10 *things to know about finance for reducing disaster risk*

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Climate &
Environment
Programme

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Photo: NASA Goddard MODIS Rapid Response Team - *Typhoon Haiyan after moving through the Philippines*

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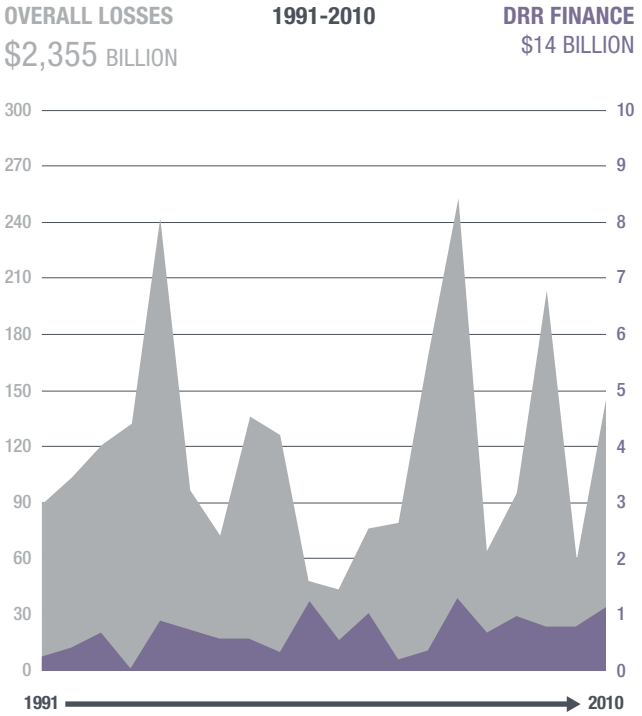
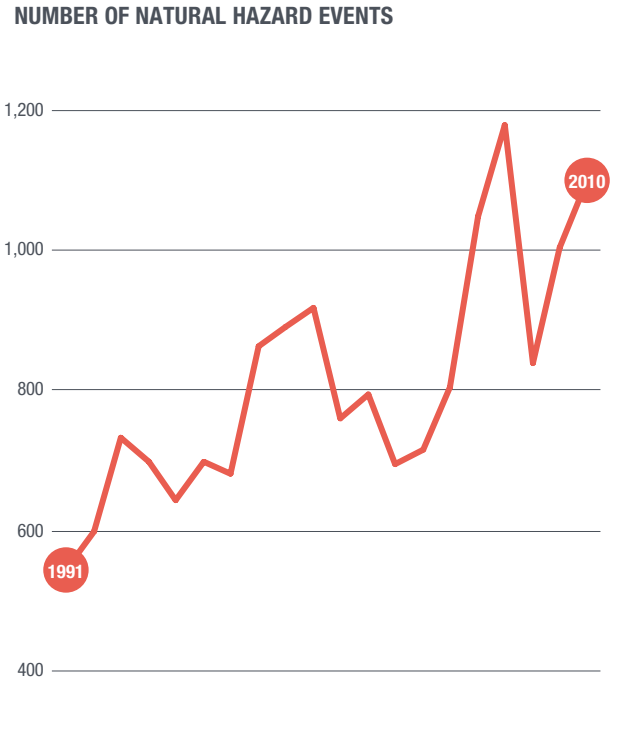
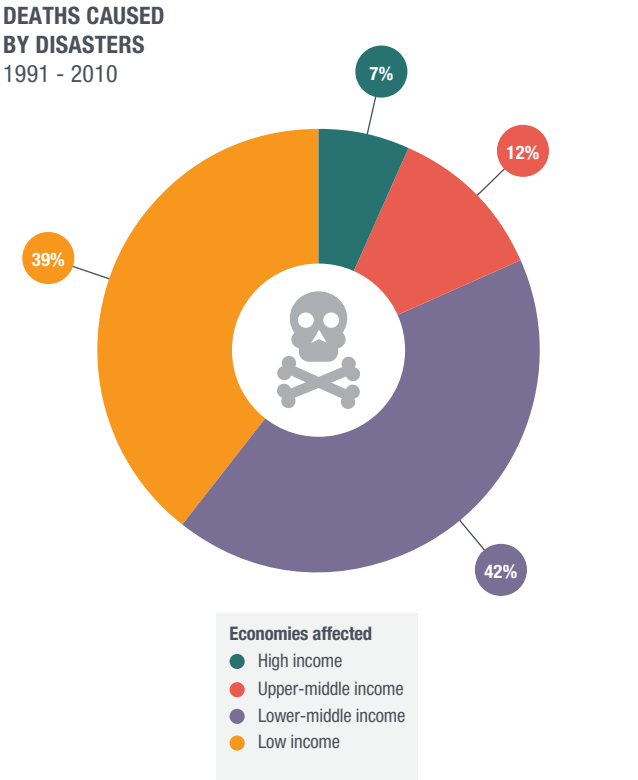
Please see the accompanying full report, **Finance for reducing disaster risk: 10 things to know** for the data sources and references used.

1 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.



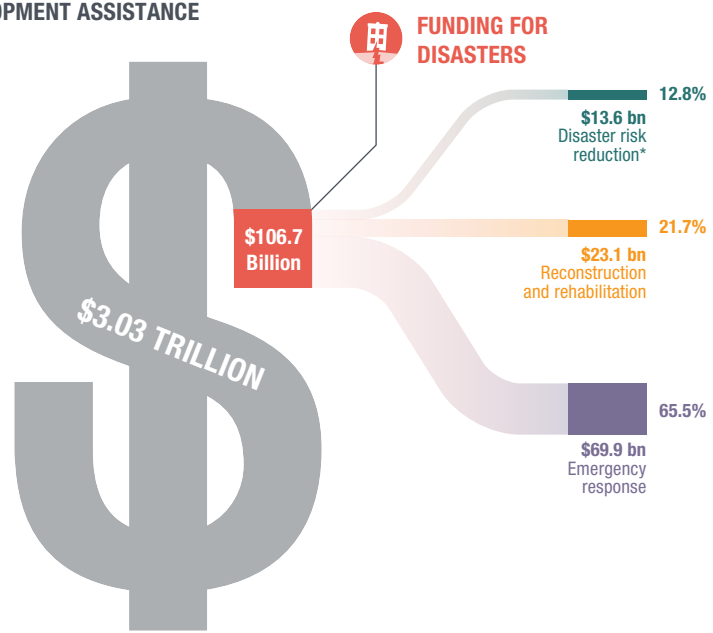




2 DRR spending accounts for a fraction of development assistance

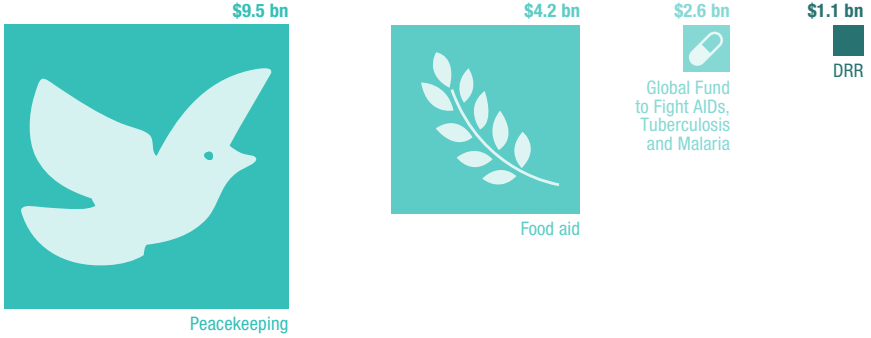
Funds dedicated to DRR account for a tiny fraction of development assistance. While spending on DRR between 1991 and 2010 totalled $13.6 billion, five times as much was spent on emergency responses, while spending on reconstruction and rehabilitation was almost twice as large. Taking 2010 alone, it can be seen that spending on DRR was also far smaller than the spending on risk management in other areas, such as conflict or health.

TOTAL DEVELOPMENT ASSISTANCE 1991-2010



* finance for flood prevention and control included in DRR

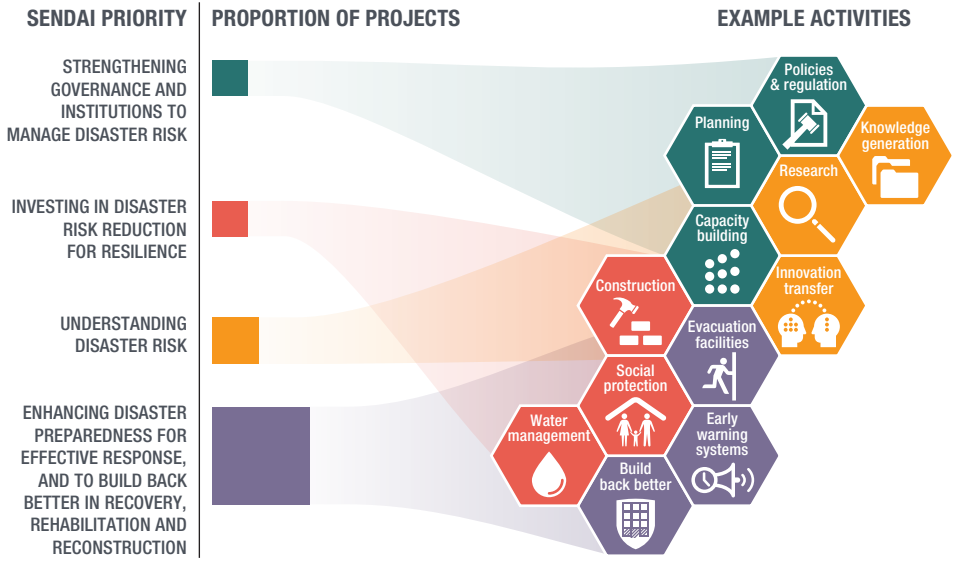
DRR COMPARED WITH OTHER DEVELOPMENT ASSISTANCE 2010

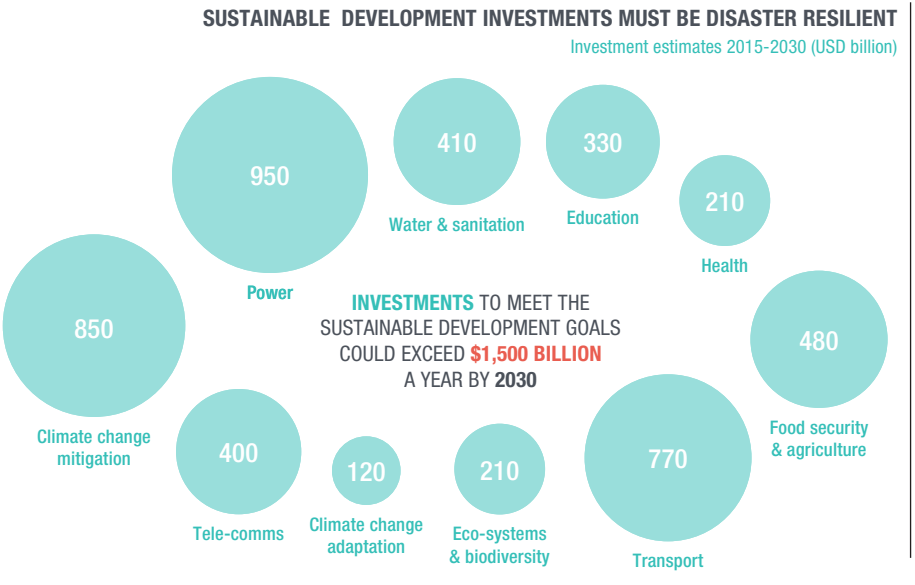


3 Development assistance for DRR supports a range of actions, but is biased towards preparedness

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.



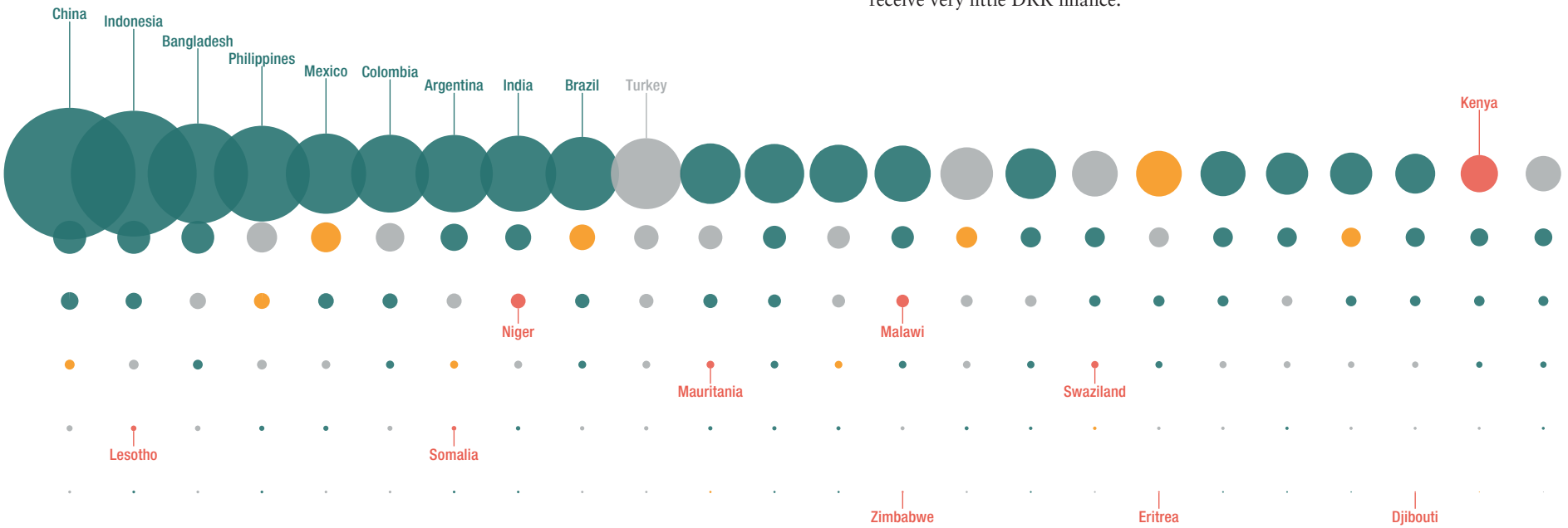


4 Poor, drought-prone countries miss out on DRR finance

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.



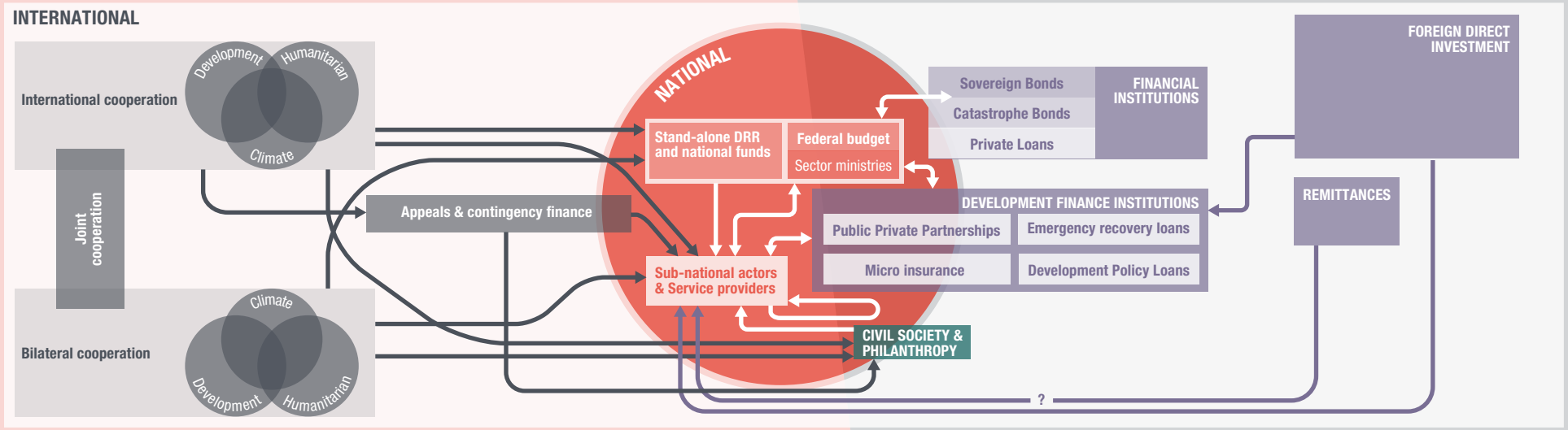
Proportion of development assistance for DRR (1991-2010)

Level of risk from droughts

Low Medium High No data

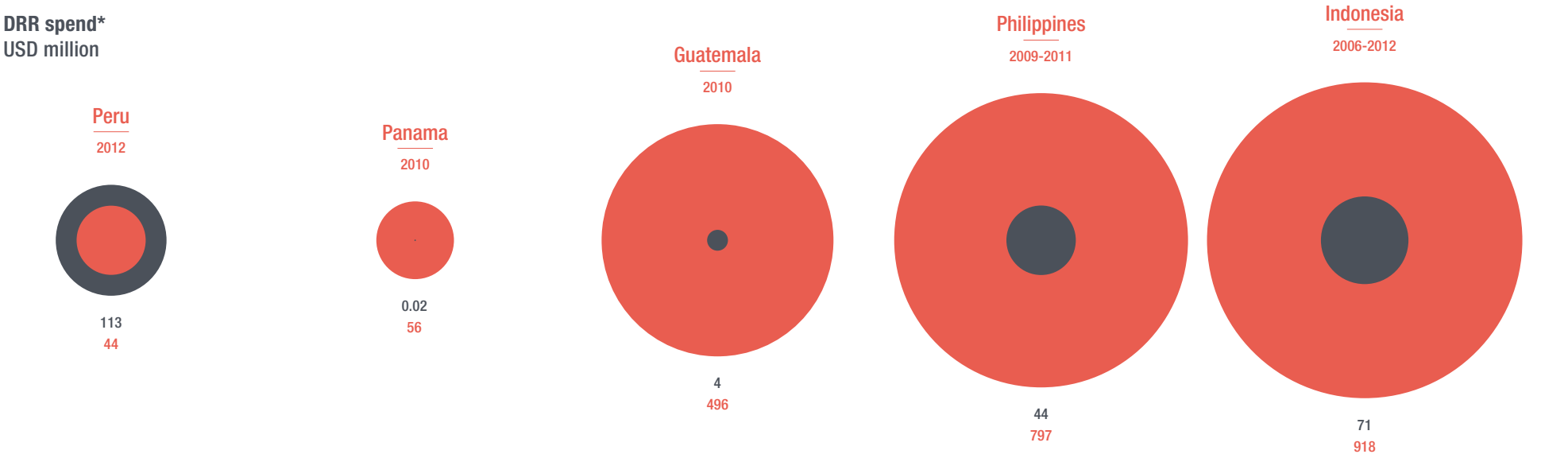
5 Sources of finance for reducing disaster risk are varied and complex

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.



6 A number of countries have mobilised their own DRR finance

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.

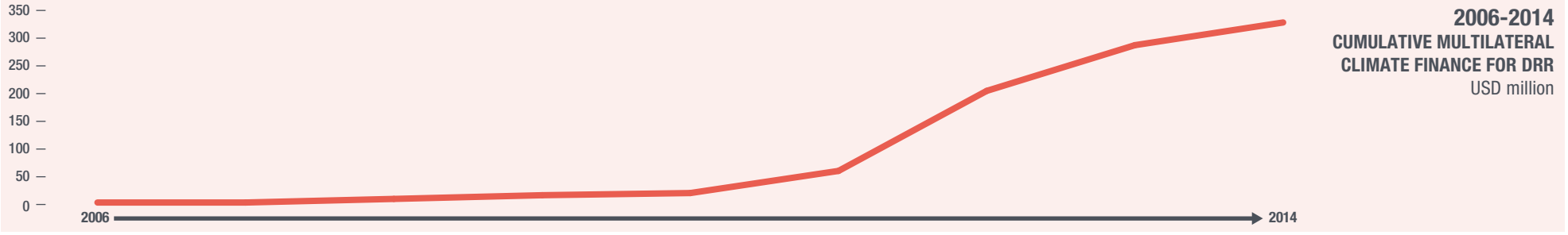


*where data on multiple years exists, annualised averages are used

7 Climate finance presents a new opportunity to finance DRR

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.

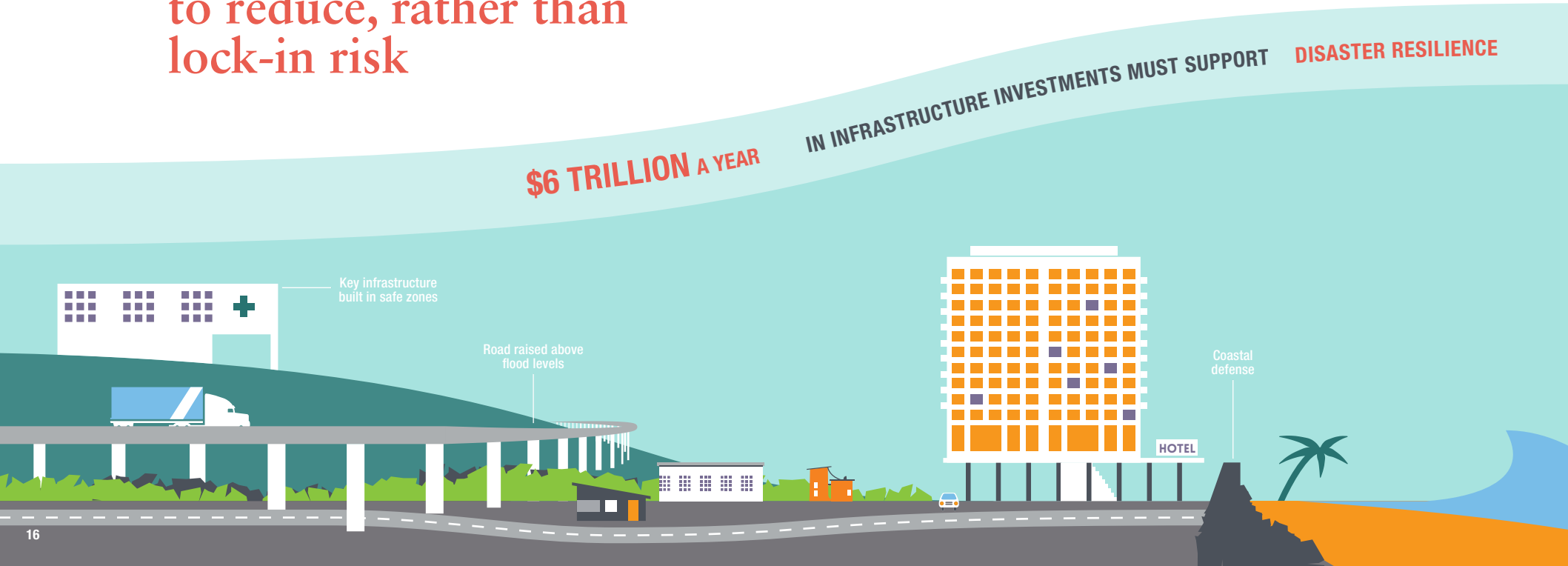
2003-2014
MOST FUNDED ADAPTATION ACTIVITIES
USD million



8 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.

$6 TRILLION A YEAR IN INFRASTRUCTURE INVESTMENTS MUST SUPPORT DISASTER RESILIENCE



9 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

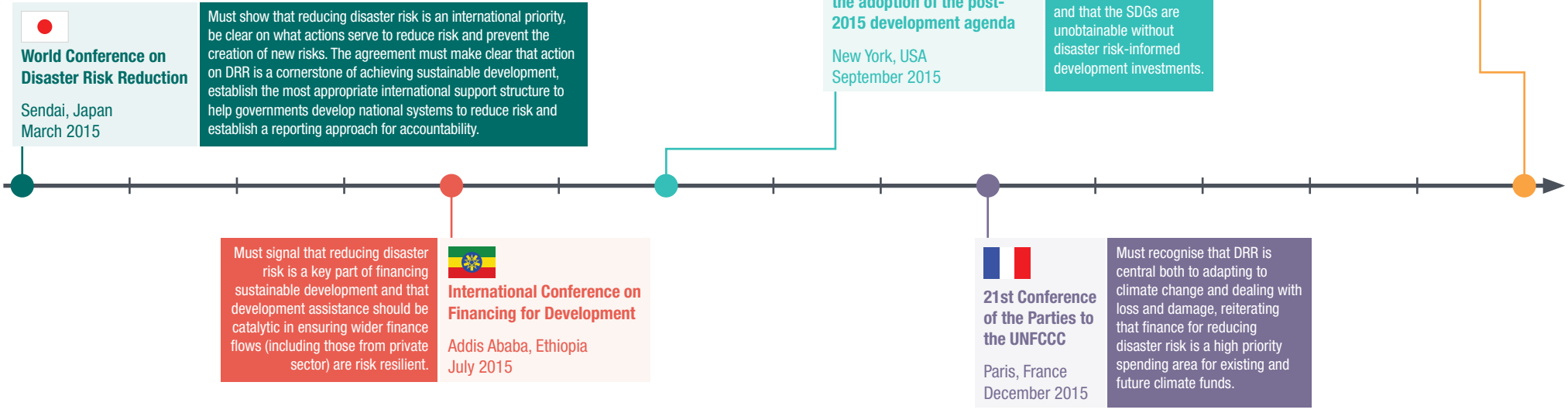
INSURANCE	Munich RE	**$350 million in claims** from flooding in Australia
	The Hartford Group	**$745 million in claims** for natural catastrophes
MANUFACTURING	Honda	**$250 million loss** owing to floods in Thailand
UTILITIES	Constellation Energy	**$0.16 reduction** in share price after having to buy 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

10

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.



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