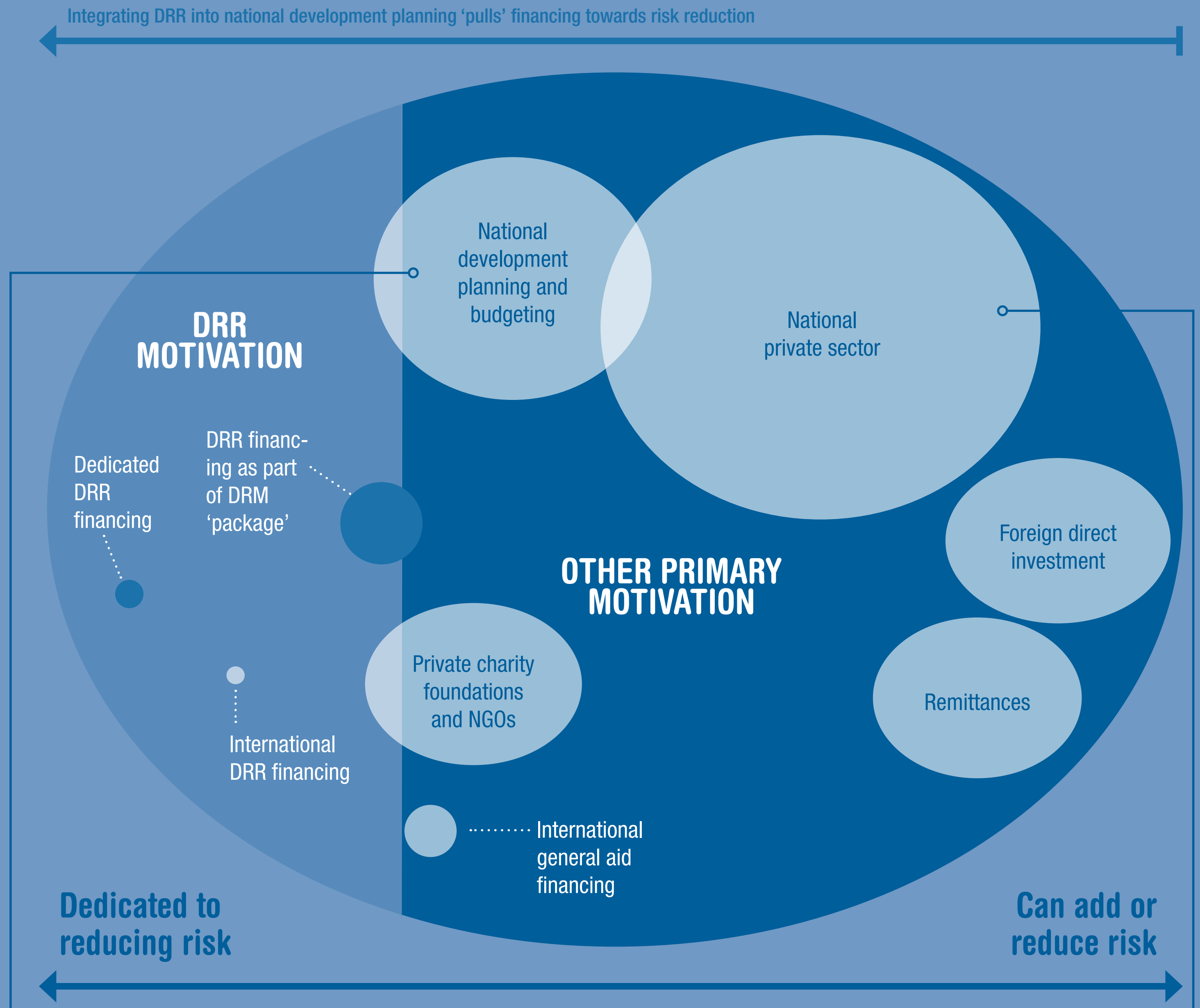
4

Financing disaster risk reduction

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[26]



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

NATIONAL PLANNING AND BUDGETING IS CENTRAL to 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 ALSO 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, adequately enforced, needs to guide private sector investment towards reducing rather than increasing risk.

The role of the private sector in either reducing or increasing risk is crucial

70%–85%

of all global investment is by the private sector.[27]

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.

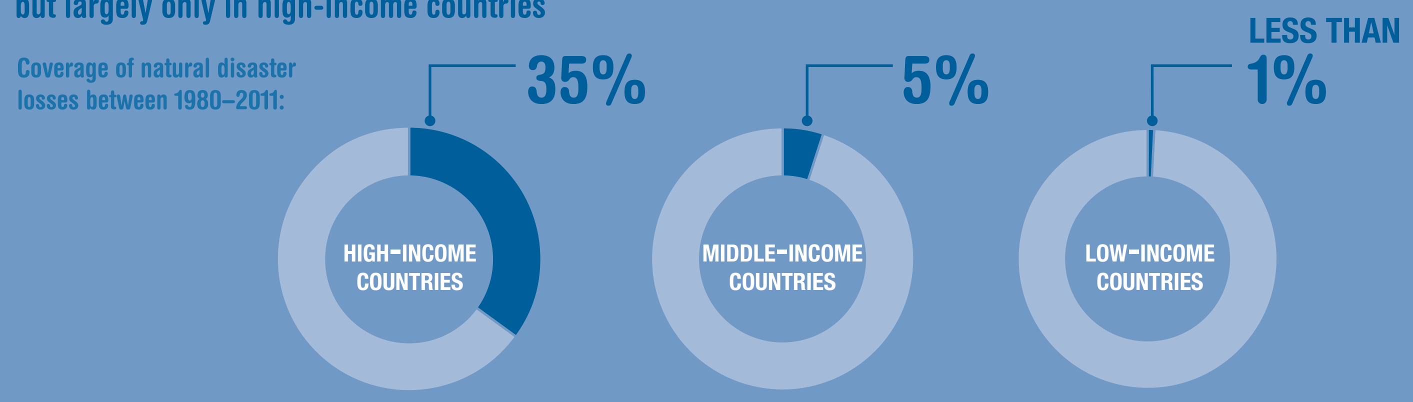
OPPORTUNITY COSTS UNCLEAR
The opportunity costs in financing DRR are not clear, especially in environments where other priorities, even the provision of the most basic of services, remain a challenge.

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.

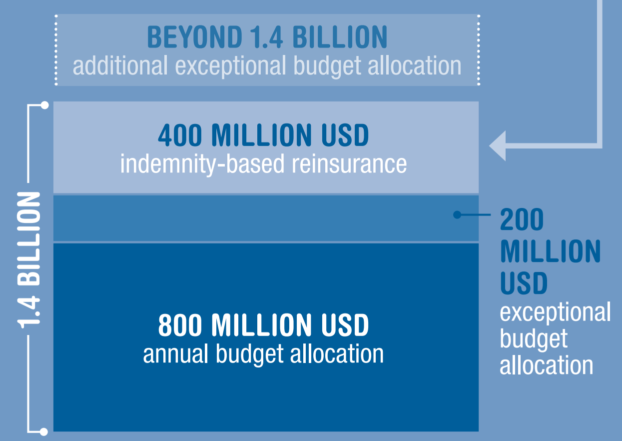
Financing is used in and between countries to transfer risk that has not been reduced

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



Some governments use specific financial tools to manage and reduce the fiscal impacts of disasters[28]

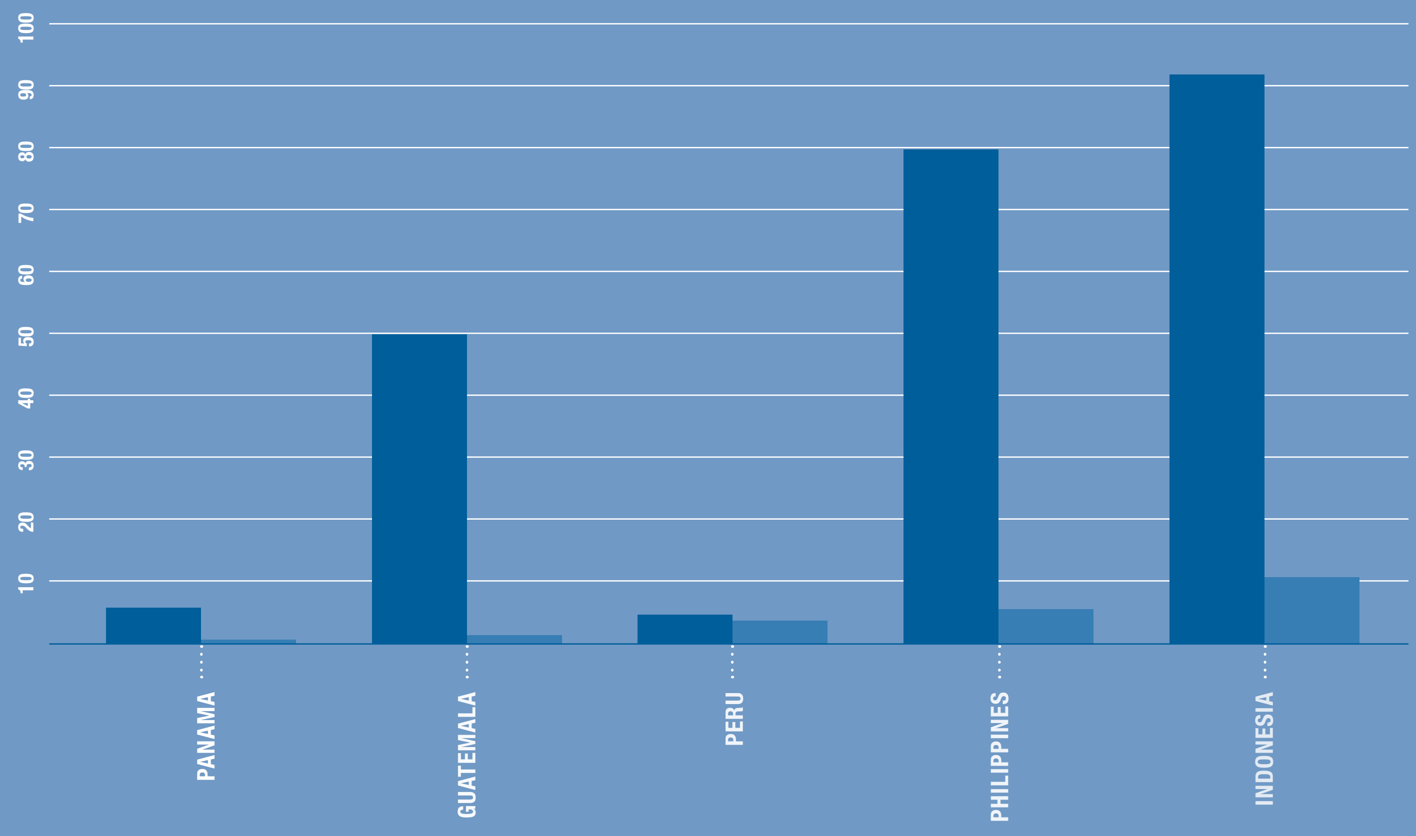
Mexico's Ministries of Finance and Interior have developed a layered approach to financial protection which involves transferring some risk to the private sector.



(simplified version)

Some countries work regionally to pool their disaster risk

Some developing countries have, however, invested heavily in DRR, sometimes much more than the international community[29]



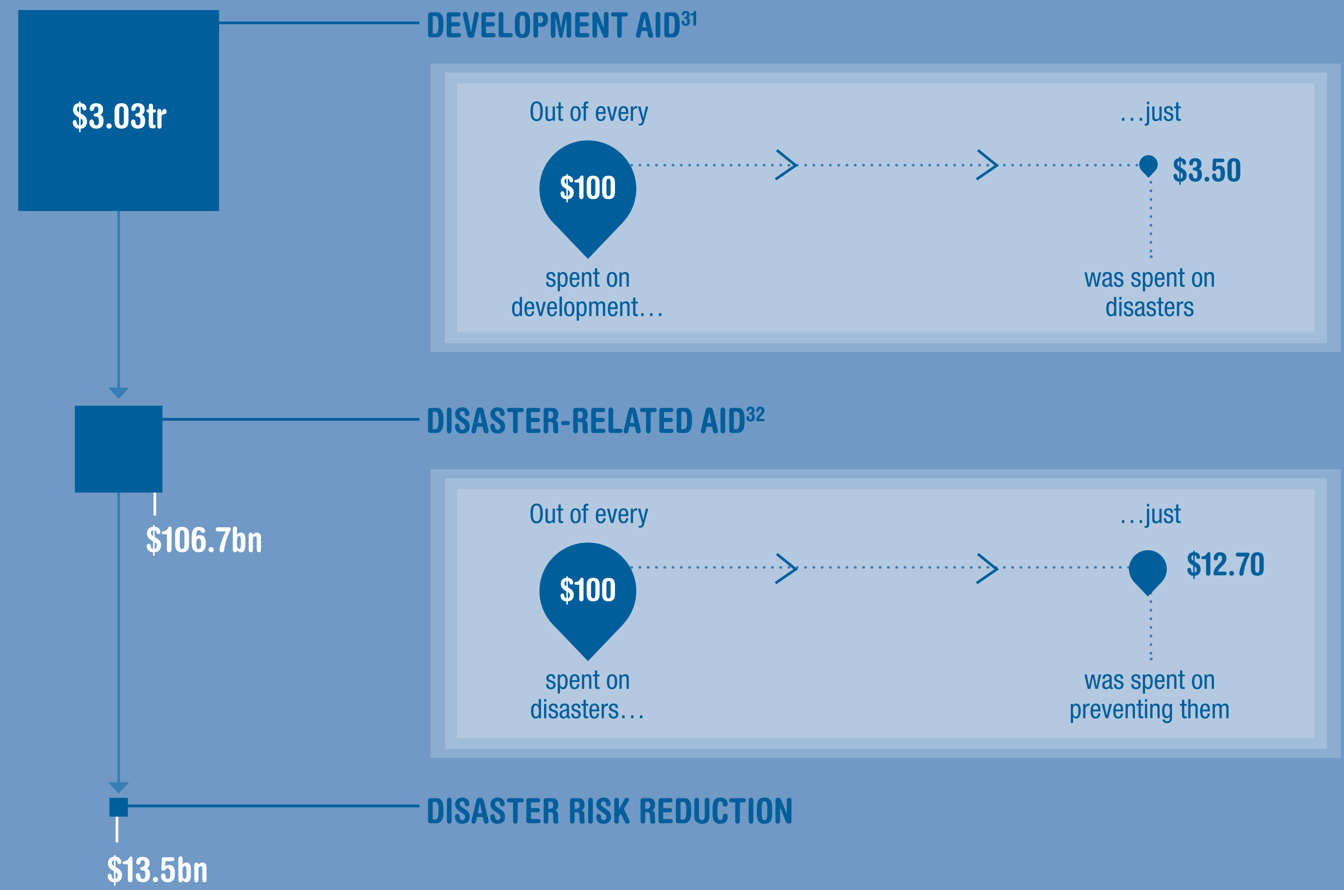
■ National DRR funding ($ million) ■ International DRR funding (average 1991–2010, $ million)

But even in these contexts weaknesses remain

1. Incoherence of financing models
2. Poor local-level financing
3. Lack of goals and targets
4. Accountability and transparency of financing inadequate
5. Minimal integration of non-government financial flows.[30]

The international community has a long way to go before it is seen as prioritising the financing of DRR

Over 20 years (1991–2010)



POOREST COUNTRIES RECEIVE THE LEAST[33]

OVER 20 YEARS, 12 OF THE POOREST COUNTRIES RECEIVED

$34.9M FOR DRR

$5.6BN FOR DISASTER RESPONSE

SUMMARY OF RECOMMENDATIONS

The financing of the HFA must be aligned with the financing of the SDGs and climate change, with the larger part of the burden falling upon national governments, with a commitment to finance the integration of risk as part of delivering sustainable development. Specific elements of this commitment should be enshrined in the HFA as follows:

- National commitments to reduce risk must be underpinned by a targeted commitment to spend, especially at a local level.
- These commitments must include both stand-alone financing of DRR as well as DRR embedded into broader development planning and expenditures.
- The post-2015 framework on DRR must prioritise the provision of very specific tools and guidance on financing for national governments.
- International DRR financing must be targeted to those countries most in need and the activities that are most needed.
- Donors must shift the burden of DRR to their development aid budgets.
- The DRR community has to do much more to communicate the many incentives for investing in DRR, focusing first on the need to integrate risk concerns into development.
- 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.'[35]
- 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.'[36]
- An inadequacy of funds to implement developed policy: 'Even countries with strong DRR mechanisms and political commitment towards integrated [DRR/CCA] lack financial support.'[37]
- 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:

Gordon, M. (2013) *Exploring Existing Methodologies for Allocating and Tracking Disaster Risk Reduction in National Public Investment*. Geneva: UNISDR.

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

Jackson, D. (2011) *Effective Financial Mechanisms at the National and Local Level for Disaster Risk Reduction*. Geneva: UNISDR.

Kellett, J., Caravani, A. and Pichon, F. (2014) *Financing Disaster Risk Reduction: Towards a coherent and comprehensive approach*. London: ODI.

To understand international financing of DRR, see:

Kellett, J. and Caravani, A. (2013) *Financing Disaster Risk Reduction: A 20 Year Story of International Aid*. London: ODI.

Kellett, J. and Sparks, D. (2012) *Disaster risk reduction: Spending where it should count*. Wells: Development Initiatives.