



Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 06-May-2019 | Report No: PIDA26404



BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Malawi	P165056	MALAWI-Disaster Risk Management Development Policy Financing with Cat DDO (P165056)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
AFRICA	12-Jun-2019	Social, Urban, Rural and Resilience Global Practice	Development Policy Financing
Borrower(s)	Implementing Agency		
Ministry of Finance, Economic Planning, and Development	Ministry of Finance, Economic Planning, and Development		

Proposed Development Objective(s)

The overall objective is to strengthen the institutional and financial capacity of the Government of Malawi for multi-sectoral disaster and climate risk management.

Financing (in US\$, Millions)

SUMMARY

Total Financing	70.00
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DETAILS

Total World Bank Group Financing	70.00
World Bank Lending	70.00

Decision

The review did authorize the team to appraise and negotiate



B. Introduction and Context

Country Context

1. The proposed Disaster Risk Management (DRM) Development Policy Financing (DPF) with a Catastrophe Deferred Drawdown Option (Cat DDO) aims to boost the resilience of the Republic of Malawi with respect to significant natural disaster- and health-related risks threatening its sustainable growth and development. The DRM DPF with Cat DDO is part of a multi-pronged response to alleviate the economic and humanitarian costs associated with the impact of Tropical Cyclone Idai, with a longer-term objective to strengthen the institutional and financial capacity of the Government of Malawi (GoM) for multi-sectoral disaster and climate risk management. This longer-term objective will be achieved by facilitating the implementation of key policy and institutional reforms that will enable the country to be better prepared for responding to future disaster- and health-related emergencies. The proposed operation is innovative as it provides, through a single operation, a combination of up-front financing as a DRM DPF (US\$40 million grant) for immediate financial needs in the aftermath of Cyclone Idai, and a deferred disaster-contingent financing instrument (Cat DDO, up to US\$30 million grant) for a future emergency. Adoption of the prior actions is a key step, but the shift to greater resilience will become evident in the next three years as the country implements the policy reforms and achieves the results as outlined by the indicators.

2. Natural disasters have jeopardized development progress and significantly contributed to macroeconomic instability. Malawi is exposed to a variety of natural hazards, notably floods, strong winds, dry spells, cyclones, earthquakes, and landslides, which are known to cause both rapid and slow on-set disasters. Among the weather-related shocks, droughts and floods have had the greatest impact on the country's economy, people's lives and livelihoods, and infrastructure. The country has faced successive and compounding climatic shocks. In 2015, the country experienced its worst floods in 50 years, followed by a drought in 2016 due to the strongest El Niño event in 35 years. These successive events resulted in annual estimated losses of US\$500 million across all sectors. The resulting low capital accumulation is a key contributor to the country's depressed growth trajectory.

3. Most recently, in March 2019, the country was struck by Tropical Cyclone Idai which led to heavy rains and strong winds severely affecting 15 of Malawi's 28 districts, 2 of the 4 major cities, and an estimated 975,588 Malawians. 731,879 people are at risk of food insecurity (having lost their saved food commodities¹). Based on the Government's preliminary Post Disaster Needs Assessment, physical damage to the country's capital stock totals US\$220 million and recovery and reconstruction needs to "build back better" total US\$368 million, representing 5.8 percent of Malawi's GDP². A total of 109,625 hectares of crops washed away leading to a loss of livelihoods for around 2,300,363 farm families. More than 288,371 houses have been affected, 1,569 schools have been damaged, of which many remain closed or are being used as emergency shelter for displaced communities, hence disrupting the education of 443,136 children³. Cyclone Idai has also destroyed 129 bridges and 1,841km of the road network in the southern region of the country.

4. Overall, the macroeconomic policy framework is considered adequate for the purposes of this operation. The adequacy of the macroeconomic framework is premised on the authorities' commitment to sound macroeconomic management, including fiscal consolidation, tight monetary policy and the implementation of reform commitments to restore credibility of public finances and address governance weaknesses. The IMF ECF program, currently in place, will support the authorities in making the needed adjustments to keep the fiscal consolidation on track. Complementary assistance from the World Bank and other development partners, particularly in the areas of agriculture and disaster risk

¹ Department of Disaster Management Affairs (DoDMA) & United Nations Office of the Resident Coordinator Malawi: Floods Situation Report No. 3 (as of 7 April 2019).

² The Malawi Post Disaster Needs Assessment for the 2019 Floods was commissioned by the Government of Malawi with support from The World Bank, United Nations Development Programme (UNDP), European Union (EU) and African Development Bank (AfDB).

³ UNICEF Malawi Floods Situation Report No. 2



management, will play a supportive role. While recent short-term policy efforts have focused on addressing food security challenges, efforts are beginning to refocus around the medium-term agenda to strengthen resilience, broaden the export base and manage risks through agricultural commercialization, as well as investment in critical infrastructure (in DRM, irrigation, power and transport connectivity) that will be essential for sustainability.

Relationship to CPF

5. The proposed program aligns with Malawi’s most recent Country Assistance Strategy (CAS) 2012-2017. Malawi has a recently approved Systematic Country Diagnostic (SCD), “Breaking the Cycle of Low Growth and Slow Poverty Reduction” (December 2018), which is the basis for its new Country Partnership Framework (CPF) where resilience is expected to be a prominent theme. Further, the SCD also indicates climate risks as a key challenge affecting poor households, macro stability and recommends implementing resilience strategies. In the Country Assistance Strategy 2012-2017, under the theme of “Enhancing Human Capital and Reducing Vulnerabilities”, Outcome 2.2 focused on “Improving resilience for poor communities through adequate social safety nets, improved climate resilience, and enhanced capacity to respond to disaster risks”, which is directly aligned with the World Bank’s twin goals of ending extreme poverty and boosting shared prosperity. The proposed operation fully aligns with all expected outcomes under 2.2. Finally, this project also contributes to the Bank’s efforts on accelerating more and better investments in people for greater equity and economic growth through the Human Capital Project.

C. Proposed Development Objective(s)

The overall objective is to strengthen the institutional and financial capacity of the Government of Malawi for multi-sectoral disaster and climate risk management.

Key Results

6. This operation aims to facilitate a shift in the Government’s approach of responding to disasters toward proactively managing the risks from disasters and to quickly mobilizing resources in the aftermath of disasters. Adoption of the prior actions is a key step, but the actual shift will become evident over the next three years as the country begins to implement the policy reforms introduced by the Government and the expected results indicators are achieved. For example, the new DRM Bill aims to: (i) focus efforts on preventing the creation of new risk, while ensuring adequate response, recovery, and resilience capacities; (ii) develop institutional arrangements for working in a systemic way, by coordinating action of public and private stakeholders across all government levels (vertically) and sectors (horizontally), and (iii) define a financial approach for ensuring viability of the numerous DRM processes. The adoption of Malawi National Meteorology Policy will result in the coordinated action of the State for the delivery of timely and accurate meteorological services as well as in the shift towards meteorological products and services that are user-oriented. The Malawi Urban Policy and the Malawi National Transport Policy will help integrate climate and disaster risk management considerations into new and reconstructed infrastructure. Finally, the Second Malawi National Social Support Program and the Disaster Risk Financing Strategy will increase transparency of and strengthen decision-making on different potential instruments and programs that will help finance disaster response and reconstruction, while taking due account of costs and benefits.

D. Project Description

7. The proposed DRM DPF with Cat DDO will support Malawi’s need for immediate liquidity in the wake of Tropical Cyclone Idai, and if a subsequent catastrophic disaster strikes, in the following way:



- a. Upfront financing: US\$40 million grant, potentially from the IDA Crisis Response Window, would be provided once the operation has been approved by the Board, signed, and declared effective, subject to a withdrawal application from the GoM. This will secure a prompt financial support to alleviate the economic and humanitarian costs associated with the impact of Tropical Cyclone Idai.
- b. Contingent (Cat DDO) financing: Subject to the triggering of the drawdown condition in the event of future crises, an IDA grant of up to (US\$30 million) – consisting of US\$15 million from Malawi’s national IDA allocation, and US\$15 million from IDA’s overall resources – would be available for full or partial disbursement at any time within three years from the signing of the development policy grant.

8. Under the proposed operation, the World Bank (WB) will support the implementation of reforms that have been prioritized by the Governments structured in three pillars and 8 prior actions:

Pillar A - Strengthening the institutional framework and coordination mechanisms for the implementation of the national disaster and climate resilience agenda

Prior Action A.1: The Recipient’s Cabinet of Ministers has approved the Malawi Disaster Risk Management Bill that will define a shift in the institutional framework from emergency response to a more holistic and comprehensive DRM approach.

Prior Action A.2 The Recipient’s Cabinet of Ministers has approved the Malawi National Meteorology Policy which will guide the modernization of climate and meteorological services central to providing quality and timely information for resilient development.

Prior Action A.3: The Recipient’s Minister of Health has approved the Public Health Institute of Malawi’s Strategic Plan (2018-2023).

Pillar B - Increasing climate and disaster resilience in public infrastructure

Prior Action B.1: The Recipient’s Cabinet of Ministers has approved the Malawi National Urban Policy which incorporates DRM and climate change as cross-cutting topics and facilitates the development of other policy instruments needed to improve urban resilience.

Prior Action B.2: The Recipient’s Cabinet of Ministers has approved the Malawi National Transport Policy which promotes mechanisms for resilient design, construction and operation of transport infrastructure.

Prior Action B.3: The Recipient has adopted a Safer Schools Programme which will ensure multi-hazard resilient design and construction of public education infrastructure, and outline a way forward for safe location, selection of materials, and construction techniques for safer schools.

Pillar C - Strengthening adaptive social protection mechanisms and government financial capacity to respond to disasters

Prior Action C.1. The Recipient has approved the Second Malawi National Social Support Programme II (2018-2023) and Implementation Plan which prioritizes development of a shock-sensitive social protection system.

Prior Action C2: The Recipient has adopted a Disaster Risk Financing Strategy and Implementation Plan, outlining the Government’s strategic objectives to strengthen financial preparedness for effective and timely disaster response.

E. Implementation

Institutional and Implementation Arrangements

- 9. Implementation of this operation is being coordinated by the MoFEPD.** Nevertheless, the implementation of the program is a shared responsibility across a number of other MDAs that are also closely involved in the reform program, including Department of Disaster Management Affairs (DODMA), Department of Climate Change and Meteorological Services



(DCCMS), Ministry of Health and Population (MoHP), Ministry of Lands, Housing and Urban Development (MoLHUD), Ministry of Transport and Public Works (MoTPW), and Ministry of Education, Science & Technology (MoEST). Each of these institutions will be co-responsible for the execution of the Policy Matrix and will inform MoFEPD about its results. The GoM, through the Debt and Aid Management Division of MoFEPD, will be responsible for providing written progress reports to the World Bank on the implementation of the program, consolidating progress achieved.

10. Monitoring and evaluation of the reform program will be undertaken jointly by the Government and World Bank teams. These two teams will meet regularly to monitor progress in implementing the agreed policy and institutional reforms supported by the operation, and to assess progress made towards achieving the expected results. Result indicators have been specifically selected to reflect available data sources in Malawi and build on lessons learned from earlier policy-based lending operations that recommend the use of simple and manageable results frameworks using available secondary sources of data. The World Bank will monitor the status of the project implementation through biannual implementation support missions and by tracking the results indicators.

F. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

11. By strengthening legal and policy frameworks, as well as institutions' capacities for DRM, poor and vulnerable people can be better supported in the case of disasters. Prior Actions under Pillar A focus on a clear definition and organization of DRM roles and priorities of the government. Developing strong and well-coordinated policy frameworks and institutions is critical to enable a rapid and effective response to disasters and to implement well-targeted and inclusive social protection schemes – and the poor, who are the most vulnerable to natural hazards, are likely to benefit most from improved DRM capacity. Strengthening these policy frameworks and institutions will also create a basis for further risk management reforms in the future. Early warning systems are critical for reducing the impacts of disasters on highly exposed and vulnerable households. Pillar A also focuses on strengthening meteorological services and early warning systems, which have been found to be one of the most cost-effective DRM measures for increasing resilience. In both rural and urban areas, resilient infrastructure can be key to helping poor households ensure continuity of income generating activities, access to markets, and food security. Prior Actions under Pillar B will support more resilient infrastructure, which will benefit people at all levels of income, particularly poor populations, in urban as well as rural settings. Prior Actions under Pillar C will focus on strengthening the Government's social and financial protection mechanisms to respond to disasters, mitigating the medium and long-term effects from disasters on the poor.

12. The policies are not expected to reduce poverty directly but rather contribute to preventing increased poverty in the event of new extreme natural events and mitigating the long-term effects of disasters. There could be health and safety risks associated with construction and operation of infrastructure in the implementation of the Malawi National Urban Policy, the National Transport Policy and the Malawi Safer School Construction Guidelines, in particular, with regard to Occupational Health and Safety and Community Health and Safety. However, Malawi does have an Environmental regulation (1996), which while not explicit on health and safety aspects does imply it in the enforcement of the provisions of the Act.

Environmental Aspects

13. Although not directly, the Prior Actions for this operation will improve Malawi's ability to manage its environment and natural resources and are thus likely to result in positive impacts on the environment. Specifically, the Prior Actions are designed to strengthen the engagement and coordination of several key ministries and authorities for



effective DRM. Through this process, departments of economic planning, disaster management, land, education, urban development, and transport will be able to better reflect environmental considerations and risks in their respective decision-making processes. For instance, improved DRM capacity can be expected to help with the mainstreaming of risk management in a range of sectors, such as better environmental management in urban and infrastructure planning. Overall, by supporting the GoM's effort to mainstream DRM into several key sectors (including transport infrastructure, education, and public administration), this operation can help to better integrate sustainable environmental management into more general planning processes.

14. By mainstreaming DRM, the Government is strengthening its efforts on climate change adaptation and empowering relevant national institutions – in line with its commitments under the Paris Agreement. In accordance with Malawi's Nationally Determined Contribution (NDC) under the Paris Agreement on climate change, this Cat DDO supports the government's strategy on climate change adaptation and DRM – for instance, through supporting sustainable and resilient approaches. For example, Prior Actions under Pillar A ensure a legal framework to establish DRM and climate change as cross-cutting topics in development planning; and Prior Actions under Pillar C help to assign a visible and formal role to climate change adaptation and DRM expenses in the national budget. The measures supported by this operation will help to implement Malawi's National Adaptation Plan (NAP), which is currently being developed to address medium- to long-term adaptation needs and will be submitted to the United Nations Framework Convention on Climate Change (UNFCCC) in contribution to reporting under the Paris Agreement.

G. Risks and Mitigation

15. The overall program risk rating is high, as are the expected returns to successful implementation. The government has shown remarkable leadership in championing DRM within its development agenda. The program is subject to four main risk areas: (i) political and governance; (ii) macroeconomic; (iii) institutional capacity; and (iv) fiduciary risks. The residual risk of a limited institutional capacity within sector ministries is moderate, while political and social resistance to change is low. The risk of natural hazards affecting the implementation of this program is also moderate. Political and governance risks for this operation are considered high. There is however, strong political ownership and commitment of the government on the disaster risk management agenda. The GOM's MGDS III (2017-2022) as well as the DRM Bill highlight that DRM is a national priority and central to the country's development agenda. Maintaining macroeconomic stability is a major source of risk exacerbated by policy-induced shocks and climate-related natural disasters. These risks are partially mitigated by continued close policy dialogue with the GoM on macroeconomic and fiscal management issues by both the World Bank and the IMF, and deepened investment in disaster risk management and resilience. The risk related to institutional capacity for implementation is considered high. Implementing the proposed DRM DPR with Cat DDO will require the integrated work of several actors at the national level to move proposed policy actions forward. Risks associated with limited capacity, especially in sector ministries, are being overcome by planned and ongoing technical assistance and ongoing investment financing from the World Bank and other development partners.

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APPROVAL

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