Why all development finance should be risk-informed

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Unplanned development creates higher levels of disaster risk, which threatens efforts to eliminate poverty and boost shared prosperity. All development planning should therefore integrate appropriate disaster resilience measures. In addition, investing in disaster risk management (DRM) yields multiple benefits. It helps avoid losses when disasters strike, unlocks development potential and produces economic, social, and environmental co-benefits.

Links with Finance for Development 3

Below are seven key messages that should be addressed by the FfD3 conference to ensure that disaster risk does not hamper the progress of achieving the sustainable development goals.

1. **All development plans and investments should be risk informed:** To build a resilient future, it is critical that all development plans and investments are screened for disaster and climate risk and integrate appropriate resilience measures where risks exist. Investments in infrastructure will continue to increase with the rapid pace of urban growth and economic development. Through risk-sensitive planning and investment in disaster resilient infrastructure, societies can safeguard these key investments.

2. **Risk Assessments should drive policies:** For development to be sustainable, risk assessments should inform national and sub-national policies and investments. This is the first step for countries to understand risk, reduce existing risk and prevent the creation of new risk.

3. **Prevention and preparedness are cost efficient:** The direct and the indirect benefits from investing in prevention and preparedness measures are far greater than the potential costs that would be incurred without them. Even in the absence of a disaster event, investing in resilience can yield significant benefits.

4. **Resilient recovery is an opportunity to build back better:** Access to immediate funding and technical support in the aftermath of a disaster helps rebuild critical infrastructure so that people, communities and economies can bounce back faster. Financing to build back better after disasters strike is therefore essential for building a resilient future.

5. **Financial protection reduces the financial impact of disasters:** Financial protection strategies help manage the financial impacts of disasters. It is cheaper to combine and use appropriate instruments to target the different layers of risk. Risk financing provides benefits to investment beyond disaster losses.

6. **Scalable Social Protection can be an effective mechanism to protect development gains:** Scalable social safety net programmes, if appropriately designed, can rapidly channel resources to those most affected by disasters. This prevents more people from falling into poverty.

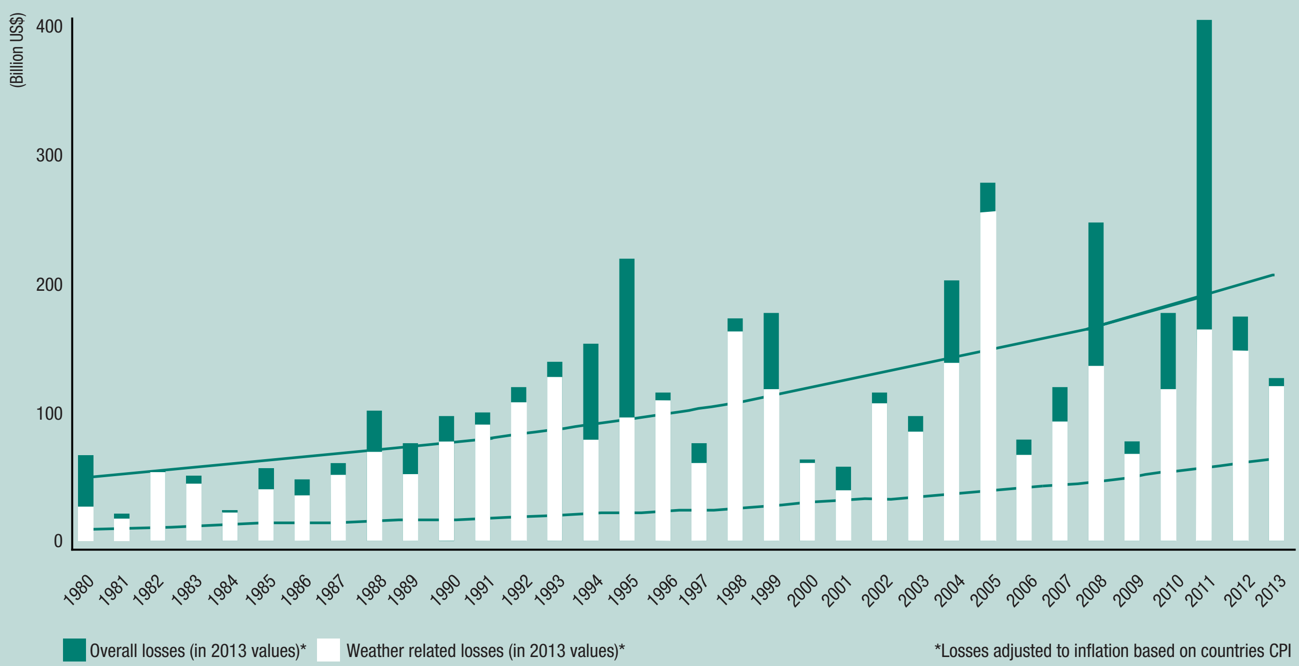
7. **Private Sector can play a key role:** The private sector can play an important role in reducing disaster losses before and after disasters strike. Businesses can enhance their own profitability, while insurance mechanisms can help countries, businesses and households manage the impacts of disasters.

FIGURE 1: 2015 IS A YEAR OF OPPORTUNITY FOR THE GLOBAL COMMUNITY TO ADDRESS DEVELOPMENT CHALLENGES ACROSS MAJOR POLICY FRAMEWORKS

Disaster and climate risk threatens future growth and development

- The total number of disaster events has been increasing since the 1980s.
- This trend is set to continue, driven by population growth, urbanisation, more people living in coastal areas and floodplains, the degradation or loss of natural ecosystems and climate change. [ii]
- Economic losses from 'natural' disasters are now reaching between \$250 and \$300 billion each year [iii], up from \$50 billion in the 1980s (see Figure 1). Future expected losses are estimated at \$314 billion per year in the built environment alone.[iv]
- Disasters disproportionately impact lower income countries and poor and vulnerable communities. The Post Disaster Needs Assessment from the April 2015 Nepal earthquake prices recovery needs at \$6.7 billion, a third of the country's GDP, and estimates suggest that an additional 700,000 Nepalis will be pushed into poverty in 2015-2016 as a result of the earthquake.[v]

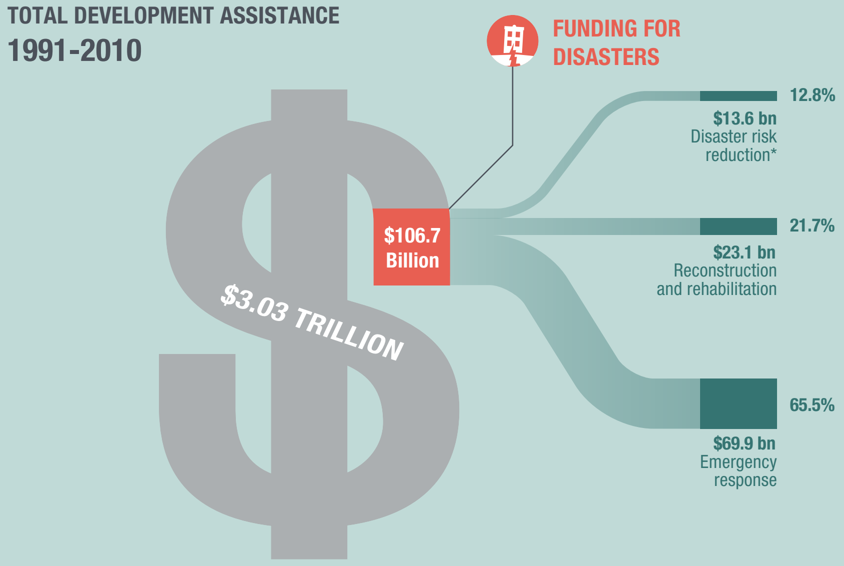
FIGURE 2: DISASTER EVENTS AND DISASTER-RELATED LOSSES ARE RISING [vi]



Action to build disaster resilience is poorly incentivised

- Investment in DRM is very low in most countries and represents a tiny proportion of international development assistance. The majority of DRM related development financing remains for emergency response [vii] (see figure 2).
- This is because decision makers tend not to prioritise investments to build resilience, as these do not produce immediate gains or benefits.

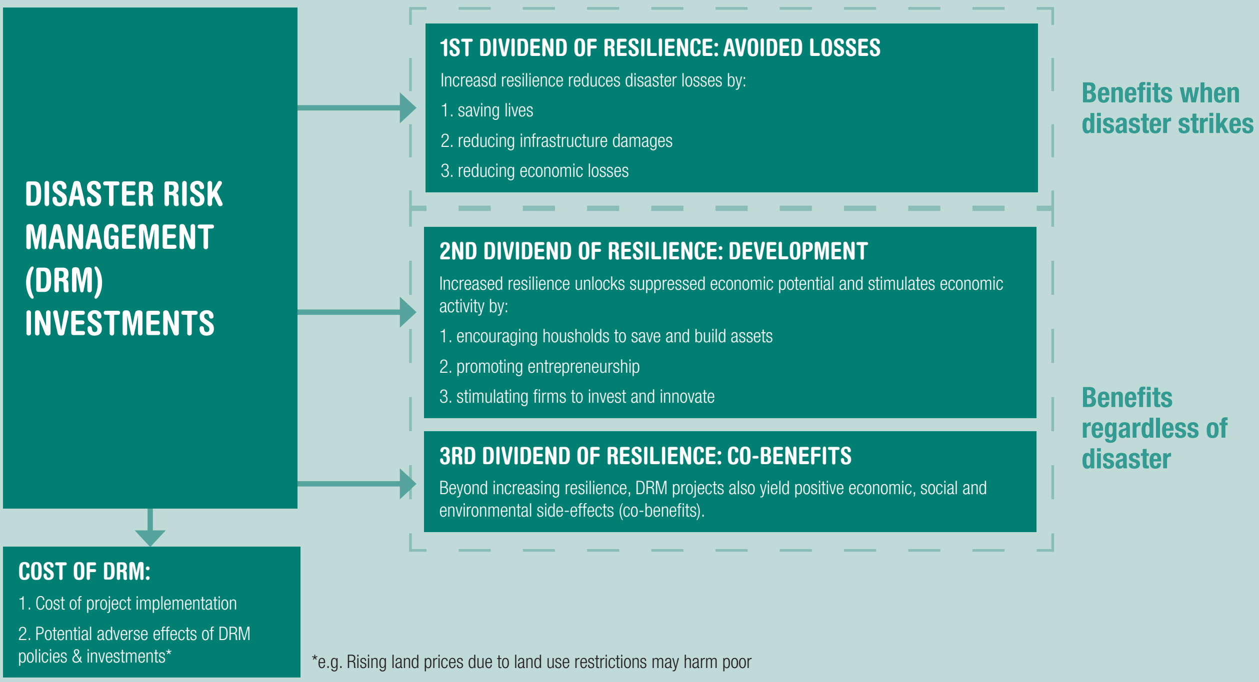
FIGURE 3: SPENDING ON RISK MANAGEMENT ACCOUNTS FOR A TINY FRACTION OF DEVELOPMENT ASSISTANCE [viii]



Building disaster resilience has wider economic, social, and environmental co-benefits

- Even the possibility of a future disaster has real impacts on present-day decisions and economic growth. High aversion to risk often restricts businesses and vulnerable populations from making potentially profitable investments that could improve welfare and development.
- In contrast, action to manage disaster risk can encourage forward-looking planning, long-term capital investment and entrepreneurship.
- Investing in DRM actions can also generate specific economic, social and environmental benefits.
- These secondary and tertiary dividends can deliver benefits even if a disaster does not happen for many years. Including these additional benefits helps make the case for investment, beyond just the losses that can be avoided in the event of a disaster.

FIGURE 4: THE TRIPLE DIVIDEND OF RESILIENCE [ix]



*e.g. Rising land prices due to land use restrictions may harm poor

DEFINITIONS

1. **Avoided losses (1st Dividend of Resilience):** The immediate and long-run losses and damages that disaster risk reduction measures can prevent in the event of a disaster.
2. **Background risk:** The possibility or threat of an extreme event/disaster occurring in an area, which results in stakeholders acting in a more risk-averse manner. This may result in negative consequences for investment and economic growth, even if a disaster does not occur.
3. **Co-benefits (3rd Dividend of Resilience):** Co-benefits of disaster risk management are any benefits that accrue in addition to the primary DRM objectives of avoiding losses and boosting development. Co-benefits can include economic, social and environmental aspects, and be non-DRM specific.
4. **Development dividend (2nd Dividend of Resilience):** The development potential that is unlocked when background risk is reduced through DRM measures. This includes innovation, entrepreneurship, and investments, and is independent of the occurrence of any actual disaster.
5. **Disaster Risk Management (DRM):** The systematic process of using administrative directives, organizations, and operational skills and capacities to implement strategies, policies and improved coping capacities in order to lessen the adverse impacts of hazards and the possibility of disaster.
6. **Resilience:** The ability of a system, community or society exposed to hazards to resist, absorb, accommodate to and recover from the effects of a hazard in a timely and efficient manner, including through the preservation and restoration of its essential basic structures and functions.

Key reading

1. **Unlocking the triple dividend of resilience - why investing in DRM pays off:** www.odi.org/tripledividend
2. **10 things to know about climate change and financing for development:** www.odi.org/publications/9437-10-things-know-about-climate-change-financing-development
3. **Finance for reducing disaster risk: 10 things to know:** www.odi.org/publications/9248-finance-reducing-disaster-risk-10-things-know-full-report
4. **Financing disaster risk reduction: towards a coherent and comprehensive approach:** www.odi.org/publications/8347-financing-disaster-risk-reduction-towards-coherent-comprehensive-approach
5. **Investing in Resilience:** www.gfdrr.org/sites/default/files/publication/Investing-in-Resilience_1.pdf

Endnotes

i. Mitchell, T., Guha-Sapir, D, Hall, J., Lovell, E., Muir-Wood, R., Norris, A., Scott, L. and Wallemacq, P. (2014) *Setting, measuring and monitoring targets for reducing disaster risk. London: Overseas Development Institute* (www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9215.pdf).

ii. Mitchell, T., Mechler, R. and Harris, K. (2012) 'Tackling Exposure: Placing Disaster Risk Management at the Heart of National Economic and Fiscal Policy'. CDKN Guide. London: Climate and Development Knowledge Network; IPCC. (2012) *Managing the Risks of Extreme Events and Disasters to Advance Climate Change Adaptation. A Special Report of Working Groups I and II of the Intergovernmental Panel on Climate Change* [Field, C.B., V. Barros, T.F. Stocker, D. Qin, D.J. Dokken, K.L. Ebi, M.D. Mastrandrea, K.J. Mach, G.-K. Plattner, S.K. Allen, M. Tignor, and P.M. Midgley (eds.)]. Cambridge and New York: Cambridge University Press (pp582); Government Office for Science (2012) *Foresight Reducing Risks of Future Disasters: Priorities for Decision Makers* (Final Project Report). London: Government Office for Science.

iii. UNISDR (2015) 'Making Development Sustainable: The Future of Disaster Risk Management'. *Global Assessment Report on Disaster Risk Reduction.* Geneva: United Nations Office for Disaster Risk Reduction (UNISDR).

iv. UNISDR (2015).

v. Government of Nepal (2015). 'Nepal Earthquake 2015 Post Disaster Needs Assessment. Executive Summary'. Kathmandu: National Planning Commission, Government of Nepal.

vi. Munich Re. (2013) (http://reliefweb.int/sites/reliefweb.int/files/resources/Investing-in-Resilience.pdf).

vii. Kellett, J. and Caravani, A. (2014) *Financing Disaster Risk Reduction: A 20 year story of international aid.* London: Overseas Development Institute.

viii. Watson, C., Caravani, A., Mitchell, T., Kellet, J. and Peters, K. (2015) '10 things to know about finance for reducing disaster risk'. London: Overseas Development Institute (www.odi.org/publications/9334-10-things-know-about-finance-reducing-disaster-risk).

ix. Tanner, T.M. and Rentschler, J. (2015) 'Unlocking the 'Triple Dividend' of Resilience: Why investing in disaster risk management pays off. Interim Policy Note'. Washington D.C.: GFDRR and London: Overseas Development Institute (www.odi.org/tripledividend).

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