

# Emerging lessons on pre-agreed financing for shock-responsive social protection in Mozambique

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## KEY FINDINGS

Mozambique faces a range of rapid-onset (notably cyclones and floods) and slow-onset (drought) risks that can be planned and prepared for. Mozambique has made progress in securing financial protection against cyclones, which goes some way towards protecting the Government from a major fiscal shock. Mozambique also has a long-established social protection system, towards which the Government demonstrates a strong financial commitment, covering upwards of 94% of routine costs in most years.

Currently, configurations of international development and humanitarian partners are engaged with different parts of government, all working on other parts of shock-responsive cash transfer programming and financing. Key areas of common interest and progress include establishing a national disaster fund, sovereign risk transfer insurance coverage against cyclone risk, and early warning protocols for drought. However, this does not yet add up to a coherent approach, and there are fundamental gaps in the capacity and articulation of the shock response and financing systems that would need to be addressed to enable pre-arranged financing to be used for shock-responsive social protection.

The government's appetite to institutionalise shock-responsive social protection for rapid and slow-onset shocks, combined with financial preparedness measures, is unclear. Pursuing multiple points of influence simultaneously may be a sensible strategy in this environment. Given the many stakeholders in government and across the international community, however, there are risks that opportunities to target and sequence investments, influence, and share learning will be missed.

Key findings include:

- » Disaster risk financing reform efforts have prioritised securing financing for cyclones that have posed major fiscal risks to the Government in the last five years, with large costs incurred for infrastructure repair and the resumption of public services. Given the fiscal constraints the Government currently faces, prioritising risks that could result in major fiscal shocks is logical. Where donors invest in pre-arranged financing, funds are transferred to the government as general budget support without any payouts earmarked for social protection.
- » Government and development partners have prioritised building the shock-responsive capabilities of the social protection system since 2016, including creating Programa de Acção Social para o Desenvolvimento – Post Emergencia (PASD-PE) in 2018 to respond to large-scale shocks with unconditional cash transfers. However, the social protection system overall has major limitations in coverage, with just 20% of poor households included in 2019. Efforts to respond to shocks through PASD-PE have faced severe delays in issuing payouts to beneficiaries for more than a year.
- » Based on recent experiences where scale-ups have faced serious delays, the mechanism cannot yet be considered fit to channel pre-arranged financing in a timely and effective fashion. Pre-arranged financing solutions that transfer risks for a fee are more costly than budgetary or donor grant funding. Their advantage is in providing predictability and timely release of funds. However, if the delivery of response through the social protection system is severely delayed, the advantages of timely (and more costly) financing will be lost. Sequentially, therefore, it would be more logical to continue to invest in the coverage, inclusive targeting, and shock responsiveness of the social protection system first.
- » Historically, donor and government interests in investing in and using the social protection system have aligned at key political and economic moments, enabling substantial expansions and reforms. Shock responsive social protection is a priority for donors supporting Mozambique's social protection system. This study could not determine the extent to which the Government is committed to this agenda. The study found no indication that the Government plans to pay for scale-ups through the social protection system, and to date, scale-ups have been funded by donors ex-post, which has contributed to delays in response.
- » Meanwhile, a large-scale international donor-funded humanitarian response is established in the country's poorest, most food insecure, and conflict-affected parts. Humanitarian anticipatory action provides an alternate entry point for advancing cash transfers for predictable shocks and has already catalysed advancing government systems and protocols for early warning for drought. Humanitarian actors supporting anticipatory action have sought to influence the Government disaster management

fund to allow it to respond to early warning signals. Current anticipatory action programmes led by the UN World Food Programme (WFP) are also delivered in alignment with the social protection system, which has the potential to provide a compelling demonstration effect of the value of forecast-based early response to drought through national systems.

- » Currently, it is not clear how the government will pay for scale-ups of the social protection system in response to shocks or the extent to which pre-arranged financing is part of the government's or development partner's priorities. The current DRF instruments do not appear to be linked to the social protection system. However, in principle, Mozambique could be a good candidate for expanding government-led pre-arranged financing, which could, in turn, support shock response through the social protection system. Mozambique is a low-income country and currently faces substantial fiscal constraints. Their medium-term growth outlook, however, is good, and the Government already covers most of the costs of routine social protection. In principle, Mozambique could commit to taking on the costs of shock response over time and develop a phased plan, including aligning existing and dedicating new instruments to support the scale-up of the social protection system in response to shocks. Development partners could engage in dialogue with the Government to determine political demand and potential investment areas around which they can coordinate their technical and financial support.

## ACRONYMS

AfDB	African Development Bank
ARC	African Risk Capacity
ASR	Africa Speciality Risks
CERC	Contingent Emergency Response Component
DARIDAS	Department for the Development of Arid and Semi-arid Zones
DRF	Disaster Risk Financing
DRM	Disaster Risk Management
FGC	National Disaster Management Fund
INAM	National Institute of Meteorology
INAS	Institute of Social Action
INGD	National Disaster Risk Management Institute
MADER	Ministry of Agriculture
MEF	Ministry of Economy and Finance
MDTF	Multi-Donor Trust Fund
MGCAS	Ministry of Gender, Children and Social Action
PASD-PE	Programa de Acção Social para o Desenvolvimento – Post Emergencia
PASP	Program de Acção Social Productiva
PSSB	Programa de Subsídio Social Básico

## 1. INTRODUCTION

This study, conducted by the Centre for Disaster Protection (hereafter, the Centre) in collaboration with the Social Protection Technical Assistance, Advice, and Resources (STAAR) Facility, investigates the potential opportunities, benefits and risks when linking disaster risk financing (DRF) and shock-responsive social protection (SRSP). It was commissioned by the United Kingdom’s Foreign Commonwealth and Development Office (FCDO) and the United States Agency for International Development’s (USAID) Bureau for Resilience and Food Security Center for Resilience.

This case study report contributes to a wider study that includes research across three country case studies (Jamaica, Malawi, and Mozambique ) to consider the opportunities, potential risks, and benefits of channelling disaster risk financing instruments through national social protection systems. The study research questions are listed in Box 1 below.



### BOX 1: RESEARCH QUESTIONS

What are the opportunities for and potential risks and benefits of channelling disaster risk financing instruments, including climate shock insurance payouts, through national social protection systems?

- What are the opportunities for channelling these financial instruments through social protection systems?
- What are the potential risks and benefits of channelling these financial instruments through social protection systems?
- To what extent do these opportunities offer value for money (VfM), integrate gender equality and social inclusion considerations, and engage with local actors ?

The research combines quantitative and qualitative data and information gathered through desk-based evidence review (literature review and data analysis) and key informant interviews (KIs) at global and country case study levels across four country case studies.

The Mozambique study's limited availability of key informants and reliance on desk-based methods hampered in-depth analysis. This case study also drew on the data collection process of research by STAAR and DAI and funded by FCDO on shock-responsive social protection in Mozambique. This study, conducted in 2022, included interviews with staff from the Government of Mozambique and key partner agencies. Despite this additional information, the emerging links between PAF and SRSP rest on a small evidence base.

## 2. RISK AND VULNERABILITY PROFILE

**Mozambique has multiple climatic hazards, including floods, droughts and cyclones.** Mozambique’s population is particularly vulnerable to shocks. In rural areas, 70% of the population is employed in low-productivity subsistence agriculture. 60% of the population lives in low-lying coastal areas along Mozambique’s 2,700 km coastline (World Bank 2021a; World Bank 2023a; International Federation of the Red Cross (IFRC) 2022). Mozambique was ranked the country most affected by climate change in the 2021 Global Climate Risk Index. It projected rising temperatures, irregular rainfall, and rising sea levels are expected to contribute to increased frequency and intensity of droughts, floods and cyclones (World Bank 2023a).

Mozambique’s varied geography includes arid and semi-arid areas, and drought periodically negatively impacts food production. For example, the El Niño conditions experienced during 2015–2016 precipitated the most severe drought in Mozambique in 35 years, resulting in a 15 percent reduction in food availability (SADRI 2020).

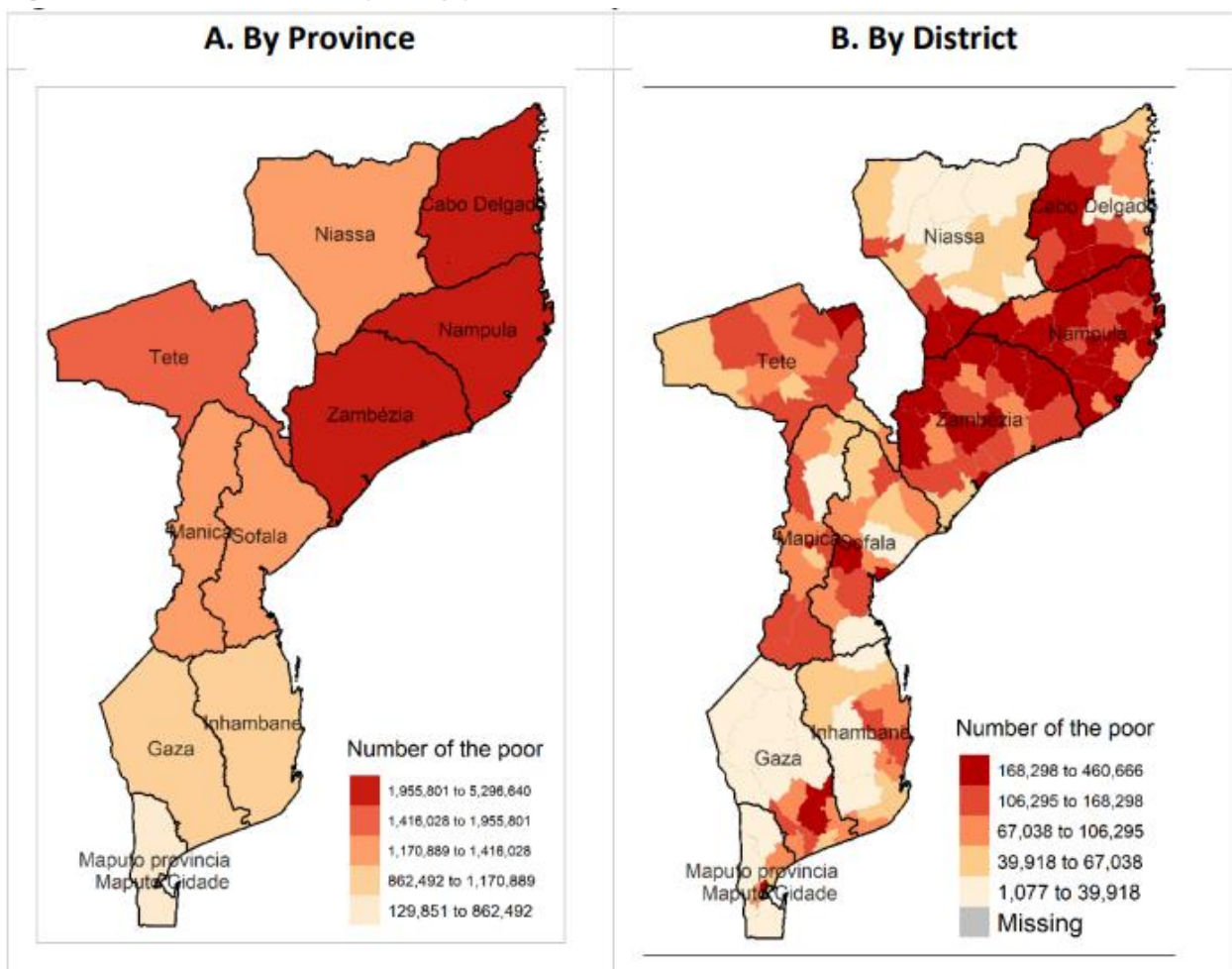
**In the last five years, Mozambique has experienced a series of high-intensity cyclones that have caused widespread devastation,** with little opportunity to recover between crises. In 2019, two powerful cyclones (Idai and Kenneth) made landfall in Mozambique quickly, leaving 2.2 million people needing urgent humanitarian assistance (IFRC 2022). Mozambique was already suffering from drought when the cyclones hit. Recovery needs were estimated to be USD 3.2 billion (ibid). In January 2021, Cyclone Eloise

struck Mozambique, causing heavy rainfall, severe flooding and landslides in the same areas just recovering from Cyclone Ida (IFRC 2022). In 2023, tropical Cyclone Freddy affected 1.1 million people across eight provinces, with 184,000 displaced, 183 killed, 200,000 houses destroyed/flooded, and 390,000 hectares of land impacted. The impacts of Cyclone Freddy exacerbated an ongoing cholera outbreak (UN 2023).

**Mozambique’s infrastructure is highly vulnerable to climate shocks.** School infrastructure is estimated to incur more than USD2 million in damages per year, 60% of the road network is in flood-prone areas, and climate-related damages are estimated to cost up to 1.1% of GDP (World Bank 2023a).

**Mozambique has experienced strong economic growth since the end of the civil war in 1992, accompanied, however, by persistently high levels of poverty, rising inequality and fragility** (World Bank 2021). Despite decades of economic growth, poverty remains stubbornly high in Mozambique and worsened in the 2010s. In 2020, 63% percent of the population, 18.9 million people, were estimated to live below the national poverty line, an increase of 14.4% from the last survey in 2014/15 (World Bank 2023b). Poverty incidence is expected to decrease from 64% to 61% between 2022 and 2025, but the number of poor is projected to increase due to population growth (World Bank 2023a). Inequality has also worsened, with economic growth largely driven by extractives benefitting the already better off in urban areas (World Bank 2023a). The largest numbers of poor people are concentrated in the northeastern provinces of Cabo Delgado, Nampula and Zambezia and the northwestern province of Tete.

Figure 1. Estimated number of poor by province and district



Source: World Bank estimates based on the small area estimation method using the 2019/20 IOF and 2017 population census.

In 2017, conflict broke out in Cabo Delgado province between Islamist militias and the Government, displacing an estimated 700,000 people who rely heavily on international humanitarian assistance (IMF

2024). In 2024, more than 800,000 people in Cabo Delgado province are estimated to be in crisis levels of food insecurity or worse (WFP 2024).

**Mozambique's economic outlook is relatively strong but with notable risks, including disasters and high debt levels.** Growth slowed with the discovery of a 'hidden debt crisis' and subsequent debt default in 2016, the outbreak of conflict in the gas-rich Cabo Delgado region in 2017, followed by major disasters and COVID-19 (World Bank 2023a and c). Despite a slowdown from 2019 and one year of negative growth in 2020, Mozambique's economy has experienced a strong post-Covid recovery, with growth of 4% in 2022 and 7% in 2023 (IMF 2024). This growth has been driven by a service recovery, increased natural gas production, and high commodity prices in Mozambique's major export commodities of coal, aluminium and gas (World Bank 2023a). While the long-term economic outlook for Mozambique is considered to be strong, based on future natural gas exports, major risks include insecurity, high levels of debt and vulnerability to disasters (IMF 2024). Mozambique entered into an agreement with the IMF to access budget support under the Extended Credit Facility in 2022 to support economic recovery, reduce public debt and financing vulnerabilities and promote inclusive growth through structural reforms (ibid). This marked the first return of budget support to the Government of Mozambique since the 2016 hidden debt crisis.

### 3. SHOCK-RESPONSIVE SOCIAL PROTECTION

**During a social and economic crisis, Mozambique was an early adopter of cash-transfer social protection programmes from the late 1980s.** Mozambique began to implement cash transfer programmes in the late 1980s and 1990s in the context of a massive increase in poverty, exacerbated by the dismantling of social programmes benefitting the poor under the terms of a structural adjustment programme agreed with the IMF in 1987 (de Camargo Penteadó 2022). Under pressure from the Government and UN, the structural adjustment programme was amended in 1989 to include a 'social dimension' including limited cash transfers and an array of social protection measures providing subsidies for medicine, supplementary feeding for children, school supplies, school meals, food for malnourished people, and a cash transfer programme for displaced people (ibid). The Food Subsidies Programme continued to expand while the in-kind programmes were wound down. By the mid-1990s, however, concerns around ghost beneficiaries and corruption meant that donors were no longer willing to fund social protection, and the Ministry of Planning and Finance reduced budget allocations to a minimum (ibid).

**Government and international actors re-engaged in social protection again in the late 2000s in response to moments of political unrest.** During the early 2000s, the UN led a new policy drive to address poverty through social protection (de Camargo Penteadó 2022). However, international donors did not resume their support for social protection until cuts to fuel subsidies in 2008 and 2010 led to rioting, and social protection became framed by the Government and international partners as a tool to ensure political stability (ibid; Buur and Salimo 2018). An international grouping of the UN, key bilateral donors, and the IMF emerged to support this agenda. The UK and the Netherlands supported restructuring the Food Subsidies programme to become the Programa de Subsídio Social Básico (PSSB) (de Camargo Penteadó 2022). This restructuring expanded the reach of the PSSB to the whole

country and placed it under the administration of the Institute of Social Action (INAS), a branch of the Ministry of Gender, Children, and Social Action (ibid). Through the ILO and UNICEF, the UN supports institutional capacity strengthening (Buur and Salimo 2018). Meanwhile, the IMF supported the cuts to fuel subsidies, encouraged budget allocations towards social protection spending and provided donors with updates on state finances and the administration of development aid (de Camargo Penteadó 2022). Donors provided substantial funding, often in the form of budget support. At the same time, the Government, for their part, established new social protection frameworks in 2007 and 2009, signalling their long-term commitment to social protection (ibid).

The World Bank, meanwhile, was highly critical of and did not support the social protection architecture, arguing that cash transfers enabled patronage and state corruption (Buur and Salimo 2018). Instead, the World Bank created the Program de Acção Social Productiva (PASP), which focused on seasonal public works for low-income families with working capacity (de Camargo Penteadó 2022).

**Government support for social protection became a key condition of a ‘silent deal’ with development partners to provide large-scale budget support.** In contrast with other low-income countries, the Government of Mozambique has historically funded a high proportion of social protection costs from its budget, in many years upwards of 95%. While the Government did have their own political and policy interest in supporting social protection, strong financial support was not a straightforward indicator of political support. Rather, in the late 2000s, it was also part of a ‘silent deal’ in which Government support for social protection was the condition required by donors in return for large-scale budget support well beyond the social protection sector (Buur and Salimo 2018). Donor confidence in the Government was severely shaken by the debt crisis uncovered in 2016; the IMF, World Bank and bilateral donors suspended budget support (ibid).

**A new donor division of labour has emerged since 2016, bringing greater policy coherence.** In 2017, the UK, Netherlands and Sweden shifted their support to a joint UN programme, which included a range of technical upgrades and reforms, including a new management information system, IT upgrades and a new child grant (FCDO 2019). The UK, Netherlands and Sweden also worked with the World Bank to establish a multi-donor trust fund (MDTF) to coordinate donor contributions and technical assistance in a new division of labour between the UN and World Bank (ibid). The World Bank’s social protection programme, which includes support from bilateral donors through the MDTF, is now the main source of international development support for the social protection sector. In 2021, the World Bank approved a USD168 million grant supporting the Social Protection and Economic Resilience project, of which USD41 million was from the UK, Sweden and the Netherlands’ contributions via the MDTF (World Bank 2021b).

In this new development landscape, social protection has increasingly become framed at the policy level as a tool for managing and responding to shocks. The National Social Protection Strategy 2016-2024 (ENSSB II) serves as a foundational strategy for the sector, including shock-responsive social protection actions. ENSSB II notes the need to expand cash transfer programmes to achieve greater coverage and protect households and individuals exposed to shocks. The World Bank’s programme approved at the end of 2016 described the PASP as ‘the first chance to implement social protection policy in the context of disaster risk management and climate change adaptation on a practical level’ (World Bank 2013 in Buur and Salimo 2018). Other donors, meanwhile, were investing in research to investigate the potential to adapt the social protection system to respond to shocks (Kardan et al. 2017). The World Bank and MDTF supported the Social Protection and Economic Resilience Project, now the sector’s primary source of donor support. It includes a component focussed on shock-responsive social protection, which aims to “strengthen the capacity of the social protection system to timely respond to emergencies through improved financing mechanisms to support social assistance interventions to protect the human capital and productive capacity among the target population.” (World Bank 2021c).

In practice, the GoM’s three key safety net programs fail to provide adequate coverage for poverty reduction or shock response goals. Overall, INAS covered 595,000 households with regular programs in 2019, equivalent to 20 percent of poor households (World Bank 2021b). The programmes expanded to reach 1 million beneficiaries in 2022; of these, however, 572,6424 were recipients of emergency assistance (FCDO 2023). The main programmes are presented in the table below. Social protection programmes in Mozambique also exhibit shortcomings in gender and social inclusion measures despite their emphasis on addressing the needs of vulnerable groups (see Box 2).


Table 1: Main social protection programmes in Mozambique

Programme	Type	Eligibility	Transfer	Coverage
PSSB	Unconditional cash transfer	Elderly, disabled, chronically ill, and children in poverty or vulnerability. Since 2018 also includes the Child Grant.	540-1,000 Mt (monthly, 2020) (7-13 GBP)	786,916 individuals (2023 target) (2.5% of national population)
PASD	Unconditional cash transfer	PASD-AM (multiform support): vulnerable individuals affected by an idiosyncratic shock. PASD-PE (post-emergency): households	PASD-AM: food basket 1,650 Mt (2020) (21 GBP) PASD-PE: 2,500 Mt (monthly, recent experiences)	PASD-AM: 27,203 households (2023 target) (0.4% of national households) PASD-PE: 1,086,128 individuals (2022)

		affected by covariate shocks	(19-32 GBP)	(3.4% of the national population)
PASP	Public works	Poor able to work	1,050 (monthly, 2023) (13 GBP)	165,073 individuals (2023 target) (0.5% of the national population)

Source: Beazley (forthcoming), Hodges and Bischler (2021); Government of Mozambique (2021, 2023)

*Box 1: Mechanisms to ensure gender and social inclusion (GESI)*

 Both the PSSB and PASD-PE prioritise assistance for disabled individuals and mothers with children, among other vulnerable demographics. However, essential gender and inclusion measures are notably absent in these programs:

- The community structures that underpin these programs and INAS's community workers, often referred to as the *Permanentes*, are predominantly patriarchal and male-dominated. Over the years, concerns have been raised about the role of *permanentes*, as they are not government employees but are often older men with close ties to community leaders and, in practice, can function as gatekeepers.
- There are no explicit provisions to make the programmes inclusive beyond their eligibility criteria. This lack of special measures pertains to communication strategies, enrollment procedures, and mechanisms for addressing grievances, which are deficient across the board.
- The programmes do not offer explicit provisions for ensuring women's equal participation in the governance and leadership of these initiatives.
- An evaluation by Beazley and Picanyol (2019) of PASP highlighted its limited gender sensitivity. While some aspects of PASP's design may appeal to female participants, such as shorter workdays, it falls short of achieving a genuinely gender-sensitive design. Notably, the programme lacks critical gender-sensitive features, such as on-site childcare facilities, the creation of female-friendly work environments, dedicated time for childcare, and flexible working hours.

**Efforts to respond to shocks through PASD-PE have faced severe delays.** The Programa de Acção Social para o Desenvolvimento—Post Emergencia (PASD-PE) is designed to respond to large-scale shocks. The programme was inaugurated in 2018. It is activated in response to shocks and provides unconditional cash transfers. It targets households identified as affected by the National Disaster Management Agency (INDG) or classified as belonging to a vulnerable demographic, particularly those residing in areas impacted by the shock.

During the 2016 drought in Gaza, the Government initiated a cash transfer programme through INAS to assist affected households – later called PASD-PE. Payment delivery began in 2020, more than three years after the enrolment (Hodges and Bischler, 2021). Following Cyclones Idai and Kenneth in early 2019, PASD-PE was activated, with swift registration. However, payments did not start until September 2020 (Andrade 2022). In response to the COVID-19 pandemic, PASD-PE was also activated. Payments were not initiated until late 2020, and by the end of 2022—only around 68% of the target beneficiaries had received assistance.—As of September 2023, payments were still being delivered (Beazley, forthcoming; Hodges and Bischler, 2021).

**Other social protection programmes have only been used to respond to shocks to a limited extent.**

PASP is a conditional cash transfer program that provides seasonal employment opportunities and can be used to provide support after a shock. The selection process for PASP beneficiaries combines geographical, community-based, and poverty-based targeting. PASP encompasses two principal components: the public works component, encompassing wage disbursements and acquiring assets or services, and the graduation component, focusing on income-generating initiatives. Concerning its capacity to support responses to shocks and enhance overall resilience, PASP incorporates several mechanisms that can contribute to these objectives. Firstly, the wages distributed through the program can bolster the coping and adaptive capacities of the beneficiaries and their communities. Secondly, the public works component can lead to establishing or maintaining assets, which can mitigate the adverse consequences of climate-related shocks, aid in reconstructing assets impaired by such shocks, or facilitate participation in relief and recovery activities (McCord et al., 2016).

PASP was utilised on a limited scale to address the post-effects of Cyclone Idai. In 2020, PASP procedures underwent adaptation to offer more flexible assistance to around 20,000 households impacted

by the cyclone in the provinces of Manica, Sofala, and Cabo Delgado. The primary focus was on rehabilitating damaged or destroyed infrastructure. PASP is also currently deployed to assist individuals affected by the protracted conflict in Cabo Delgado (Beazley, forthcoming; Hodges and Bischler, 2021).

Other programmes, although not designed or prepared for shock responses, have been selectively used for this purpose. This is the case for PSSB, an unconditional cash transfer programme targeting the elderly, disabled, chronically ill, and children in poverty or vulnerability. The programme provided additional transfers to its beneficiaries (referred to as a “vertical expansion”) in response to the COVID-19 pandemic.

**Shock-responsive social protection responses have been funded exclusively with contributions from external partners and mobilised after the shocks.** Routine annual budgeting processes do not include provision for social protection responses. Recent experiences of responses to shocks, such as the Idai cyclone and the COVID-19 pandemic, led MGCAS to consolidate a ‘parallel’ planning and budgeting process carried out outside the conventional cycle (IPC-IG, 2022).

To date, the activation of PASD-PE in response to various shocks has relied on external financing. Specifically, the response to the COVID-19 pandemic was funded by the World Bank, FCDO, the Swedish Embassy, and bilateral cooperation partners, including the United States, Canada, and Germany (ILO, 2021).

The percentage of INAS expenditure funded through external sources expanded from 5.7% in 2016 to 18.8% in 2019 and notably surged to 49.4% in 2020. This trend is driven by the shock-response initiative PASD-PE, the Child Grant, introduced in 2018 as part of the PSSB, and the employment programme PASP, which depended on financing from the World Bank, albeit with some intermittent domestic allocation. The surge of external financing in 2019 can be explained by the responses to cyclones Idai and Kenneth and the Covid-19 pandemic (Hodges and Bischler, 2021).

Challenges associated with channelling external funds have resulted in notable delays in social protection responses. While operational factors contribute to these delays, constraints related to funding availability, donor-imposed conditions, and the intricate flow of funds within government structures have been identified as pivotal obstacles (Beazley, forthcoming).

**Government commitment to reform and expand the social protection system and use for shock response is uncertain.** The government has historically demonstrated a strong commitment to financing social protection and targeting resources for the poor. In the context of recent fiscal constraints, the Government has increased funding in 2023 to enable an increase in the number of beneficiaries but has not responded to requests from the Ministry of Gender, Children and Social Action also to increase the amounts transferred to beneficiaries (FCDO 2023). The study could not establish the extent to which the Government is committed to reform, including using the social protection system for shock response.

## 4. PLANNING AND PAYING FOR DISASTERS

**Mozambique has historically relied on ex-post financing for disaster response**, including domestic budgetary resources allocated through annual contingency plans and contingency budgets for initial response phases, alongside contributions from international donors. Mozambique has also used credit to fund reconstruction, though to date, it has not secured contingent credit, and therefore, loans are often slow to come online (World Bank 2018).

**Since 2017, disaster risk management, including financing, has become a policy priority for the Government and the World Bank.** The Government adopted the Disaster Risk Management (DRM) Master Plan 2017-2030, which included actions to strengthen financial protection against disasters (World Bank 2023a). The World Bank has provided technical and substantial financial support to the Ministry of Economy and Finance (MEF) to put in place financial preparedness measures against shocks since 2017, including producing a joint paper in April 2018, “Financial Protection against Disasters in Mozambique”, which informed the four-year USD90 million program-for-results, the Mozambique Disaster Risk Management and Resilience Program, approved in March 2019. This programme included supporting the government in developing a disaster risk financing strategy and a procurement plan for sovereign disaster insurance (World Bank 2019a).

The Government adopted a National Strategy for Financial Protection against Disasters in August 2022 that contains six strategic pillars: (i) identification and quantification of economic and fiscal risks of disasters; (ii) establishment of a portfolio of financial and budgetary instruments for the retention and transfer of risks; (iii) execution of focused, timely, transparent and resilient post-disaster interventions; (iv) support for the development of the private disaster insurance market; (v) protection of public and private investment against disasters, and (vi) strengthening the national capacity for financial protection against disasters.

**The Government has established a disaster management fund and sovereign insurance.** In 2017, with support from the World Bank, the Government created a National Disaster Management Fund (FGC), managed by the National Institute of Disaster Management (INGD), with a commitment to allocate at least 0.1% of the state budget to the fund (República de Moçambique 2022, World Bank 2023a). The Government has exceeded this target and, in 2023, transferred MZM 360.8 million (USD5.7 million), over 0.14% of fiscal revenues (World Bank 2024). The World Bank has also contributed USD31 million to the fund since 2019 (ibid).

The FGC was not envisaged and has not been used to fund shock-responsive social protection. According to the FGC manual, government entities can only request funds after activating the emergency alert. The FGC is also designed to enable the Government to purchase sovereign parametric risk transfer instruments (World Bank 2019a). A 5-year Climate Insurance, Finance and Resilience Project by the African Development Bank (AfDB) was also aimed at facilitating Mozambique’s participation in the sovereign risk pool African Risk Capacity (ARC) or supporting with other insurance instruments (AfDB 2021). While the GoM signed an MoU with ARC in 2019 with the intention of joining the risk pool in 2020, to date, the country has not purchased a drought insurance policy from ARC, which, according to the AfDB in 2020, was ‘due to limited alignment of the contract with the country’s drought situation (ibid, ARC 2024). Since 2023, ARC has also had a new flood risk insurance product available, but Mozambique has not purchased it thus far (ARC 2023a).

In 2019 the World Bank’s IDA and the Global Risk Financing Facility (GRiF, now the Global Shield Financing Facility) agreed to support the Government of Mozambique to purchase parametric insurance for cyclone and/or drought, with USD13 million of grant financing (6 from GRiF and seven from IDA) to support at least USD15 million of insurance premiums over four years, that is with a donor premium subsidy of approximately 85% (World Bank 2019b). The GRiF also financed USD 2 million of technical assistance from the World Bank. In December 2022, the Government of Mozambique purchased a parametric sovereign catastrophe risk insurance policy with a premium of USD and coverage of USD 35 million against cyclone winds and excess rainfall (World Bank 2023b; World Bank 2024). The policy was structured by PULA with the World Bank, with Africa Speciality Risks (ASR) as the lead reinsurer (ASR 2023). A payout of USD 904,304 was received in response to cyclone Freddy in 2023, and the policy has been renewed for 2023/2024 and 2024/2025 (World Bank 2024). A post-event briefing by ARC calculated that their cyclone policy would have triggered a significantly larger payout of USD 4.4 million for the same premium Mozambique paid for the reinsurance arrangement (USD 4 million) (ibid, ARC 2023b). The study could not determine how the payout from the policy was programmed.

Table 2: Sovereign disaster risk financing instruments in Mozambique

Type	Instrument	Description	Coverage and payout amounts
Parametric insurance	Africa Speciality Risk (ASR) cyclone insurance	Through the National Institute of Disaster Management (INGD), the government purchased this sovereign insurance policy for USD 4 million to protect against cyclones. (World Bank 2024). The three-year premium payment is cofinanced by IDA and the GRiF, with approximately 85% of the premiums paid by donor’s grants. (World Bank 2023c)	2022/23 coverage: US\$35 million 2023 payout: US\$904,304 (World Bank 2024)
Reserve fund	Disaster Management Fund (FGC)	The fund is an annual allocation of 0.1% of the state budget and is funded by donors. The FGC also enables the purchase of sovereign insurance products or the response to large shocks. (World Bank 2023a)	N/A

Note: This overview illustrates the types of instruments used in Mozambique based on recent years. Due to the availability of data, it is not a comprehensive overview of the used instruments and coverage amounts in one

particular year. This table also does not include ex-post financial assistance by external partners to respond to disasters, debt relief, anticipatory action by humanitarian actors, or budget reallocations by the Government.

**The outlook for DRF in Mozambique is unclear.** The Government has made notable progress in establishing a national disaster management fund, maintaining target budgetary allocations to the fund and putting in place sovereign parametric insurance against cyclones, which represent a major fiscal risk. However, the Government has not secured contingent loans, and even with these new instruments, Mozambique’s financial preparedness fell well short of financing needs resulting from cyclone Freddy in 2023. Mozambique negotiated the reallocation of USD150 million in financing from the World Bank through a Contingent Emergency Response Component (CERC) (USD100 million in the form of grants and USD50 million concessional credit) to enable restoration of infrastructure and key services including health, education and water and sanitation (World Bank 2023d). This financing was in addition to an allocation of USD300 million in grant funding from the World Bank’s Crisis Response Window (ibid). With donors providing such substantial grant funding after disasters, it is unclear how much of an incentive the Government of Mozambique must invest its own revenue in financial preparedness.

The study did not secure interviews with MEF officials or the World Bank, so it is not possible to assess likely future directions, including whether the World Bank will continue to support DRF when the current project closes in June 2024. Within the current project, there is no clearly stated intention to link DRF to financing shock response scale-ups of the social protection system.

## 5. OPPORTUNITIES FOR CHANNELLING PAF THROUGH SHOCK-RESPONSIVE SOCIAL PROTECTION

**Humanitarian anticipatory action provides an alternate entry point for advancing cash transfers for predictable shocks.** Large numbers of vulnerable crisis-affected people are outside the scope of government social protection systems and are targeted instead by the internationally supported humanitarian response. In 2024, 1.7 million people will be targeted within the UN Humanitarian Response Plan, including 1.3 million people in conflict-affected areas (UN 2023). Humanitarian cash transfers delivered in alignment with the social protection system could provide a route to delivering timely shock response with the potential to transition to a government-led response in future (FCDO 2019). Combined with anticipatory approaches, this could provide a means of furthering alignment with government systems and putting key elements of pre-arranged financing in place. In 2024, 429,623 people will be targeted by early action and anticipatory action frameworks in the event of floods, cyclones and drought (UN 2023).

**Anticipatory action has catalysed advancing early warning for drought.** Mozambique has implemented various policies and legislation to strengthen its disaster risk management approaches, notably the National Disaster Risk Reduction Master Plan 2017-2030. However, while Mozambique had protocols and early warning systems for floods and storms, there was no national early warning system for drought (WFP 2023a). WFP identified this limitation and designed an anticipatory action programme in 2019, which included a strong partnership and capacity-building relationship with several government bodies to address this gap.

In 2020, WFP signed a Memoranda of Understanding with the National Institute of Meteorology (INAM), the National Disaster Risk Management Institute (INGD), and the Ministry of Agriculture (MADER) to connect drought early warning systems to anticipatory action programmes (WFP 2023a). In 2020, the Government established the National Drought Technical Working Group (TWG) for Early Warning System and Anticipatory Action, a collaborative platform comprising stakeholders engaged in anticipatory actions for drought. This consortium includes government entities, academic institutions, non-governmental organisations, and cooperating partners, notably WFP, which the INGD’s Department leads for the Development of Arid and Semi-arid Zones (DARIDAS).

WFP and other international partners, notably the World Bank and AfDB, provided input to the revision of the 2020 Law on Disaster Risk Management and Reduction (Law No. 10/2020).

Notable changes include Article 36, which recommends that the Government should establish alert mechanisms to detect and address slow-onset hazards, such as droughts (WFP 2023a). In 2022, the Government approved the Manual of Standard Operational Procedures for issuing drought emergency warnings and implementing district anticipatory action plans, a framework devised by the Drought TWG (WFP, 2023a). The Drought TWG has subsequently undergone rebranding as a multievent committee.

**Anticipatory action may also provide a point of influence to secure government financing for early action.** The Disaster Management Fund – FGC - created in 2017, is mandated and structured to provide funds once a disaster “has occurred” (WFP 2023a). The fund’s Administrative and Financial Procedures Manual lacks provisions for financing prevention and mitigation initiatives associated with potential hazards. Moreover, Disbursements from the fund are contingent on activating an emergency alert level. In response to these challenges, the Drought TWG has submitted a proposal to the MEF outlining strategies for the integration of anticipatory actions into the existing framework of the FGC. No domestic funds have been earmarked for anticipatory action. WFP financed the Government initiatives activated in August 2023 for MZN 26,069,350. However, since the FGC cannot, according to its current procedures, be activated for anticipatory action, a workaround was developed, and funds were transferred to a dedicated account managed by the INGD.

**Anticipatory action that aligns with the social protection system may demonstrate proof of concept for forecast-based early response to drought through national systems.** WFP has developed plans for six pilot districts, chosen based on their historical vulnerability to droughts (WFP, 2023b). The anticipatory actions comprise three components: disseminating early warning information, distributing drought-tolerant seeds, and cash-based transfers to vulnerable households. WFP's cash transfer strategy in pilot districts aligns with the actions of the national social protection system, incorporating consistent targeting criteria, transfer modality (cash), and delivery mechanisms (mobile money or cash in hand) employed by the Government for regular social protection programmes. Complementary anticipatory actions will be implemented by INGD, focusing on expanding social protection programmes, promoting water-conserving agricultural practices, and incorporating nutrition-sensitive interventions.

The selection of households receiving WFP cash transfers is based on a combination of geographical and household vulnerability criteria. Geographical targeting relies on forecast data, while household targeting prioritises those eligible for the PSSB programme in the targeted communities. If INAS databases are unavailable or outdated, WFP applies the same targeting criteria as the PSSB programme, which includes households with specific vulnerabilities. These vulnerabilities encompass a high number of dependents, chronically ill members, pregnant or breastfeeding women or girls, young children, elderly heads of households, individuals living with HIV, those with special needs, and single-headed households, particularly those led by women (WFP, 2023b).

WFP anticipates reaching approximately 13,950 people (2,790 households) in the event of moderate droughts and 22,200 individuals (4,400 households) in the case of severe droughts. Total costs, including operational expenses, are projected to amount to USD 637,301 and USD 1,014,200, respectively. Monthly transfers will be executed through three distribution cycles using mobile money accounts (WFP, 2023b).

In August 2023, anticipatory actions were activated for the first time in Gaza (Massingir, Mapai, Mabalane, Guija, Chibuto), then in a second window in Sofala (Caia) and Tete (Marara). At the time of drafting this report, WFP had disseminated early warning information and was preparing for the delivery of seeds and cash transfers to reach 9,800 households with cash support. Cash disbursements will be provided to PSSB-eligible individuals in the catchment areas, encompassing current beneficiaries and those on the waiting list. WFP is establishing a mobile transfer modality with a private service provider, where funds will flow from WFP to the service provider and ultimately to the beneficiaries.

This study did not assess the genuine interest of social protection entities, MGCAS and INAS, in anticipatory action. While their participation in coordination bodies and the inclusion of AA in the ASP Action Plan may suggest their interest, it is crucial to acknowledge that this initiative represents an additional responsibility for organisations already grappling with substantial challenges regarding routine service delivery.

## 6. CONCLUSION

Mozambique faces a range of rapid onset risks (notably cyclones and floods) and slow onset (drought) risks, which can be planned and prepared for, and Mozambique has made progress in securing financial protection against cyclones, which goes some way towards protecting the Government from a major fiscal shock. Mozambique also has a long-established social protection system, which the Government demonstrates a strong financial commitment towards, covering upwards of 94% of routine costs in most years. However, progress in developing shock-responsive capabilities in the social protection system and putting in place financial preparedness against shocks are proceeding on separate paths, with little indication that either the Government or development partners intend to connect the two. This may generate some necessary conditions for shock-responsive social protection backed by pre-arranged financing. Given the many stakeholders in Government and across the international community, however, there are risks that opportunities to target and sequence investments, influence, and share learning will be missed.

- » Currently, different configurations of international development and humanitarian partners are engaged with different parts of Government, all working on different parts of shock-responsive cash transfer programming and financing. The World Bank, bilateral donors (UK, Sweden, the Netherlands), and UN agencies, including UNICEF and ILO, are engaged with the Institute of Social Action (INAS), a branch of the Ministry of Gender, Children, and Social Action on a range of support to the social protection system, including strengthening shock responsive capabilities. The World Bank is engaged with the Ministry of Economy and Finance (MEF) to implement financial preparedness measures against shocks. The World Food Programme (WFP) is engaged with the National Institute of Meteorology (INAM), the National Disaster Risk Management Institute (INGD), and the Ministry of Agriculture (MADER) to strengthen early warning for slow-onset disasters and anticipatory action programming to respond to early indications of shocks. Key areas of common interest and progress include establishing a national disaster fund, sovereign risk transfer insurance coverage against cyclone risk, and early warning protocols for drought. However, this does not yet add up to a coherent approach and is unlikely to organically arrive at a logically consistent and cost-efficient approach to shock-responsive social protection backed by pre-arranged financing.
- » There are fundamental gaps in the capacity and articulation of the shock response and financing systems that would need to be addressed as a matter of priority to enable pre-arranged financing for shock-responsive social protection.
- » The biggest constraints are the limited coverage and extremely slow response times of the social protection system, which means that it is far from delivering a timely, well-targeted and effective response to shocks. Based on recent performance in scale-ups to shocks, the value of early response that pre-arranged financing could enable would not be realised, and the additional costs of pre-arranged financing solutions that transfer risks for a fee would not be cost-efficient. Continuing to invest in the coverage, inclusive targeting, and shock responsiveness of the social protection system would be more logical in this context.
- » Most support to the Government of Mozambique for response to Tropical Cyclone Freddy was arranged after the cyclone hit, for example, with USD300 million of pure grant financing from IDA's Crisis Response Window compared to a payout from a donor-supported insurance policy of less than USD1 million. As far as we can tell, all donor-funded support to scale social protection after Freddy was arranged after the cyclone hit. Where donors invest in pre-arranged financing, it pays the government as general budget support without any payouts earmarked for social protection.
- » There is no clarity on how the government will pay for scale-ups of the social protection system in response to shocks and whether pre-arranged financing is part of the government's or development partner's priorities. The current DRF instruments do not appear to be linked to the social protection system. Mozambique is a low-income country and currently faces fiscal constraints. However, their medium-term outlook for growth is good, and the Government already covers most of the costs of routine social protection. In principle, Mozambique could commit to taking on the costs of shock response over time and develop a phased plan, including aligning existing and dedicating new instruments to support the scale-up of the social protection system in response to shocks.

Development partners could engage in dialogue with the Government to determine political demand and potential investment areas around which they can coordinate their technical and financial support.

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