Only through the inclusion of specific and dedicated commitments to national financing for DRR (especially when integrated into development investments) can sustained progress be made in reducing disaster losses. International financing of DRR needs to fully complement national financing, and should serve to catalyse action and support engagement with private finance where appropriate.

Lead author: Jan Kellett
Financing is rarely motivated by risk reduction in any context, and most financing can just as easily add risk as reduce it.

The reasons for prioritising the financing of DRR are not always clear

**Costs Not Known**
The cost of disasters in terms of mortality, increased poverty and loss/damage are not well understood.

**Risk Consciousness Low**
Most citizens underestimate disaster risks and are unaware of the measures needed to combat them.

**Response First**
A good response to a disaster gains politicians considerable support—the action is obvious and visible.

**International Aid Disincentives**
The promise of international aid in the event of disaster distorts political incentives to invest in DRR.

**Accountability Failures**
DRR is difficult for citizens to track and responsibility for it is spread across ministries, functions and scales.

**Benefits of DRR Are Long Term**
The benefits of DRR may not materialise for decades, and financing may divert funds away from problems that are of more immediate interest to constituents.

**Opportunity Costs Unclear**
The opportunity costs in financing DRR are not clear, especially in environments where other priorities, even the provision of the most basic of services, remain a challenge.

**No-Cost Benefits Misunderstood**
The benefits of including risk considerations in much of development are not understood.

**Challenge of Multiple Risks**
Disaster risk is just one hazard that families, communities and nations must cope with.

Financing is used in and between countries to transfer risk that has not been reduced

Personal and public property insurance protects assets, but largely only in high-income countries

Coverage of natural disaster losses between 1980–2011:

- **High-income countries**: 35%
- **Middle-income countries**: 5%
- **Low-income countries**: 1%

Some governments use specific financial tools to manage and reduce the fiscal impacts of disasters:

Mexico’s Ministries of Finance and Interior have developed a layered approach to financial protection which involves transferring some risk to the private sector.

Some countries work regionally to pool their disaster risk

- **Caribbean**: 16 countries, Caribbean Catastrophe Risk Insurance Facility
- **Africa**: 24 countries, African Risk Capacity
- **Pacific**: 15 countries, Pacific Catastrophe Risk Assessment and Financing Initiative

National development planning and budgeting is key to the successful governance of risk

**National Planning and Budgeting is Central**
A country’s commitment to the reduction of disaster risk.

**It Directly Controls**
How much or how little of national spending is informed by issues of disaster risk.

**It Sets the Agenda**
Of what element of international aid financing is focused on issues of DRR and management.

**However, Since Much of All New Investment Globally Comes from the Private Sector, Robust Legislation and Adequately Enforced, Needs to Guide Private Sector Investment Towards Reducing Rather than Increasing Risk.**

70%–85% of all global investment is by the private sector.27

Dedicated DRR financing

- National development planning and budgeting
- National private sector
- Foreign direct investment
- International DRR financing

Dedicated to reducing risk

**Can Add or Reduce Risk**

Dedicated DRR financing as part of DRM package

**Integrating DRR into national development planning ‘pulls’ financing towards risk reduction.**

Other primary motivation

- Partly motivated by return on investment
- Private charity foundations and NGOs

Beyond 1.4 billion additional exceptional budget allocation

- 1.4 billion annual budget allocation
- 800 million USD exceptional budget allocation
- 400 million USD indemnity-based reinsurance

Less than beyond 1.4 billion additional exceptional budget allocation

- 200 million USD additional exceptional budget allocation

16 countries

- Caribbean Catastrophe Risk Insurance Facility

24 countries

- African Risk Capacity

15 countries

- Pacific Catastrophe Risk Assessment and Financing Initiative
Some developing countries have, however, invested heavily in DRR, sometimes much more than the international community.

The international community has a long way to go before it is seen as prioritising the financing of DRR over 20 years (1991–2010)

<table>
<thead>
<tr>
<th>DEVELOPMENT AID</th>
<th>DISASTER-RELATED AID</th>
<th>DISASTER RISK REDUCTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>$3.03tr</td>
<td>$106.7bn</td>
<td>$13.5bn</td>
</tr>
</tbody>
</table>

Out of every $100 spent on development... just $3.50 was spent on disasters.

Out of every $100 spent on disasters... just $12.70 was spent on preventing them.

The private sector must become a key stakeholder in future DRR policies, programmes and platforms, with its financing leveraged to reduce rather than increase disaster risk.
How DRR finance is featured in the HFA

Para 8: The review of the Yokohama Strategy ‘highlights the scarcity of resources allocated specifically from development budgets for the realization of risk reduction objectives, either at the national or the regional level or through international cooperation and financial mechanisms, while noting the significant potential to better exploit existing resources and established practices for more effective disaster risk reduction’.

Para 34: ‘States, within the bounds of their financial capabilities, regional and international organizations, through appropriate multilateral, regional and bilateral coordination mechanisms, should undertake the following tasks to mobilize the necessary resources to support implementation of this Framework for Action:

a. Mobilize the appropriate resources and capabilities of relevant national, regional and international bodies, including the United Nations system;
b. Provide for and support, through bilateral and multilateral channels, the implementation of this Framework for Action in disaster-prone developing countries, including through financial and technical assistance, addressing debt sustainability, technology transfer on mutually agreed terms, and public–private partnerships, and encourage North–South and South–South cooperation.
c. Mainstream disaster risk reduction measures appropriately into multilateral and bilateral development assistance programmes including those related to poverty reduction, natural resource management, urban development and adaptation to climate change;
d. Provide adequate voluntary financial contributions to the United Nations Trust Fund for Disaster Reduction, in the effort to ensure the adequate support for the follow-up activities to this Framework for Action. Review the current usage and feasibility for the expansion of this fund, inter alia, to assist disaster-prone developing countries to set up national strategies for disaster risk reduction.
e. Develop partnerships to implement schemes that spread out risks, reduce insurance premiums, expand insurance coverage and thereby increase financing for post disaster reconstruction and rehabilitation, including through public and private partnerships, as appropriate. Promote an environment that encourages a culture of insurance in developing countries, as appropriate.’

How DRR finance is included in statements and consultations on the successor to the HFA

Elements Paper

Para 42: ‘This family [of indicators] will also measure fiscal resilience by comparing the risk that governments are responsible for with fiscal capacity and the availability of risk financing, including but not restricted to insurance.’

Chair’s Summary

‘Development and financing of resilience plans were identified as a means of promoting “whole of society” approaches. Policies for investment, improved tracking of financing for DRR across sectors and funding streams, and the introduction of special markers in global aid reporting were recommended and the role of supreme audit institutions in providing impartial information on the legality, efficiency and effectiveness of public spending was noted.’ (p. 3)

Synthesis Report

Key references to financing in the synthesis report include: (i) need for more funding and more reliable funding; (ii) DRR in national budget allocations and public financial management systems; (iii) ways of financing DRR, creation of a dedicated funding window, greater global political commitment to invest resources. (pp. 22–23)

From Kellett, Caravani and Pichon (2014)34

The importance of dedicated financing for the reduction of disaster risk may appear self-evident. Without committing funding, national governments will not be able to reduce risk. However, it has become increasingly evident that national governments are struggling to invest in risk reduction – for many, inter-related reasons, a few of which are indicated here.

• Complexity of financing DRR in public expenditure: ‘Structural features of public expenditure management and of state governance make it difficult for cross-cutting issues like DRR to be effectively financed, despite the apparent fiscal savings from doing so.’13
• The inadequacy of available funds in general: ‘Countries persistently identify the lack of resources over the long term as a major impediment to effectively reducing disaster risk in public investment.’16
• An inadequacy of funds to implement developed policy: ‘Even countries with strong DRR mechanisms and political commitment towards integrated [DRR/CCA] lack financial support.’17
• A stubborn adherence to post-crisis reflection on risk: ‘DRR and climate change adaptation are like “airbags” or “cushions” that inflate (often too late) when there is a crisis but under other circumstances receive very little attention or finance.’38

RECOMMENDED READING

To understand the challenges of tracking national investments in DRR, see:


To understand aspects of progress and challenges in national financing of DRR, see:


To understand international financing of DRR, see:
