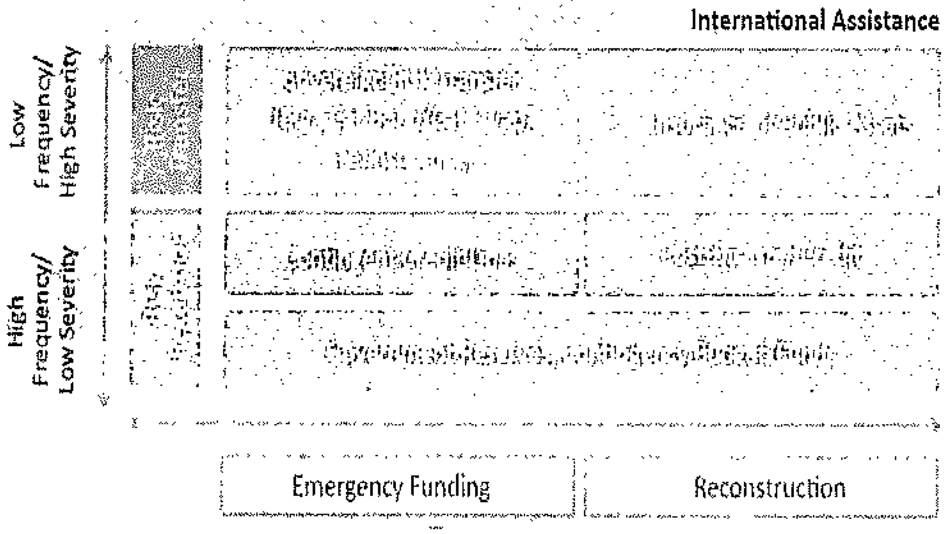
Figure 2: Temporal Dimension of Post Disaster Funding Needs



Source: GFDRR, 2014.

In addition, it is cost-effective to adopt a risk layering approach to mitigate the financial impact of disaster events of different frequency and severity. Typically, optimal combinations of risk financing instruments include a combination of risk retention and risk transfer instruments (see Figure 3).

Figure 3: Risk Layering Approach



To date, the Government has used the following ex-ante and ex-post financial instruments to finance disaster mitigation, response, recovery, and reconstruction:

4.2.1. Ex-ante instruments:

- **A contingency budget line – the Vote of Unforeseen Expenditure:** The annual appropriation to the Vote of Unforeseen Expenditure does not exceed 2 percent of the total expenditure budget. Furthermore, allocations to the Vote can be used for other unforeseen circumstances which are not related to disaster risk management. Disaster which cause large economic impacts would likely result in financing needs which are larger than the allocated resources in the Vote.

- **Strategic Grain Reserve (SGR).** The government allocates resources to the National Food Reserve Agency (NFRA) to stock the SGR with staple grain. The drawdown is done as and when necessary to mitigate the impact of potential disaster related shocks. Nonetheless, the resources are not adequate and are not provided on time.

- **Sovereign insurance against weather-related risk.** The Government has purchased sovereign risk transfer against weather related shocks in the past. In particular, it purchased a weather derivative between 2008 and 2012, and sovereign drought insurance for the 2015/2016 crop season.

4.2.2. Ex-post instruments:

- **Budget reallocations:** In the event of a disaster, Government postpones other MDA's programs, projects, and activities and reallocate the resources to disaster related activities. However, the resources are usually inadequate.

- **Post disaster borrowing:** Government borrows both domestically and internationally to finance post disaster related programs thereby increasing the national debt burden.

- **External assistance:** Development partners play an important role in financing disaster mitigation, response and recovery activities. However, the assistance is unpredictable and, in some cases, arrives late.

- **Post-Disaster Support:** In the aftermath of disasters, government provides a standard food basket to affected households to support their livelihoods. For farmers, Government, Non-Governmental Organizations and humanitarian organizations assist with agricultural inputs. Nonetheless, the support is inadequate to meet households' livelihood needs.

- **Scalable Social Protection:** Government is implementing social protection programmes to uplift the lives of poor and vulnerable households. A number of pilots to scale up social protection programmes for learning have been conducted already in Malawi, such as in Balaka district in the 2017/2018 fiscal year.

Although a variety of instruments have been used, they have been employed in silos and their use has not been based on rigorous analysis of their relative cost effectiveness. The government will, therefore, undertake the following actions to establish a comprehensive and innovative portfolio of sovereign disaster risk financing instruments:

- Operationalize the National Disaster Risk Management Fund, which will act as a basket of resources for disaster risk management activities. The Fund will require clear rules for allocating resources and specifications regarding eligible expenditure.

- Evaluate available contingent credit instruments and adopt such instruments in accordance with fiscal and disaster risk management objectives such as the World Bank's contingent credit line (Development Policy Loan with a Catastrophe Deferred Draw Down Option).

- Evaluate sovereign risk transfer products which are currently being offered and the potential development of new products. In doing so, the Government will rigorously review and seek to learn from the use of such instruments in the past both in Malawi and elsewhere. This will ensure that both the benefits and risks of any potential product combination are considered and understood by all relevant stakeholders. In addition, the Government will ensure that the benefits of combining any risk transfer with other disaster risk financing instruments are duly considered.

- Implement shock-sensitive social protection. The Malawi National Social Support Programme 2018-2023 (MNSSP II) represents a policy shift from individual programme implementation to a more integrated approach that that also includes shock-sensitive social protection. The objective of the latter is to help poor households better deal with predictable risks and shocks through a more institutionalized and coordinated approach. The MNSSP II promotes the need to adapt social support to build resilience and promote the proactive management of shocks. Only preliminary analysis exists of the potential costs of scaling up, e.g., the social cash transfer programme, under different scenarios and their associated probabilities. The Government will analyze the costs of implementing the scalable and shock-sensitive components of the social protection system and evaluate different options for ex-ante instruments to finance the cost of a scale-up, including the establishment of a Social Support Fund.

- Evaluate options to increase public asset insurance in Malawi, in particular of public infrastructure and buildings. Currently, Government does not systematically insure its public infrastructure and buildings. Recognizing that damaged public assets in the wake of disasters lead to significant fiscal costs, the Government will evaluate options to increase the insurance of public assets.

- Enhance coordination among development partners to ensure timely disbursements of humanitarian assistance and reduce related transaction costs.

4.3. Develop options for private risk transfer to complement sovereign risk financing instruments

4.3.1. Private catastrophe insurance for households and businesses

Private property catastrophe insurance is currently almost non-existent in Malawi. This due to a combination of constraints on the side of existing insurance companies and lack of awareness and/or demand for such products on the part of private households and companies. Catastrophe insurance could provide reliable and timely financial relief for the recovery of livelihoods and reconstruction, providing security in the post-disaster period. It could also prevent people from falling into poverty and destitution or provide the liquidity necessary to restore livelihoods in the short term. In addition, increased private catastrophe risk transfer could significantly reduce the country's disaster related contingent liabilities.

The government will, therefore, develop options to increase catastrophe insurance penetration. As a first step, it will conduct an analysis of the current constraints, including legal and capacity gaps, in the insurance sector. Based on the findings, it will develop actions to alleviate identified constraints. This will be done in close collaboration with the Reserve Bank of Malawi, the private sector, and development partners.

4.3.2. Agricultural insurance

Various crop insurance instruments have been implemented in the country, with mixed experiences. They have exerted pressure on the national budget with low demand and uptake by the intended farmers. The greatest challenge has been to design sound insurance products that meet the requirements of farmers while ensuring effective demand. However, international experience shows that well-designed schemes can be developed to offer effective protection to farmers against extreme events. Further, an intensive awareness campaign that seeks to sensitise farmers about the insurance products and their benefits could potentially increase their uptake.

The Government will undertake the following activities to enhance supply and uptake of agriculture insurance:

- Conduct a feasibility study on agricultural insurance
- Work with relevant stakeholders to develop tailor-made options to increase agricultural insurance penetration in Malawi; and
- Creation of a conducive police and regulatory framework for agricultural insurance.
- Build capacity of private insurance companies on agricultural insurance
- Sensitize farmers on agricultural insurance
- Enhance access to public sector data (e.g., weather and production data) for insurance companies

4.4. Incorporate disaster risk analysis in the planning of public and private investments

The inclusion of disaster risk in public investment planning requires commitment from stakeholders in charge of the identification, formulation, prioritization, and implementation of investment projects. Disaster risk informed public investment will reduce the disaster-related contingent liability of the state compared with a scenario where risk information is not considered in the Public Sector Investment Program (PSIP).

Currently, most public sector investment projects do not integrate disaster risk considerations in all stages of the project cycle rendering them prone to potential damage emanating from disasters. This can, in turn, lead to significant social and economic losses. In this regard, Government will profile new projects and their associated potential vulnerability to disasters and mainstream DRM in MDAs. To begin with, Government will prioritise selected MDAs responsible for Agriculture; Transport and Public Works; Lands, Housing and Urban Development; Education, Health; Social Protection; and Local Councils. Further, it will also mainstream DRM in PSIP to ensure that all projects are risk informed.

4.5. Strengthen coordination and institutional capacity for disaster risk financing and management

Proper coordination and institutional capacity of all relevant stakeholders is critical for successful implementation of this DRF Strategy. Currently, the roles and mandates of MDAs with regards to disaster risk financing are not formally defined, and no formal mechanisms exist to coordinate their DRF related activities. In addition, capacity gaps still exist in terms of personnel and critical skills in DRM and DRF such as hazard mapping and risk modelling.

To enhance coordination and institutional capacity for disaster risk financing, Government will do the following:

- Strengthen the DRF Strategy coordination role of the National Disaster Preparedness and Relief Steering and Technical Committees; and
- Build the capacity of all relevant stakeholders.

5.0. Strategic Outcomes and targets

This section outlines the strategic outcomes which will drive the direction for Disaster Risk Financing. Based on the identified strategic priorities, four (4) strategic outcomes to be achieved in the next five years have been identified as follows:

Strategic outcome one: Enhanced understanding of economic and fiscal risks of disasters;

Strategic outcome two: Timely and effective Government response to disasters;

Strategic outcome three: Diversified disaster risk financing instruments; and

Strategic outcome four: Strengthened coordination and institutional capacity for disaster risk financing.

Table 1: Strategic Outcomes and Outcome Targets

1. Enhanced understanding of economic and fiscal risks of disasters	1.1 Knowledge of economic and fiscal risks of disasters enhanced
	1.2 Financial planning for disaster strengthened
2. Timely and effective Government response to disasters	2.1 Portfolio of sovereign disaster risk financing instruments in place
3. Diversified disaster risk financing instruments	3.1 Legal and regulatory framework on insurance, saving and lending strengthened
	3.2 Capacity of private insurance, saving and lending institutions strengthened
	3.3 Awareness for public and private sector on disaster insurance, savings, and lending products enhanced
4. Strengthened coordination and institutional capacity for disaster risk financing and management	4.1 Disaster risk financing implementation plan developed
	4.2 Capacity of relevant stakeholders enhanced

6.0. Institutional arrangements for implementing the strategy

The Strategy sets out the strategic direction that will guide Disaster Risk Financing for the next five years. Proper coordination of all relevant stakeholders is, therefore, a critical feature for the successful implementation of this strategy. The Ministry of Finance, Economic Planning and Development will be the lead responsible for the overall coordination of the stakeholders in the implementation of the Disaster Risk Financing Strategy.

Implementation of this strategy will make use of the existing structures. At the national level, the Ministry will work in close collaboration with the Department of Disaster Management Affairs to coordinate the implementation of the strategy. At the local council level, coordination will be through the District Executive Committees as well as the Civil Protection Committees at district, area and village levels. For more inclusiveness and sustainability, the already established structures will be used to reach out to the people who have been affected by disasters using the Unified Beneficiary Register (UBR).

These structures will be responsible for the facilitation of a coordinated effort in data collection, risk assessment, which are imperative to overcome the current challenges including that of inadequate information sharing between government and communities.

6.1. Implementation Plan

In implementing this strategy, the Secretary to the Treasury will be committed to:

- Coordinate DRF stakeholders;
- Report on progress made in the implementation of the plan;
- Build the capacity of stakeholders;
- Review financial instruments;
- Promote professionalism, transparency, and accountability;

Local Authorities, on its part, will ensure that:

- Decentralized structured are followed in the implementation of the strategy; and
- Already established mechanisms are used to respond to disasters such as public works programs, school meals, e- cash transfers as well as the Unified Beneficiary Register

Department of Disaster Management Affairs, on its part, will ensure that: -

- Information on disasters is shared;
- Technical expertise is provided;
- Input is provided in the review of the financial instruments.
- Technical guidance to MoFEPD on the implementation of the strategy is provided; and
- Disaster response and recovery interventions are coordinated.

7.0. Critical Success Factors

In determining the strategic outcomes, outputs as well as targets to be achieved, stakeholders are aware that certain critical elements must be made available for sustainability.

Critical Success Factors (CSF) may change over time hence the need for all relevant stakeholders to regularly observe these and make adjustments where necessary. The following are the CSF that are assumed to be already in place for the stakeholders to meet the targets.

7.1. Political Support

The importance of creating an enabling environment continued political support for the strategy as well as the implementation plan, cannot be over-emphasized. This would largely indicate the level of Government's willingness to venture into market oriented financing instruments.

7.2. Strategic Leadership

Leadership is the driving force in the accomplishment of any organization's expected outcomes. It is therefore imperative that the Ministry's guidance in the implementation of the strategy is proactive, visionary, inspiring and accommodative.

7.3. Support from Key Stakeholders

For the successful implementation of this strategy, it is anticipated that all stakeholders, including development partners, will give adequate and requisite support.

7.4. Staff Capacity

It is expected that the Ministry will build the necessary capacity in disaster risk financing to effectively implement the strategy and monitor its progress.

8.0. Monitoring and Evaluation

The development of this Strategy is the first critical step in disaster risk financing. However, this cannot be achieved unless there is a framework for assessing progress in the implementation of the strategy and taking remedial measures where appropriate. Thus, ongoing monitoring will form an integral part in the strategy implementation in order to realize the intended results. The ongoing routine monitoring and reports that will be produced will enable the Ministry to assess whether the strategy is being implemented according to plan, and address any challenges being encountered. A mid-term evaluation will enable the implementing units to determine whether the plan has achieved its intended outcomes.

9.0. ANNEXURES

9.1. FIVE YEAR IMPLEMENTATION PLAN

Strategic outcome		1. Enhanced understanding of economic and fiscal risks of disasters				
TARGET		1.1 Knowledge of disaster related economic and fiscal risks enhanced				
OUTPUT DESCRIPTION		OUTPUT TARGETS (PER FINANCIAL YEAR)				
		2018/2019	2019/2020	2020/2021	2021/2022	2022/2023
1.1.1.	Assessment of economic and fiscal risks of disasters conducted		Annual economic and fiscal risk assessment report produced and disseminated	Annual economic and fiscal risk assessment report produced and disseminated	Annual economic and fiscal risk assessment report produced and disseminated	Annual economic and fiscal risk assessment report produced and disseminated
1.1.2	DRF incorporated in Budget guidelines		DRF incorporated in budgeting guidelines	DRF incorporated in budgeting guidelines	DRF incorporated in budgeting guidelines	DRF incorporated in budgeting guidelines
1.1.3	A harmonized web based national disaster information management system developed		Centralized web-based database developed	Centralized web-based database integrated with other systems	Centralized web-based database integrated with other systems	Centralized web-based database integrated with other systems

TARGET		1.2 Financial planning for disaster strengthened				
OUTPUT DESCRIPTION		OUTPUT TARGETS (PER FINANCIAL YEAR)				
		2018/2019	2019/2020	2020/2021	2021/2022	2022/2023
Output 1.2.1	Disaster Risk financing mainstreamed in PSIP		Disaster Risk incorporated in PSIP guidelines	Disaster Risk incorporated in PSIP guidelines	Disaster Risk incorporated in PSIP guidelines	Disaster Risk incorporated in PSIP guidelines
1.2.2	Financial decision making tools customized for Malawi		Available financial decision-making tools customized	Financial Planning informed by decision tools	Financial Planning informed by decision tools	Financial Planning informed by decision tools
1.2.3	DRF incorporated in Local development plans		DRF incorporated in Local Development Plans guidelines	Disaster risk incorporated in local development plans	Disaster risk incorporated in local development plans	Disaster risk incorporated in local development plans

Strategic outcome 2		2.0. Timely and effective sovereign response to disasters				
TARGET		2.1. Portfolio of sovereign disaster risk financing instruments				
	OUTPUT DESCRIPTION	OUTPUT TARGETS (PER FINANCIAL YEAR)				
		2018/2019	2019/2020	2020/2021	2021/2022	2022/2023
2.1.1	Contingent credit line negotiated	Cat DDO negotiated	CAT DDO in implemented	CAT DDO in implemented	CAT DDO in place	
2.1.2	Shock-sensitive social safety nets provided for	Shock-sensitive safety nets funded	Shock-sensitive safety nets funded	Unified Beneficiary Registry rolled out to all districts	Financial instruments for Scalable SCT developed	Scalable SCT rolled out to at least 18 districts.
2.1.3	Strategic Grain Reserves stocked	Timely provision of Funds to NFRA	Timely provision of Funds to NFRA	Timely provision of Funds to NFRA	Timely provision of Funds to NFRA	Timely provision of Funds to NFRA
2.1.4	National Disaster Risk Management Fund established		Regulations for the National Disaster Risk Management Fund developed	Regulations for the National Disaster Risk Management Fund adopted		National Disaster Risk Management fund institutionalized
2.1.5	Public Asset insured		Public asset management policy developed	Public asset management policy registry system developed	0.5% Public building insured	1% Public building insured
2.1.6	Agriculture insurance Piloted		Feasibility study on agricultural insurance conducted	Study Recommendations reviewed		Agricultural insurance pilot conducted
2.1.7	Other options of sovereign Risk Transfer Reviewed		Feasibility study for sovereign risk transfer conducted	Study recommendations and possibility of pilot reviewed		

Strategic outcome		3.0. Disaster risk financing instruments diversified				
TARGET		**3.1 Legal and regulatory framework for insurance strengthened by 2023**				
OUTPUT DESCRIPTION		**OUTPUT TARGETS (PER FINANCIAL YEAR)**				
		2018/2019	**2019/2020**	**2020/2021**	**2021/2022**	**2022/2023**
3.1.1	Insurance Act Reviewed and updated		Insurance Act reviewed	Insurance Act reviewed and updated		
3.1.2	insurance regulations reviewed and updated				Insurance regulations reviewed and updated	
TARGET		**3.2 Capacity of private insurance companies strengthened**				
3.2.1	Private insurance companies trained in disaster risk financing		3 insurance companies trained	3 Insurance companies trained	4 insurance companies trained	Remaining insurance companies trained
TARGET		**3.3 Enhanced awareness of the public on disaster insurance products increased**				
3.3.1	Public on disaster insurance sensitized		Annual sensitization campaign report	Annual sensitization campaign report	Annual sensitization campaign report	Annual sensitization campaign report

STRATEGIC OUTCOME		Strengthened coordination and institutional capacity for disaster risk financing				
TARGET		4.1 Monitoring and evaluation framework for the DRFS				
4.1OUTPUT DESCRIPTION		OUTPUT TARGETS (PER FINANCIAL YEAR)				
		2018/2019	2019/2020	2020/2021	2021/2022	2022/2023
4.1.1	Monitoring and evaluation framework for the DRFS Developed	M&E Framework developed and DRFS implementation periodically monitored	DRFS implementation periodically monitored	DRFS implementation periodically monitored	DRFS implementation periodically monitored	DRFS implementation periodically monitored
TARGET		4.2 Capacity of relevant stakeholders enhanced				
OUTPUT DESCRIPTION		OUTPUT TARGETS (PER FINANCIAL YEAR)				
		2018/2019	2019/2020	2020/2021	2021/2022	2022/2023
4:2.1.	Learning and exchange visits on disaster risk financing conducted	1 learning and exchange visits	2 learning and exchange visits			
4.2.2.	Specialized short term trainings on DRF for MoFEPD and DoDMA conducted	5 MoFEPD and 3 DoDMA officers trained	8 MoFEPD and 3 DoDMA officers trained	7 MoFEPD and 3 DoDMA officers trained	6 MoFEPD and 5 DoDMA officers trained	7 MoFEPD and 5 DoDMA officers trained
4.2.3	Capacity of local authorities on DRF strengthened		3 trainings for local authorities	3 training for local authorities	3 trainings for local authorities	3 regional trainings for local authorities
4.2.4.	Long term cousres attened		1MoFEDP staff attend long term training	1 MoFEDP staff attend long term training		

9.2. SUMMARY OF COST FOR DISASTER RISK FINANCING STRATGEY

Strategic outcome	1.0. Enhanced understanding of economic and fiscal risks of disasters						
Strategic Targets	**OUTPUT DESCRIPTION**		**2018/2019 (MK Mn)**	**2019/2020 (MK Mn)**	**2020/2021 (MK Mn)**	**2021/2022 (MK Mn)**	**2022/2023 (MK Mn)**
1.1. Knowledge of disaster related economic and fiscal risks enhanced	1.1.1	Assessment of economic and fiscal risks of disasters conducted	338.59	406.31	487.57	585.09	702.11
	1.1.2	DRF Incorporated in Budget guidelines		10.72	21.43	42.86	85.72
	1.1.3	A harmonized web-based national disaster information management system developed	164.04	196.85	236.22	283.46	340.15
1.2. Financial planning for disaster strengthened	1.2.1	Disaster Risk financing mainstreamed in PSIP		14.20	17.04	45.44	54.53
	1.2.2	Financial decision making tools customized for Malawi	16.12	15.03			
	1.2.3	DRF incorporated in Local development plans	1,131.05		1,187.60	952	1,142.38
Strategic outcome 2	**2.0. Timely and effective sovereign response to disasters**						
2.1. Portfolio of sovereign disaster risk financing instruments	2.1.1	Contingency budget line negotiated	0	0	0	0	0
	2.1.2	Shock-sensitive social safety nets provided for	46.38				
	2.1.3	Strategic Grain Reserves stocked		11,590.28	10,595.86		
	2.1.4	National Disaster Risk Management Fund established		23.4	27.3		44.9
	2.1.5	Public Asset insured	18	20	50	1,500	2.000
	2.1.6	Agriculture insurance Piloted		42	42		
	2.1.7	Other options of sovereign Risk Transfer Reviewed		45.7	46.8	0	0

Strategic outcome	**3.0. Disaster risk financing instruments diversified**					
3.1. Legal and regulatory framework for insurance strengthened by 2023	Insurance Act Reviewed and updated	18.4	36.0	22.1	26 5	31.8
	Insurance regulations reviewed and updated	4.7	0 0	5.7	6.8	8 2
3.2. Capacity of private insurance companies strengthened	Private insurance companies trained in disaster risk financing	30.6	36.8			
3.3. Awareness of the public on disaster insurance products enhanced	Public Sensitized on disaster insurance.	17 5	21.0			
Strategic Outcome	**4.0. Coordination and institutional capacity for disaster risk financing Strengthened**					
4.1. Monitoring and evaluation framework for the DRFS	Monitoring and evaluation framework for the DRFS Developed	17.5	8.7	2.3	2.3	2.3
4.2. Capacity of relevant stakeholders enhanced	Learning and exchange visits on disaster risk financing conducted	55.1	69.7	0	0	0
	Specialized short term trainings on DRF for MoFEPD and DoDMA conducted	267.2	293.9	308.6	324.0	0
	Capacity of local authorities on DRF strengthened		1,290.1	.	1,548.2	0
	Long term courses attended		48.4	151.9	1049.0	0
ANNUAL FINANCIAL REQUIREMENTS		**2,128.12**	**14,169.04**	**13,202.43**	**6,365.66**	**4,412.01**

9.2. LIST OF TASK TEAM MEMBERS

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