GAP ANALYSIS REPORT: CLIMATE AND DISASTER RISK FINANCE IN MALAWI

Contribution to the In-Country Process of the Global Shield against Climate Risks in Malawi

Ministry of Finance and Economic Affairs Government of Malawi

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Contents

List of Abbreviations

ADRiFi	Africa Disaster Risk Financing Program
ARC	African Risk Capacity
CDRF	Climate and Disaster Risk Finance
CERP	Contingency Emergency Response Project
CS-EPWP	Climate-smart enhanced public work programme
CSLG	Community and social livelihood group
CSPWP	Climate Smart Public Works Programme
DoDMA	Department of Disaster Management Affairs
DRF	Disaster risk financing
DRM	Disaster risk management
ESCP	Environmental and Social Commitment Plan
EWS	Early Warning Systems
FAO	Food and Agriculture Organisation
GDP	Gross domestic product
GS	Global Shield
MFI	Micro-finance institution
MNSSP II	Malawi National Social Support Programme II
MSME	Micro Small and Medium Enterprise
NLGFC	National Local Government Finance Committee
NPoD	National Profile of Disasters
NRS	National Resilience Strategy
PFM	Public financial management
PRSP	Poverty Reduction and Social Protection
PWP	Public Works Programme
RBM	Reserve Bank of Malawi
SCTP	Social Cash Transfer Programme
SLG	Social livelihood group
SP	Social Protection
SSRLP	Social Support for Resilient Livelihoods Project
UBR	Universal Beneficiary Register
VAT	Value added tax
VSLA	Village Savings and Loan Association
WRSI	Water Requirement Satisfaction Index

1. Executive summary

This report outlines key climate and disaster risk finance (CDRF) gaps in Malawi's financial instruments and mechanisms, national strategies and policies, and its enabling environment. It also highlights development needs in the insurance sector to support Malawi's resilience against climate-related disaster risks. The report includes suggestions for interventions for overcoming these gaps. Through these, Malawi can build a more resilient system to protect its people, infrastructure and economy from the adverse impacts of climate-related disasters.

For the stock take and gap analysis, the Global Shield (GS) Secretariat, together with focal point Deputy Director Charles Chinkhuntha and the Malawi support structure (Associate Professor Gowokani Chirwa), conducted interviews with key stakeholders. The gap analysis also builds on discussions from the national Global Shield Workshop, which took place in Lilongwe, Malawi, from 29-30 April 2025.

Malawi is building on a robust disaster risk financing and insurance framework, which enables the development of financial mechanisms. Malawi has also benefited from CDRF solutions since their initial implementation in 2015, when the country purchased its first African Risk Capacity (ARC) drought insurance policy and its first microinsurance solution. The continuity of solutions and disruptions due to funding needs have hindered the country's ability to respond and recover quickly from disasters. Gaps exist across various financial mechanisms, data and risk modelling systems, project resources, and the capacity to develop the local insurance market.

The gaps are outlined under seven main headings, namely:

1) Risk analysis and modelling
2) Awareness raising and financial literacy
3) Enabling environment
4) Risk transfer
    a. Sovereign level
    b. Agricultural sector and micro-, small and medium enterprises (MSMEs)
5) Risk retention
6) Enhancing distribution channels – linkages to social protection
7) Resilient infrastructure.

1. Risk analysis and modelling

(1) In Malawi, the data available to institutions and stakeholders is itself limited, characterized by insufficient detail and poor consistency, which undermines its usefulness. (2) In Malawi, access to existing data remains limited, restricting institutions and stakeholders, and even when accessible, the data often lacks sufficient detail and consistency. This has limited the ability to quantify the protection gap that Malawi faces. Access to data often requires payment, as well as expertise to access. Therefore, there is a need for more technical capacity on risk modelling and analytics, given the link to macro-financial analysis, so that partners from government and the wider economy can access data. Related to this, open-source data would not suffice. Rather, it could limit the boundaries of accessing data. For better coverage in CDRF support, the quality of flood modelling would need to improve.

2. Awareness raising and financial literacy

Risk perception and understanding among rural communities and farmers are low, highlighting a need to raise awareness. This is a consequence of the low level of local expertise in risk and financial measures in general, as well as the capacity levels of local insurers, banks and the education system. Academia also lacks substantial support for CDRF training to support knowledge building in Malawi across all stakeholder groups.

3. Enabling environment

Malawi lacks the funding and resources to implement an enabling framework. There is a lack of in-depth analysis on how to sustain the enabling environment for agricultural insurance, including developing meso-level solutions and long-term financing options. This could be due to the current fragmented coordination mechanisms for disaster risk management and response. Currently, with an updated disaster risk financing (DRF) strategy in development, this gap could be filled, to support improved coordination mechanisms on disaster risk management and response. A gap in implementing the strategies, both on national and subnational level, remains.

4. Risk transfer

In Malawi, several risk transfer solutions have been piloted and used since 2014. The main challenge for the government and other partners is the continuity in implementing pre-arranged finance solutions, i.e., moving from a pilot to a long-term, sustainable solution. For example, the current sovereign-level risk transfer instruments, such as those provided by ARC, depend heavily on partner subsidies. In the medium- to long-term, continuing **sovereign-level** pre-arranged financing could be a challenge.

There is a clear lack of long-term, sustainable risk transfer solutions at the micro and meso-levels, too – particularly in agriculture, Malawi's most important sector. Current solutions also need support for long-term setup, especially at the **micro- and meso-levels** (where the outlook is 3-5 years). Bundling insurance (e.g. agricultural insurance with input credit from microfinance institutions), a widely used approach elsewhere, is underused in Malawi.

5. Risk retention

Several funds, namely the National Disaster Risk Management Fund, the National Disaster Preparedness and Relief Fund, and the National Climate Change Fund, have been set up under different policy mandates to mobilise finance for disaster response and climate change initiatives. Contributions from international donors are a key funding source for these funds and risk financing instruments, in addition to budget allocations and private sector contributions.

Among these, the National Disaster Risk Management Fund and the National Climate Change Fund are not yet operational. The National Disaster Risk Management Fund is the financial mechanism outlined in the policy for disaster risk management (DRM). The Fund supports disaster preparedness, response and recovery efforts. Ministries, departments and local councils are expected to allocate budgets for DRM.

Currently, both the National Disaster Risk Management Fund and the National Climate Change Fund face gaps in capitalisation and implementation.

6. Enhance distribution channels - linkages to social protection

In Malawi, social protection systems face challenges due to limited integration of distribution databases with climate vulnerability data, which hampers effective targeting. As a result, the intended recipients of specific interventions are often unclear. Currently, efforts are ongoing to improve the distribution databases (the Malawi Social Registry/Unified Beneficiary Registry (UBR)) by enhancing data collection and links to climate-related vulnerability, and by using vulnerability assessments.

Regarding disbursements, there is a need to scale up e-payments for payouts. Malawi has a fragmented payment system. Access to payment mechanisms should be improved through a harmonised approach that prioritises the use of electronic transfers, including the enhanced capacity of the financial service providers.

Stakeholder discussions revealed the lack of gender-disaggregated data, which can constrain the ability to tailor interventions and monitor equitable access. Addressing this gap is important for improving gender-responsive CDRF solutions, and therefore to scale up the support offered by interventions.

7. Resilient Infrastructure

Malawi faces challenges in providing resilient housing and infrastructure, particularly in the face of increasing climate-related disasters. The country's rapid urbanisation and population growth have led to a shortage of affordable and safe housing, with many families forced to live in informal settlements that are highly vulnerable to floods, landslides, and other hazards. Furthermore, Malawi's infrastructure, including roads, bridges, and buildings, is often inadequately designed and not constructed to withstand extreme weather events. This has led to significant economic losses and human suffering. To address these risks, pre-arranged financing mechanisms could be leveraged to strengthen resilience and support “build back better” approaches.

2. Summary of key findings and gaps identified

2.1 Status of risk analysis, risk modelling and identified gaps

Malawi is highly vulnerable to a changing climate: changes in temperature and precipitation patterns are expected to exacerbate the risks that the country faces. Key challenges are food security, with maize, the country's main staple crop, being highly vulnerable to climate change (IPCC, 2014) and power generation, both of which rely on the amount and timing of precipitation events.

Over the past twenty years, rainfall patterns in Malawi have changed. There are fewer dry days and a shortened rainy season (Haghtalab et al, 2019). At the same time, the country has experienced more frequent and intense drought and flood events. These changes have had severe impacts on the population, including heightened food insecurity, reduced access to essential services (World Bank Climate Change Knowledge Portal) and increased rural out-migration (Lewin et al. (2012); Suckall et al. (2015)). More frequent events are estimated to have contributed to a 5% increase in severe food insecurity over the last ten years, alongside a similar change in the prevalence of undernourishment in the population (Food and Agriculture Organisation (FAO), 2023).

Drought and flood events are estimated to cost the economy 1.7% of GDP every year (Pauw, K., et al, 2010), with future scenarios pointing to greater losses. Under a worst-case scenario, a SSP1-1.9 wet climate scenario, GDP could fall as much as 19.5% below the expected baseline by 2040 before partially recovering. These losses are expected to be largely driven by changes in precipitation patterns and direct damage caused by rainfall or flood events. The transport sector is projected to experience the highest losses (World Bank Group, 2022).

Data availability and the availability of risk analytics and modelling

Detailed and reliable risk modelling for Malawi remains limited: While there are some national-scale catastrophe risk models for key perils, these are generally based on global models. The models provide helpful initial indications of risk, but have limitations:

a. Their resolution is too coarse to reliably inform local decision-making,

b. There is very little local-level input or verification, and

c. Different methodologies and data sources can lead to significant variations in risk estimates.

Peril-specific conclusions: The quantitative analyses and conclusions in this report can be enhanced by including ARC's national risk profiles for flood and drought, neither of which were available for this gap analysis. However, conclusions can still be drawn based on available data:

a. Drought: ARC's drought risk profile is supposedly based on the Water Requirement Satisfaction Index (WRSI) and is verified using local data. The profile and associated data have been used to support a sovereign risk transfer policy. The World Bank's risk profile is the only other profile available for Malawi. As it was not developed specifically for the country, it is expected to be less robust.

b. Flood: There are off-the-shelf global or regional flood models that can indicate the risk of both pluvial (driven by intense precipitation) and fluvial (driven by river overflow) events. However, these models will have undergone minimal, if any, local-level evaluation potentially

leading to highly uncertain results. Further evaluation can determine whether any model can offer sufficiently robust loss estimates to support downstream decision making.

c. Heat: Excess heat, including its impact on heat-related mortality, labour productivity and high welfare costs, has yet to be modelled. The impact of heat on GDP is estimated to be at least 4.6% (World Bank CCDR), although additional information on the methodology of this calculation is lacking.

d. Earthquake: While large earthquakes are expected to occur infrequently in Malawi, available modelling suggests that their potential impacts could be significant. Although earthquakes are not considered a high-priority peril compared to other risks, they should be factored into Malawi's multi-risk environment.

Input data conclusions: To further develop the models, greater investment is required in the baseline and input data used to support the following analytics:

a. Exposure data: Existing exposure datasets show a large divergence in the estimated location and replacement value of assets. They mainly use a top-down approach with limited in-country validation and contain limited demographic information.

b. Vulnerability data: Global risk assessments frequently apply vulnerability functions that do not adequately reflect the realities of local building stock in developing countries. Incorporating local knowledge and research can is therefore critical to improving the reliability of results. In Malawi, most existing research focuses on seismic vulnerability, with earthquake engineering studies providing fragility or vulnerability curves for common building typologies. However, very few relevant studies are available for other perils.

c. Historical data: While historical data is an imperfect predictor of future events, a more complete historical record would be strengthen risk analysis. More comprehensive and consistent documentation of climate and disaster events, through post-disaster surveys of asset-level hazard severity and impacts, can improve risk models for DRM and CDRFI, and inform future preparedness, response, and recovery.

Overall, improving input data sources and risk modelling (including for specific perils) should be considered as part of a broader need to quantify the protection gap in Malawi. This is an important precursor that can be used to assess the types of CDRF solutions the country should consider, and the strategy it should employ to implement these solutions.

2.2 Awareness raising and financial literacy

During consultations and during the National Workshop on Global Shield in April 2025, awareness raising and financial literacy were explicitly raised as gaps in scaling up CDRF.

Low financial and risk literacy

Low financial and risk literacy affects most of the population in Malawi, especially farmers. Farmers and other vulnerable groups have limited understanding of financial and risk transfer mechanisms, which constrains adoption and informed decision-making. As a result, many households rely on traditional coping strategies to manage disaster-related losses, such as selling assets and livestock. A majority of farmers were found to have difficulties with key financial concepts such as taxation and exchange rates, which undermines their ability to manage financial transactions effectively.

Efforts are underway to improve awareness, with the Reserve Bank of Malawi (RBM) playing a leading role. However, national efforts, such as the RMB's Financial Literacy Week, have not always been tailored to the farmers' needs, with timing being misaligned with the agricultural cycle and outreach materials lacking adaptation to local contexts. Community and social livelihood groups (CSLGs) and village committees, which could help bridge this gap, remain underutilised.

The late introduction of financial literacy was cited as another gap, with stakeholders highlighting the importance of embedding basic financial education at the primary school level. Consultations with representatives from the private sector revealed a shortage of local expertise on disaster risk finance or insurance in Malawi, leading to a continued reliance on external experts. This reliance has limited local knowledge transfer and capacity building, particularly in rural areas.

Regarding solutions and how they work, participants felt that communication on parametric insurance is primarily transactional, limiting deeper comprehension and trust. As trust is essential to risk awareness and solution adoption, this gap can hinder the take-up of CDRF solutions.

Lack of education and capacity building

On capacity building and education, there is insufficient local expertise in risk financing. Malawi faces a shortage of local experts who can design, manage and communicate financial protection tools. Currently, academic curricula, such as for actuarial science, do not adequately prepare students to work on risk and financial protection measures. Indigenous knowledge related to risk is undervalued and not meaningfully integrated into formal awareness or programming approaches. There is also no formal platform for collaboration between academia, civil society organisations and other stakeholders, hindering coordinated learning and innovation.

Weak Coordination and Communication Mechanisms

During consultations, several partners articulated a general lack of coordination across risk financing and risk awareness efforts. The communication and coordination landscape for risk financing remains fragmented, limiting reach and impact. While government efforts to bring together key stakeholders through a technical working group have been initiated, these initiatives are constrained by outdated policies on risk communication, which do not support effective information flow or stakeholder engagement.

Programmes to implement CDRF solutions often lack strong social accountability mechanisms, reducing transparency and trust in financial protection systems. In addition, workshop participants felt that community-based structures, including social livelihood groups (SLGs) and village development committees, are not systematically engaged, despite their potential to support local communication and awareness.

2.3 Enabling environment

Although Malawi has established a number of interconnected DRF frameworks, there is a gap in updating documents and effectively applying the respective frameworks. This has limited the effectiveness of the enabling environment for inclusive risk financing. This was highlighted through several examples:

- While a microinsurance policy exists, it is not consistently applied in practice. As a result, payouts are often delayed, and the insurance claims management directive is not fully integrated into microinsurance regulations.
- The Disaster Risk Management Policy and Act are outdated and require revision.
- The Malawi tax framework presents possible barriers to inclusive insurance, with VAT burdening vulnerable farmers, requiring reassessment.
- Regarding transparency, national workshop participants explained that the RBMs role in handling complaints is largely unknown and sometimes perceived as intimidating.

1. Limited coordination, institutional engagement and capacity

There are structural challenges in coordination and engagement across stakeholders, driven by unclear roles, overlapping efforts and limited institutional capacity. While many CDRF-relevant institutions are active, limited coordination has created uncertainty around responsibilities across the process of developing and implementing CDRF. National workshop participants highlighted, that the high number of CDRF-focussed working groups without sufficient alignment has contributed to inefficiencies.

To scale up capacity, the private sector's engagement needs to be proactive. Key stakeholder and government ministries (e.g., the Ministry of Water and Sanitation and the Ministry of Gender) are not fully integrated in risk management efforts, despite their relevance in managing impacts and social protection programmes. Limitations across the insurance sector also need to be overcome.

2. Low awareness, distrust, and accessibility of insurance products

The public's perception and understanding of insurance remains low, particularly among rural communities. This is due to a mix of poor outreach, unappealing products, and a lack of trust. Rural communities are often not adequately sensitised about insurance, and misinformation or ignorance is sometimes exploited by providers. Many people perceive insurance as a tool for the wealthy, indicating a significant awareness gap.

Existing awareness efforts do not sufficiently use local structures at the area and district levels. Insurance products are often unattractive, confusing or inadequate (e.g., covering only part of a farm), while payouts vary across agroecological zones. Mobile technology is underused for insurance communication, further limiting reach.

2.4 Risk transfer – sovereign level

1. Limited awareness, coordination and technical capacity

Sovereign-level risk financing instruments face challenges related to stakeholder understanding, institutional capacity and coordination across different levels of government. Low awareness of the existing ARC drought policy, including a limited understanding of its functioning, previous payouts, implementation plans and distribution mechanisms.

There is also limited clarity on the connection between sovereign and micro-level instruments. The Technical Working Group lacks the capacity to effectively design, implement, and oversee sovereign risk financing mechanisms. These challenges are compounded by insufficient community-level involvement, including limited engagement of the district social protection community and the Ministry of Gender.

2. Sustainability and incomplete risk coverage

Key risks at the sovereign level have yet to be mitigated, while long-term sustainability is threatened by dependence on external financing.

Premium payments are currently subsidised by external partners such as ADRiFi, raising concerns about the continuity of sovereign insurance coverage. A significant protection gap exists for floods, including riverine flooding, as policies are still under development.

Additional challenges include:

a. A lack of sovereign-level coverage for multi-peril or cascading hazards.
b. Weak management of cross-border risks, particularly regarding the integration of early warning systems (EWS).

Lack of sub-sovereign overage and social protection integration: Sovereign risk financing mechanisms are not yet adequately linked with subnational structures or social protection systems.

a. Absence of mechanisms for sub-sovereign or district level coverage.
b. Limited social protection coverage, both geographically and cash transfer amounts, reducing its potential to complement sovereign insurance mechanisms.

Recommendations:

1. Support the scaling of existing and tested risk transfer solutions: Building on existing pilot initiatives and tested insurance products should be prioritised to enable the transition toward long-term, sustainable solutions.
2. Enhance macro-level insurance instruments for drought and flood: Strengthen support for sovereign risk financing instruments such as ARC policies by broadening coverage beyond drought, helping to bridge existing protection gaps and diversifying risk coverage.
3. Increase flexibility and sustainability of ARC policies: Ensure that policies incorporate mechanisms to increase flexibility, particularly where rising premiums threaten continuity.
4. Support ARC Replica implementation and lessons sharing: Draw on evidence from previous ARC payouts, particularly communities' preference for in-kind support over cash, to inform future disbursements.

2.5 Risk transfer – agricultural insurance and solutions for MSMEs

1. Fragmented market development

Fragmented and unsustainable insurance market development has affected the development of risk transfer solutions in Malawi. The insurance market remains fragmented and heavily reliant on short-term projects, with limited progress made towards establishing long-term, scalable solutions. As a result, many risk transfer initiatives remain at the pilot level, lacking clear pathways to transition into long-term solutions.

This has also affected agricultural insurance, with the country lacking a national agricultural insurance scheme. The absence of stable premium financing mechanisms threatens the continuity of existing products. Systemic risks, such as currency devaluation, further undermine the predictability and value of agricultural insurance payouts.

2. Limited technical capacity

The design and implementation of effective risk transfer solutions for farmers and MSMEs is also affected by limited technical capacity and weak data foundations. Key gaps include insufficient technical skills, inadequate data availability and limited research. These gaps are particularly problematic for the design of effective parametric insurance solutions. Currently there is no dedicated research or analysis on which index-based models (such as area yield or weather indices) are most suitable for Malawi. Overall, the appropriateness of microinsurance for Malawi remains unexamined and needs to be formally assessed.

3. Challenges in accessing insurance

Poor accessibility, inclusion and innovation in insurance delivery have meant that access to insurance remains low, and products often fail to meet the diverse needs of the population. There is limited access to existing insurance solutions and a lack of product diversity to address varied risks and user profiles. Access to the solutions available is hampered by affordability, which remains a major barrier to uptake.

Access is also affected by distribution challenges. For instance, there is a lack of innovative approaches, such as bundling insurance, integrating remittances and using existing programmes with village savings and loans associations (VSLAs). Existing distribution channels are expensive, poorly developed and have limited reach. Opportunities to engage non-traditional channels such as co-operatives, churches and farm input sellers are not being pursued.

Recommendations:

1. Support the continuity and scaling of successful micro-level initiatives.
2. Maintain and potentially scale support for tested micro-level drought financing solutions that are currently operating in Malawi. Foster collaboration to sustain and expand effective pilots.
3. Encourage close coordination among implementing partners to ensure that successful pilot programmes are not discontinued. Instead, these should be transitioned into longer-term, sustainable models. Prioritise joint knowledge sharing to ensure continuity and reduce duplication.

4. Align Global Shield efforts on agricultural insurance with feasibility studies being undertaken by WFP and FAO to build on synergies and avoid parallel tracks.

2.6 Risk retention

1. Weak operationalisation and coordination of national risk retention mechanisms

Malawi faces significant challenges in implementing and coordinating sovereign-level risk retention instruments, despite the existence of foundational policies. Lacking coherence among financial instruments limits their effectiveness and coordination. This is affected by aid fragmentation, which has historically been a major barrier to cohesive risk financing in Malawi. Operationalising national mechanisms is a priority gap across institutions. National mechanisms, such as the Climate Change Fund, exist in policy but are not yet operational due to the delayed development of implementing regulations. need to

2. Limited accessibility, inclusion, and local ownership

Risk retention mechanisms are not yet inclusive or adequately localised, reducing their effectiveness and equity in Malawi. At a global level, sub-national access to national financing mechanisms is limited, despite strong consensus on its importance. However, some local actors may have access to resources but cannot manage or utilise them effectively. Targeting the most marginalised groups can be challenging and could leave people behind.

3. Sustainability, resource mobilisation, and strategic allocation

Financial sustainability and efficient use of limited funding are major concerns for the long-term viability of sovereign risk retention efforts in Malawi. At the local level, mobilising sufficient and sustainable domestic resources remains a core challenge, exacerbated nationally by rising debt and declining external support. To address this, more domestic advocacy is needed to protect and strategically direct funding, minimising the risk of top-down decision-making without local accountability.

Recommendations:

1. Ensure alignment between interventions and national systems, such as the Public Financial Management (PFM) system.
2. Encourage more local decision-making is needed on how funding is used, both at the technical and recipient levels, to build ownership and sustainability.
3. Enable more domestic advocacy to protect and strategically direct funding, minimising the risk of top-down decision-making without local accountability.

2.7 Distribution channels and linkages in social protection

Malawi has several cross-sectoral frameworks in place to protect its citizens from shocks:

1. The **National Resilience Strategy (NRS) 2018-2030** aims to enhance Malawi's ability to manage and recover from economic and environmental shocks. The strategy prioritises coordinated emergency preparedness and early warning systems, so that social protection

interventions are adaptable to cyclical and large-scale shocks through planned interventions and temporary service expansions.

2. **Malawi's New Social Protection Strategy**, currently being drafted, emphasises strengthening social protection systems to provide timely and effective responses to shocks. Key focus areas include improving payment mechanisms through harmonised electronic transfers and overcoming existing weaknesses, such as fiscal constraints, donor dependency and climate-related vulnerabilities. One significant change from the second version of the Malawi National Social Support Programme (MNSSP) is that it includes disaster risk insurance through ARC as a shock-responsive social protection mechanism. The strategy underscores the need for contingency funding, with donors already integrating crisis modifiers into their programmes. By using existing vulnerability assessments and securing commitments from development partners, Malawi is looking to create a more adaptive and resilient social protection framework.

3. **The Environmental and Social Commitment Plan (ESCP) for Malawi's Contingency Emergency Response Project (CERP),** finalised in October 2024, outlines the government's commitments to managing environmental and social risks in emergency response initiatives. It mandates the establishment of an organisational structure with qualified staff, regular monitoring and reporting, stakeholder engagement, and grievance mechanisms.

4. **The UN OCHA Anticipatory Action** framework has been endorsed by UN agencies based in the country, the Malawi Resident Coordinator and the Emergency Relief Coordinator. This includes predictive trigger monitoring.

These efforts aim to strengthen the country's capacity to respond proactively to climate-related shocks, such as droughts and floods, by providing timely financial assistance and support to vulnerable households before a crisis fully unfolds. By using early warning systems, predictive analytics and pre-arranged financing, these initiatives aim to reduce the negative socio-economic impacts of disasters, enhance resilience and improve the overall efficiency of Malawi's social protection system.

2.7.1 Key social protection programmes and links to CDRFI

Social Cash Transfer Programme (SCTP) or Mtukula pa Khomo

Malawi's flagship social protection programme was launched by the Ministry of Gender, Community Development and Social Welfare in 2006. It targets 10% of ultra-poor and labour-constrained[1] households (303,000 households) and provides direct, unconditional[2] cash transfers. It is regularly scaled up during the lean season to account for beneficiaries' increased vulnerability.

Positive impacts to date include improved health and greater demand for healthcare, higher levels of school enrolment and asset accumulation, increased agricultural production, and improved food security. This has led to greater resilience to shocks. The average benefit amount was increased and is to be adjusted for inflation in the next four years. At the same time, the eligibility of the programme

[1] Labour-constraint refer to households or individuals who are unable to engage in sufficient paid work or productive activities due to factors like disability, age, or lack of local employment opportunities, making them dependent on cash transfer programs for income support.
[2] Not tied to any conditions, such as school attendance, health check-ups or similar.

to proceed is intended to be increased from 10 to 15% while increasing the harmonisation with other social protection initiatives.

A notable caveat is that different donors support implementation in different districts, with resulting differences in implementation (e.g., different payment mechanisms) possible within the scope of national guidelines. In 2020/21, the SCTP was funded mainly by the World Bank (39%), Germany (27%) and the European Union (20%). Both Irish Aid and the Government of Malawi contributed a similar amount (7% each)[3]. The government funds the SCTP in one district: the remaining 27[4] districts are funded through official development assistance (ODA).

A major challenge is that 10% of eligible households per district are selected, regardless of the district's poverty rate. This leaves many deserving households in the south of the country, which are disproportionately affected by climate shocks and poverty, without support. The donors have regular coordination meetings and are supported by UNICEF in the provision of technical support for regular operations and temporary expansions.

Social Support for Resilient Livelihoods Project (SSRLP)

Introduced in 2021, the SSRLP is Malawi's flagship ex-ante DRF mechanism, extending both the SCTP and Climate Smart Public Works Programme (CSPWP) support during climate shocks. The SCTP expands its support during crises by increasing both the cash benefit amounts (vertical expansion) and the number of beneficiary households by 7% (horizontal expansion). While primarily funded through contingency mechanisms, parametric insurance has covered part of the costs for the 2023/24 and 2024/25 seasons. The system has performed well, meeting reinsurance standards and enabling the use of insurance-based solutions.

Since June 2020, the SCTP has been reinforced with a risk transfer instrument through ARC, providing additional liquidity for drought response. When an ARC payout is triggered, the Ministry of Finance and Economic Affairs and the Ministry of Agriculture pool resources to support affected communities. Beneficiaries, identified through the UBR, receive direct payouts in cash or in-kind assistance such as food or livestock. Currently supported by the World Bank, the SCTP operates with an average annual cost of $5 million and a maximum of $11.1 million, which is expected to rise due to increasing drought frequency. While drought remains the primary concern, there are considerations for future expansion to include flood risks.

Climate-smart enhanced public work programme (CS-EPWP)

The CS-EPWP offers temporary work opportunities in public infrastructure projects to vulnerable individuals in exchange for cash or in-kind support. This includes food vouchers, as well as knowledge-building aspects and work projects around climate-responsible activities.

Village savings and loans associations (VSLAs) and micro-finance institutions (MFIs)

These community-based savings and credit schemes promote financial inclusion and support asset building, which is vital in times of shocks. In the future, this pillar may include a Cash Plush component

[3] Social Protection Budget Brief 2023-24.pdf
[4] World Bank (11 districts), Germany (7 districts), European Union (7 districts), Irish Aid (2 districts)

in combination with cash transfers and complementary programmes that offer additional benefits, information and education, and links to services such as psychological support.

The challenges this pillar faces include a lack of a legal framework, oversight and collaboration at the district level. This has led to dual membership, competition between VSLAs and transparency for potential members. Notably, the VSLAs and microfinance institutions are currently neither funded by the government nor by donors. While VSLAs are still active and technically supported and referred to by the District Social Welfare Offices, microfinance is left to the private market. An initial injection of capital to facilitate the establishment of the initiative and provide additional support, such as developing group regulations and electing leadership, can promote the potential of VSLAs and microfinance in building the resilience of households for shock response. However, the need for long-term external funding may indicate underlying structural or operational challenges.

National Local Government Finance Committee (NLGFC) Social Protection Insurance

The Scalable Mechanism covers vulnerable communities in 8 districts and 145,000 households, providing an inclusive insurance mechanism that strengthens social protection. However, the project is currently nearing its end and although continuity plans are in place, a funding gap of two years is anticipated. Bridge financing is essential to sustain this inclusive insurance mechanism and prevent a disruption in coverage for vulnerable communities.

Malawi's Social Registry / Unified Beneficiary Registry (UBR)

The UBR, also considered Malawi's Social Registry, was established in 2016 and is operated by the Poverty Reduction and Social Protection (PRSP) team within the Ministry of Finance. It consolidates socio-economic data for flagship programmes, such as the SCTP and the Public Works Programme (PWP). As of March 2025, it covered 4.2 million households and 17 million people. This comprises 77% of all households and 96% of rural households across 17 out of the 28 districts. The remaining districts are yet to be included in 2025, while the roll-out to cover urban households is underway. Data is updated every four years; the aim is to move the database to dynamic updating.[5] The UBR is used to identify additional beneficiaries quickly when the SCTP is scaled up in times of crisis.

Recommendation on UBR: Work together with partners from Social Protection (SP) to ensure more up-to-date data and more data linked to climate risks within the UBR going forward. This would help a broader group of development partners to implement their work.

2.7.2 Distribution challenges

Malawi faces several persistent gaps in distribution channels:

1. Fragmented targeting systems and a lack of integration

Existing distribution channels are hindered by the fragmented targeting systems, limiting efficiency and creating duplication across programmes. In addition, with different targeting systems are currently in place, there is a lack of clarity on who is targeted by which provider, or which solution

[5] For that, the Government of Malawi is in exchange with Rwanda.

creates transparency challenges. Insufficient coordination at the district level results in overlap and duplication of projects, with a need to coordinate projects across levels.

2. Limited coverage and expansion of distribution channels

Geographic and operational gaps in existing programmes restrict the reach and scalability of distribution systems. For example, the Social Protection Insurance Programme faces a gap in expansion to new districts, limiting its current distribution capacity. Urban areas such as Lilongwe and Blantyre have access to various insurance products; rural areas face barriers such as inadequate infrastructure, lack of distribution channels, and low internet penetration. In addition, the uncertainty around premium payments further affects the reliability and sustainability of distribution through this channel.

3. Underdeveloped and uneven use of e-payment systems

Within the country, delivery mechanisms are constrained by inadequate digital infrastructure and uneven adoption of preferred systems. E-payments are not sufficiently integrated into existing delivery mechanisms, while capacity challenges among local providers and operators hinder the scale-up of digital distribution systems. There are a few weather index insurance products that have been developed to cope with increased climate risk. However, low uptake rates coupled with rising premiums caused by increasing frequency of extreme weather events affect their sustainability and exacerbate the protection gap.

4. Limited product diversification

According to the Finscope 2023 survey, a limited number of tailored products, designed to meet the specific demands of MSMEs and other large businesses, are available in Malawi. In addition to limited products, there is also a lack of skilled insurance agents, especially in rural areas, to create awareness among potential customers in the rural communities.

5. Implementation gap between policy and practice

National Frameworks for climate and disaster risk management exist but face implementation barriers and disconnects with local structures. There is a gap between national-level policies and regulations and their implementation at the district level, with limited funding for local implementation. Several policies highlight vulnerable sectors but lack integrated risk financing or risk transfer mechanisms, weakening their operational effectiveness.

6. Barriers to inclusive and sustainable insurance growth

The insurance sector faces both demand and supply-side constraints hindering its development and reach. Demand-side constraints are caused by low awareness and understanding of microinsurance. Supply-side constraints caused by the increasing frequency and severity of climate disasters, leading to losses for general insurers in the country. Limited distribution, particularly in rural communities, is caused by poor infrastructure, limited digital access and few skilled agents. Finally, most insurance products are not sufficiently tailored to the needs of MSMEs and rural populations, reducing their relevance and attractiveness.

Recommendations:

1. Strengthen financial and risk literacy and awareness to boost demand
2. Build local insurance capacity through education and training
    a. Support the development of training programs to build a local workforce equipped to design, promote, and manage insurance products in districts, especially in underserved areas.
    b. Closely cooperate with the private sector and academia to help more people work in the insurance sector, and explain concepts and work on the district-level for insurance partners.

2.8. Resilient infrastructure

Malawi faces several challenges in developing resilient infrastructure:

1. High exposure to climate and disaster risks

Malawi faces frequent and severe natural hazards, particularly droughts and floods, whose increasing intensity is being driven by climate change. Droughts alone cause average annual losses of around 1% of GDP. Flooding affects up to 100,000 people annually, with significant impacts on infrastructure and agriculture. The country is also vulnerable to earthquakes due to weak building standards and insufficient reinforcement in construction in both private and public assets.

2. Limited financial and institutional capacity

Over half the population lives below the poverty line, while fiscal constraints are acute: Malawi had a fiscal deficit of 18.7% in 2024. This limits the government's ability to invest in resilient infrastructure and disaster response. Malawi's DRF mechanisms are fragmented, donor-dependent and not yet fully operational. National contingency funds and risk transfer instruments are in place but lack sustainable funding and coordination.

3. Weak insurance and financial markets

Insurance penetration at only 2.5% is among the lowest in Southern Africa. The sector is constrained by affordability issues, low awareness, limited product diversity and poor rural reach. The banking sector is highly concentrated, with limited access for rural populations (only 13% have access to banking services), further restricting financial resilience and recovery options.

4. Coordination and implementation gaps

While Malawi has robust policy frameworks (e.g., National Resilience Strategy, Disaster Risk Management Act), implementation is weak, especially at subnational levels. There are overlaps in institutional mandates and coordination gaps among public sector actors. Technical capacity for risk and vulnerability assessment, as well as macroeconomic risk analysis, is limited. This has hampered effective planning and response.

5. Data and early warning system deficiencies

Current data collection and risk modelling capacities and efforts are insufficient, limiting the precision of risk assessments and the effectiveness of early warning systems for anticipatory action.

Opportunities for strengthening resilient infrastructure

1. Policy and strategic frameworks

Malawi's policy landscape (Malawi 2063, National Resilience Strategy, Disaster Risk Management Law) provides a strong foundation for scaling up CDRF and resilient infrastructure initiatives. The ongoing development of new social protection and DRF strategies offers a chance to further embed resilience and risk-layered approaches into CDRF policy.

2. Growing use of mobile technology

Although overall digital penetration is low, over 80% of financial transactions are now made via mobile money (on mobile phones). This trend should be used to expand access to insurance and financial products, especially in rural areas.

3. International partnerships and donor support

Malawi is engaged with global initiatives, such as the Global Shield against Climate Risks, and benefits from technical and financial support from partners such as the World Bank, ARC and others. There are several ongoing and planned projects aimed at improving financial protection and social protection systems, such as the SSRLP.

Recommendations to strengthen resilient infrastructure

1. Enhance policy implementation and coordination

National-level strategies should be translated into actionable subnational plans with clear roles, responsibilities and accountability mechanisms. To execute these plans, coordination among government agencies, donors, and private sector actors should be strengthened to avoid duplication and maximise impact.

2. Increase domestic resource mobilisation

Develop sustainable funding mechanisms for DRM, including operationalising national contingency funds and exploring innovative financing (e.g., catastrophe bonds, climate levies). Encourage private sector investment in resilient infrastructure through incentives and public-private partnerships. This is both for critical public infrastructure as well as private buildings.

3. Expand and diversify insurance and financial products

Promote inclusive insurance solutions tailored to the needs of vulnerable populations, especially in rural areas. To achieve this, mobile technology should be used to increase access to financial services and insurance, building on the countrywide popularity of mobile money.

4. Strengthen data systems and early warning capabilities

Invest in robust data collection, risk modelling and EWS to enable anticipatory action and targeted investments in resilience. Integrate local knowledge and community-based monitoring into national systems for better risk assessment and response.

5. Build technical and institutional capacity

Provide training and resources for risk assessment, disaster response planning and resilient infrastructure design at both national and local levels. Develop partnerships with local universities, research institutions and international organisations to build a pipeline of expertise in climate and disaster risk management.

6. Build community engagement and social protection

Expand shock-responsive social protection programs to protect the most vulnerable and ensure rapid recovery after disasters. To achieve this, at-risk communities should be involved in the design and implementation of resilient infrastructure projects to ensure relevance and sustainability.

3. Conclusions and preliminary recommendations for the Request to the Global Shield

3.1 Risk analytics and modelling

Resource limitations mean that not everything can be modelled at a local level, but agreement across institutions on the impacts of greatest concern could drive a prioritised risk research programme, based on the principles of local relevance and validation. The programme would be owned by a lead ministry, and driven by a joint working group across supporting ministries, departments and agencies. This approach offers local ownership of risk insight, finer spatial resolution for local decisions, and greater trust in the approach. A dedicated programme may also be effective in establishing the overall protection gap in Malawi and monitoring progress towards closing this gap over time.

Recommendations on risk analytics and perils:

1. Drought: Malawi should consider evaluating the index and parameters used by ARC to develop the risk profile for the country to ensure they are the most relevant and that the risk profile aligns well with experiences in the country. Following this evaluation, and if required, the model could then be extended to important sub-national regions.
2. Flood: Malawi should consider the development of a national-level flood risk model using the best available in-country and global data. This would fill the gap of understanding in detail pluvial and fluvial flood risk in the country and support the development of flood risk transfer policies. This model could also be developed to specifically include tropical cyclone-induced precipitation, which is a key driver of flood risk in the country.
3. Heat: This is a particularly new area for risk analysis and risk transfer instruments, and there would be value in exploring this further within Malawi through developing risk profiles based on historical experiences.

Recommendations on data:

1. Exposure data: Developing a consistent and robust exposure database involving local data is a critical first step in improving the risk analyses available. At a minimum, this exposure dataset should include sector-level breakdowns for the built environment, agriculture, and population and incorporate more demographic characteristics that would allow for greater disaggregation of risk estimates (e.g., by gender, age, etc.). This dataset should be standards-driven using open exposure formats.
2. Vulnerability data: Once local exposure datasets have been developed that identify correct building typologies, it would be important to also develop vulnerability curves for these buildings, utilising local or regional knowledge and research.
3. Historical data: To support further risk modelling and risk financing in Malawi, it would be beneficial for the national Profile of Disasters (NPoD) database to be reconciled with other third-party historical data sources (e.g. EM-DAT and DesInventar). This combined data set can then be maintained going forward to enable improvements in data and models over time.

3.2 Awareness raising and financial literacy

Recommendations:

1. **Collaborate with academia to build local expertise in risk financing:**

   Establish partnerships with academic institutions in Malawi to develop local capacity and expertise in risk and financial protection measures.

2. **Scale financial literacy efforts in rural communities:**

   In line with the first implementation plan of the Malawi Vision 2063, promote awareness of risk financing tools among farmers by scaling up existing financial literacy initiatives. This includes using lead farmer models and linking new efforts to ongoing agricultural programmes, ensuring that messaging is context-specific.

3. **Capacity building in education:**

   Increased efforts in capacity building across educational levels can lead to benefits for multiple stakeholder groups. Improved course planning with the option to offer training on CDRF in local universities can be linked to the development of the private sector. These courses could increase the number of people working in the insurance industry, being able to explain and work in districts for insurance partners.

3.3 Enabling environment

Recommendations:

1. **Strengthen policy implementation and coordination:**

   The Ministry of Finance and Economic Affairs, together with the Department of Disaster Management Affairs (DoDMA), should lead efforts to operationalise existing CDRF policies and strategies at both national and subnational levels. This includes clarifying institutional mandates, enhancing inter-agency coordination and ensuring that local governments are equipped to implement resilience measures. This may help to bridge the gap between policy and practice.

2. **Expand and diversify financial mechanisms:**

   The RBM, in partnership with private sector actors (such as insurance companies and banks), should work to expand the range and accessibility of financial products. These include insurance, risk pools and shock-responsive social protection. This expansion should focus on reaching underserved populations and sectors, increasing domestic resource mobilisation, and reducing reliance on donor funding for disaster response.

3. **Invest in data systems and technical capacity:**

   The Ministry of Natural Resources and Climate Change, in collaboration with academic institutions like the University of Malawi and relevant technical partners, should prioritise the development of robust data collection, risk modelling, and EWS. Enhanced technical capacity will enable more precise risk assessments, effective anticipatory action and informed decision-making for both public and private sector actors.

3.4 Risk transfer

Risk transfer mechanisms, such as insurance and risk pooling, can be used to protect Malawi's vulnerable populations and government finances from the escalating impacts of climate and disaster risks. Despite several risk transfer initiatives at the macro-, meso-, and micro-levels, coverage remains low. Products are not sufficiently tailored to the target population, and the system is heavily reliant on donor support. Strengthening risk transfer solutions may require strategic action by government, regulators and private sector partners to increase coverage, tailor products and ensure sustainability.

4. **Expand and diversify risk transfer products:**

   The Ministry of Finance and Economic Affairs, in collaboration with the RBM and insurance sector stakeholders, should support the development and rollout of a broader range of insurance and risk pooling products. These should target underserved sectors (such as smallholder farmers and MSMEs), be affordable and address the specific risks faced by different regions and population groups.

5. **Strengthen distribution channels and awareness:**

   Insurance companies and mobile money providers, working with civil society organisations and local government, should use mobile technology and community-based networks to increase access to insurance products, especially in rural areas. This should be complemented by targeted awareness campaigns to improve understanding and uptake of risk transfer solutions.

6. **Enhance sustainability and reduce donor dependency:**

   The Government of Malawi, with support from development partners, should produce a sustainable financing strategy for risk transfer mechanisms. This includes launching national contingency and climate funds, exploring public-private partnerships, and gradually increasing domestic resource mobilisation to finance insurance premiums and risk pools. This approach may lead to a reduction in reliance on external aid.

3.5 Risk retention

Risk retention mechanisms, such as contingency funds, budget reserves, and scalable social protection, are essential for Malawi to respond rapidly and flexibly to disasters without over-reliance on external aid. Malawi's risk retention capacity is currently limited by high fiscal deficits, undercapitalised national funds and fragmented implementation. Strengthening risk retention is critical to building sustainable financial resilience and protecting the most vulnerable populations.

1. **Operationalise and capitalise national contingency and climate funds:**

   The Ministry of Finance and Economic Affairs, working with the DoDMA, should prioritise making the National Disaster Risk Management Fund and the National Climate Change Fund fully operational and adequately funded. These funds should be designed to provide immediate liquidity for disaster response and recovery, reducing delays and dependence on external emergency aid.

2. **Integrate shock-responsive social protection with risk retention instruments:**

   The Ministry of Gender, Community Development and Social Welfare, with the Ministry of Finance and social protection programme implementers, should strengthen the links between scalable social protection programs (e.g., the SCTP and CSPWP) and national risk retention mechanisms. This could ensure that vulnerable households receive timely support when disasters strike, enhancing resilience at the community level.

3. **Develop a sustainable domestic financing strategy for risk retention:**

   The Ministry of Finance and Economic Affairs, with the RBM and development partners, should implement a strategy to increase domestic resource mobilisation for disaster risk reserves. This could include budget earmarking, climate levies or innovative financing instruments, to gradually reduce reliance on donor funding and government borrowing for disaster response.

3.6 Distribution channels and links to SP

While Malawi has made progress in expanding mobile money and developing scalable social protection programmes, significant gaps remain in rural outreach, integration, and coordination. Strengthening these channels and connections could improve the accessibility and impact of financial protection mechanisms. Recommendations include:

1. **Using mobile money and digital platforms for wider financial inclusion:**

   The RBM, in partnership with mobile network operators and financial service providers, should expand the use of mobile money and digital payment systems to deliver insurance and risk finance products. This may increase access for rural and underserved communities, where traditional banking and insurance penetration are low.

2. **Integrate CDRF solutions with existing social protection programmes:**

   The Ministry of Gender, Community Development and Social Welfare, with the Ministry of Finance and Economic Affairs, should ensure that risk finance products (such as microinsurance and anticipatory cash transfers) are embedded within established programmes, e.g., the SCTP and CSPWP. This could lead to rapid, targeted support to vulnerable households during climate shocks.

3. **Strengthen coordination among the government, the private sector and civil society:**

   The DoDMA should lead a multi-stakeholder platform, including government ministries, insurance companies, mobile operators, and NGOs, to coordinate the design, delivery and monitoring of CDRF solutions. This approach will help harmonise distribution channels, avoid duplication and ensure that support reaches those most in need efficiently and transparently.

3.7 Resilient infrastructure

While efforts are underway to strengthen Malawi's infrastructure resilience, challenges remain in data availability, continuity of CDRF solutions, and coordination among partners. Addressing these gaps could improve the effectiveness and sustainability of risk financing instruments and ensure that investments deliver long-term protection. Recommendations include:

1. **Improve data availability and integration with climate risks:**

   The Ministry of Finance and Economic Affairs, in collaboration with SP, should ensure that the UBR is updated and better linked to climate risk information. This would strengthen the evidence base for CDRF and allow development partners to design and target interventions more effectively.

2. **Secure the continuity and scaling of CDRF solutions:**

   Government and partners should develop a plan to expand existing instruments and secure long-term funding. This includes:

   - Strengthening linkages with existing ARC policies, particularly ARC Replica, which currently lacks premium financing, despite prior successful use.
   - Assessing whether programmes such as WFP's R4 can be re-expanded to include more districts, following earlier contractions due to limited funding.
   - Expanding premium support for existing solutions to ensure sustainability.
   - Promoting microinsurance by identifying bundling opportunities with microfinance and supporting the setup of stable delivery frameworks.

3. **Enhance collaboration and visibility of initiatives:**

   Lead efforts to map existing and planned projects and establish mechanisms for collaboration. Improved visibility and coordination will reduce duplication, improve efficiency, and maximise the impact of investments in resilient infrastructure.

3.8 Feasibility and impact summary

Thematic area	Evaluation of feasibility	Time	Impact	Estimation of financial need
Risk analytics and modelling	Feasible via technical assistance and investment; strengthen data systems and capacity building.	Medium to long-term	High: May enable precise risk assessment, targeted interventions and effective early warning.	Moderate to high (investment in data, systems and training)
Awareness raising and financial literacy	Highly feasible via mobile technology and community networks; coordination among government, private sector, and CSOs.	Short to medium-term	High: May grow uptake of insurance and financial products, and empower vulnerable populations.	Low to moderate (mainly for campaigns, training materials)
Enabling environment	Feasible but requires strong policy implementation, coordination and regulatory reforms; dependent on multi-stakeholder engagement.	Medium to long-term	High: Supports sustainable, inclusive and resilient CDRF systems.	Moderate (policy work, regulatory updates capacity building)
Risk transfer	Feasible but underdeveloped; product diversification and improved distribution needed; currently donor-dependent.	Medium-term	High: Reduces fiscal burden and supports rapid recovery after disasters.	High (premium subsidies, product development outreach)
Risk retention	Feasible by operationalising national contingency and climate funds; currently limited by fiscal constraints.	Short to medium-term	Moderate: Provides immediate liquidity for disaster response but limited by fiscal space.	High (capitalise funds, contingency reserves)
Distribution channels and links to support programme	Feasible; mobile money and social protection systems offer a foundation; needs further integration and rural outreach.	Short to medium-term	High: Increases access to financial products and social protection, especially for the poor.	Moderate (system upgrades, outreach, integration)

Resilient infrastructure	Feasible but resource-intensive; requires long-term planning, investment and coordination across sectors.	Long-term	Very high: Reduces vulnerability, supports economic growth and protects livelihoods.	Very high (infrastructure investment, maintenance upgrades)

Notes: Short-term: 1-2 years; Medium-term: 2-5 years; Long-term: 5+ years. Financial need estimations are relative and need to be refined further. Impact is assessed in terms of contribution to resilience, protection of vulnerable populations and fiscal stability.