



RISK FINANCING & INVESTMENT



Funded by the European Union



INTRA-ACP DISASTER RISK REDUCTION PROGRAMME

Implemented with the European Union, OCHA, ARC, the governments of Zambia and Malawi



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## CASE STUDY

### RISK TRANSFER TOOLS

# Enabling Early Drought Response Through Anticipatory Insurance

In Malawi and Zambia, through EU-funded support and ARC technical assistance, anticipatory parametric insurance was piloted to provide payouts early in the agricultural season when early-season rainfall deficits signal drought risk. Unlike traditional insurance, which pays after harvest, this approach funds resilience activities in advance. It reduces household vulnerability, strengthens coping capacity, and lowers costs by shifting disaster management from reactive relief to proactive risk reduction.



A PAYOUT AMOUNT OF  
**USD 311,000**  
WAS PAID FOR MALAWI  
DURING THE SEASON  
2024 - 2025

## EXECUTIVE SUMMARY

- COUNTRY/REGION/LOCATION**  
Southern Malawi – including the Lower Shire Valley and Southern Agricultural Development Cluster – and southern Zambia, particularly Agroecological Zones II and III.
- RISK ADRESSED**  
Drought induced food insecurity and livelihood loss.
- IMPLEMENTATION PERIOD/TIMEFRAME**  
2023/24 and 2024/25 agricultural seasons
- ACTORS/IMPLEMENTING AND LOCAL PARTNERS**  
**ARC:** Risk modelling, contingency planning and capacity building. **Governments:** Technical coordination and payout distribution. **ARC Ltd:** Insurance coverage. **UNOCHA:** Financial and technical support. **KfW:** Premium financing support (PSF).
- KEY BENEFICIARIES**  
Drought-vulnerable households in Malawi were the main beneficiaries, while government institutions strengthened capacities through training and insurance model customisation.

## CONTEXT AND CHALLENGE

Malawi and Zambia face recurrent droughts threatening food security, livelihoods and economic stability. During the 2024/2025 season, Africa Risk View estimated that up to 9 million people in Malawi and 4.5 million in Zambia could be affected by agricultural drought.

Both countries participate in the **African Risk Capacity (ARC) insurance pool**, which provides end-of-season payouts to support relief assistance. While essential, this approach mainly responds after impacts occur. The initiative therefore aimed to develop complementary anticipatory actions – including resilience-building and livelihood diversification – to reduce vulnerability earlier, strengthen disaster preparedness, and bridge the gap between early warning and late-season response.

## WHY THIS ACTION MATTERS?

- This action strengthens the shift from reactive disaster response and relief to proactive anticipatory risk management in drought-prone OACPS Member States. By combining Africa Risk View modelling and anticipatory financing with traditional ARC insurance that provides end season support.
- This action strengthens national systems by embedding anticipatory action into disaster governance. The approach is expected to ease fiscal pressures on governments by financing resilience activities earlier in the season and reducing the cost of response.
- Further it strengthens livelihoods and household coping capacity, ensuring communities withstand shocks before impacts peak. Finally, it demonstrates how risk financing tools can support preparedness, early action, and resilience-building simultaneously.

See the intervention and results on page 2 →

## INTERVENTION AND APPROACH

The project supported the design and issuance of two anticipatory parametric drought insurance policies in Malawi and Zambia in 2023/24 and 2024/25 agricultural season. National experts received training on Africa RiskView modelling, seasonal monitoring, anticipatory trigger design, and operational planning. The initiative developed operational plans to guide pre-agreed anticipatory actions once payout thresholds were triggered. Early drought loss calculation was completed by March 2024, three months before season end. ARC Ltd committed to transferring funds within two weeks of payout confirmation,

enabling rapid implementation of pre-identified resilience activities. Operational planning was aligned with government Technical Working Groups and humanitarian partners to ensure coordination. The targeting of beneficiary was achieved leveraging the national social protection registers, enabling rapid identification of households. Activities were planned against successive “windows of opportunity” to interrupt negative impacts through livelihood diversification. Operational readiness was strengthened by involving service providers and humanitarian actors, ensuring smooth transition from planning to implementation.

## RESULTS AND CHANGE

- 1 The project successfully designed and rolled out an anticipatory insurance product in Malawi and Zambia.
- 2 Early drought loss calculation was completed three months before season end, supporting rapid payout disbursement.
- 3 Beneficiary targeting approaches were enabled by leveraging the national social protection registers, ensuring readiness for quick
- 4 Operational planning was strengthened through Technical Working Groups and humanitarian partners, embedding anticipatory action into national systems.

### EARLY CONCRETE UPTAKE IN ONGOING INVESTMENTS:

#### 1. SUSTAINED PARTICIPATION IN THE ARC RISK POOL

Malawi and Zambia participated in the ARC insurance pool during the 2023/24 and 2024/25 seasons, demonstrating sustained commitment. Zambia financed its 2024/25 premium through the national budget, reflecting strong ownership.

#### 2. FORECAST-BASED ENHANCEMENTS UNDER DEVELOPMENT

Product enhancement work integrating seasonal forecasts is ongoing to strengthen anticipatory capacities.

#### 3. PATHWAY FOR EXPANSION TO ADDITIONAL MEMBER STATES

Expansion to additional ARC Member States is planned once the model is upgraded.

#### 4. FINANCING CONSTRAINTS LIMITED WIDER PARTICIPATION

Senegal and Niger were initially included but later dropped due to insufficient premium financing.

## PROGRAMME OUTPUT ALIGNMENT



This action contributes to Risk Transfer Tools, Preparedness, and DRR Enabling Environment outputs under the Intra-ACP DRR Programme.

**OUTPUT 1.1:** Expanded coverage and improved capacity of African Risk Capacity (ARC) models and tools

**OUTPUT 1.2:** Supported deployment of customizations of natural hazard risk models in existing and new ARC member states



### KEY ENABLERS OF SUCCESS



Early drought loss calculation and payout disbursement



Leveraging existing social SafetyNet systems for implementation



Alignment with government and humanitarian partners



Early Beneficiary Targeting and Service Provider Engagement