10 things to know about finance for reducing disaster risk

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Please see the accompanying full report, Finance for reducing disaster risk: 10 things to know for the data sources and references used.
Disasters are increasing and their costs are growing

Globally, the number of disasters has doubled since the 1980s. The costs of the damage and losses caused by disasters have been estimated at an average $100 billion a year since the millennium. While a large share of their economic losses has been recorded in developed countries, 93% of the deaths they cause have occurred in developing countries. Despite the toll of disasters in human and economic terms, the growth in development assistance for disaster risk reduction (DRR) has been, at best, moderate.
DRR spending accounts for a fraction of development assistance

TOTAL DEVELOPMENT ASSISTANCE 1991-2010

$3.03 TRILLION

$106.7 Billion

$13.6 bn Disaster risk reduction*

$23.1 bn Reconstruction and rehabilitation

$69.9 bn Emergency response

12.8%

21.7%

65.5%

Funding for DRR

2010

$9.5 bn

$4.2 bn

$2.6 bn

$1.1 bn

Peacekeeping

Global Fund to Fight AIDS, Tuberculosis and Malaria

Food aid

DRR

Funds dedicated to DRR account for a tiny fraction of development assistance. While spending on DRR between 1991 and 2010 totalled $13.6 billion, five times as much was spent on emergency responses, while spending on reconstruction and rehabilitation was almost twice as large. Taking 2010 alone, it can be seen that spending on DRR was also far smaller than the spending on risk management in other areas, such as conflict or health.
The effective management of disaster risk requires a portfolio of actions to minimise the creation of risks, reduce any that already exist, share residual risks and prepare for and respond to disasters. Using the four priorities set out in the draft Post-2015 Framework for DRR as ways to categorise disaster finance activities, most development assistance projects support enhancing disaster preparedness for effective response and to ‘build back better’ in recovery, rehabilitation and reconstruction. Far fewer projects support investments that could reduce the human and economic risks of disasters before they strike.

These four Sendai priorities may focus attention on specific disaster risk components rather than the need to make wider investments that are resilient to disaster risk. In reality, the bulk of effective risk reduction will be achieved through disaster resilient sustainable development investments, estimates of which could exceed $1,500 billion a year through to 2030.
The distribution of development assistance for DRR does not respond to:
- the needs of the poorest countries or
- those most prone to droughts.

The top ten recipient countries received 59% of the total finance spent between 1991-2010. Half of these – China, Indonesia, Bangladesh, Colombia and India – are also countries with the highest Mortality Risk Index (MRI). However, the countries that are most seriously affected by drought, most of which are also among the world’s least-developed countries, receive very little DRR finance.
Development assistance is funding many different aspects of DRR through a mass of multilateral or bilateral channels and through a wide range of actors – but it is just one source. Private sector finance for DRR exists, although this source of funding is often very new or poorly developed in some countries. Private-sector finance includes funding linked to insurance markets, capital investments, remittances and the efforts of businesses to make their operations and supply chains more resilient. The differing national structures through which DRR finance is raised and channelled only add to the complexity, with multiple sources and channels often existing side-by-side. Financing the portfolio of activities that builds disaster resilience means blending multiple sources and financial instruments. However, the existing architecture provides pots of DRR finance that are often unpredictable and activity-focused. These do not support a comprehensive approach to the management of disaster risk.
A number of countries have mobilised their own DRR finance

DRR spend*
USD million

Peru
2012
113 44

Panama
2010
0.02 56

Guatemala
2010
4 496

Philippines
2009-2011
44 797

Indonesia
2006-2012
71 918

*where data on multiple years exists, annualised averages are used

Data on national DRR finance are limited. This is partly because of the nature of DRR itself, in that the more it is integrated into sustainable development, the less easy it is to track. Analysis in Indonesia, Guatemala, Panama, Peru and the Philippines, however, highlights the relative importance of domestic DRR finance compared to development assistance in some countries that are highly exposed to natural hazards.
Climate change is altering the frequency, intensity, extent, duration and timing of some extreme weather and climate events. While the climate change adaptation and DRR agendas have evolved separately, there are significant overlaps in both their goals and concepts. Public finance for climate change adaptation presents a growing source of DRR finance. In 2014, adaptation finance worth $2 billion flowed through dedicated climate funds. A small but increasing amount of climate finance is going towards explicit DRR activities, including capacity building, early warning and information systems.
Ensuring all new investments are disaster resilient is an opportunity to reduce, rather than lock-in risk

With the private sector accounting for as much as 85% of global investment, the bulk of investments that help reduce disaster risk could be provided through financial flows that are far broader than development assistance. An estimated $6 trillion a year is to be spent on new infrastructure, such as that for energy, as well as roads, houses, schools, hospitals and other public services until 2030. Ensuring that this investment is risk resilient can reduce disaster risk and help to avoid the creation of new risks.
Both government and the private sector can invest to reduce loss and tackle risk at the same time.

The impact of disasters are increasingly recognised by the private sector. For example, businesses are beginning to count major losses. A number of businesses are acting to reduce disaster risks, incorporating risk data into their investment decisions and setting risk management standards in their supply chains. The insurance industry is taking further steps to ensure their prices are adjusted when purchasers have taken actions to reduce potential disaster losses.

Governments retain a central role in ensuring that all investment flows act to reduce rather than increase disaster risk. They are responsible for generating national laws, regulations and the compliance regimes that act as incentives for businesses to take current and future disaster risks into account.

2011 EXEMPLARY LOSSES FROM DISASTERS

**INSURANCE**
- Munich RE: $350 million in claims from flooding in Australia
- The Hartford Group: $745 million in claims for natural catastrophes

**MANUFACTURING**
- Honda: $250 million loss owing to floods in Thailand

**UTILITIES**
- Constellation Energy: $0.16 reduction in share price after having to buy power at peak prices caused by surge in demand after heat wave in Texas
- Eskom: 50% reduction in transmission capacity between Mozambique and South Africa caused by flooding of the Limpopo River

**MINING**
- Anglo American: 8% reduction in copper production owing to increased rainfall in Chile
- Rio Tinto: $245 million loss in earnings owing to the impacts of cyclones and flooding in Australia

**ESSENTIALS FOR THE PUBLIC AND PRIVATE SECTOR IN DRR**

**PPP development**
Promote and develop public-private partnerships for disaster risk reduction to analyse the root causes of continued non-resilient activity.

**Private sector leverage**
Leverage sectoral private sector expertise and strengths to advance disaster risk reduction and mitigation activities, including enhanced resilience and effective response.

**Collaboration**
Foster a collaborative exchange and dissemination of data, share information on assessment, monitoring, prediction, forecasting and early warning purposes and action between the public and private sectors.

**Risk assessment**
Support national and local risk assessments and socio-economic cost-benefit analyses and capacity building, and demonstrate opportunities where resilience building and disaster risk reduction is a sound economic strategy, with attractive returns and competitive advantages.

**Policy development**
Support the development and strengthening of national and local laws, regulations, policies and programmes that enhance disaster risk reduction and improve resilience.
International agreements must provide strong signals that reducing disaster risk is a key element of sustainable development finance.

The international agreements to be made in 2015 and early 2016 present a number of opportunities to set the right incentives for all finance flows to work to reduce, rather than create, disaster risk.

Must reaffirm the connections between increased investments on DRR and reduced humanitarian action (and subsequent spending), promoting greater support for ex-ante action.

World Humanitarian Summit
Istanbul, Turkey
May 2016

Must reaffirm that building disaster resilience is a key dimension of the SDGs and that the SDGs are unobtainable without disaster risk-informed development investments.

United Nations Summit for the adoption of the post-2015 development agenda
New York, USA
September 2015

Must show that reducing disaster risk is an international priority, be clear on what actions serve to reduce risk and prevent the creation of new risks. The agreement must make clear that action on DRR is a cornerstone of achieving sustainable development, establish the most appropriate international support structure to help governments develop national systems to reduce risk and establish a reporting approach for accountability.

World Conference on Disaster Risk Reduction
Sendai, Japan
March 2015

Must signal that reducing disaster risk is a key part of financing sustainable development and that development assistance should be catalytic in ensuring wider finance flows (including those from private sector) are risk resilient.

International Conference on Financing for Development
Addis Ababa, Ethiopia
July 2015

21st Conference of the Parties to the UNFCCC
Paris, France
December 2015

Must recognise that DRR is central both to adapting to climate change and dealing with loss and damage, reiterating that finance for reducing disaster risk is a high priority spending area for existing and future climate funds.

21st Conference of the Parties to the UNFCCC
Paris, France
December 2015

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