

Accelerating financing for disaster risk reduction to build lasting resilience

A G20 Input paper

*“To build lasting ‘Resilience’ – the ability to cope with shock, to adapt to stress and ultimately to transform through crisis, is critical. **But it cannot be done without financing.**”* – Mami Mizutori, Special Representative of the Secretary-General for Disaster Risk Reduction at the 2019 WEF Sustainable Development Impact Summit.

The United Nations Office for Disaster Risk Reduction (UNDRR) welcomes the priorities of the G20 Italy Presidency under the theme ‘People, Planet, Prosperity’ and calls upon G20 leaders to address the urgent need for increasing ‘financing for disaster risk reduction’.

UNDRR’s vision is of ‘Resilient people -Sustainable development’, this means a world where disaster risks (both natural and human-induced) no longer threaten the well-being of people and the future of the planet. For that, we provide leadership and support to accelerate efforts in disaster risk reduction to achieve inclusive sustainable development and attain the goal of the Sendai Framework for Disaster Risk Reduction.

The challenge

In most developing countries, financing for disaster risk reduction is heavily dependent on resources from bilateral and multilateral cooperation. However, based on recent reports¹, for every \$100 spent on total development aid between 2010-2018, disaster risk reduction received as little as 47 cents. Many countries report financial constraints as the main barrier to the lack of progress in reducing underlying risks nationally and locally. The low level of financing reflects a lack of overall means in many countries.

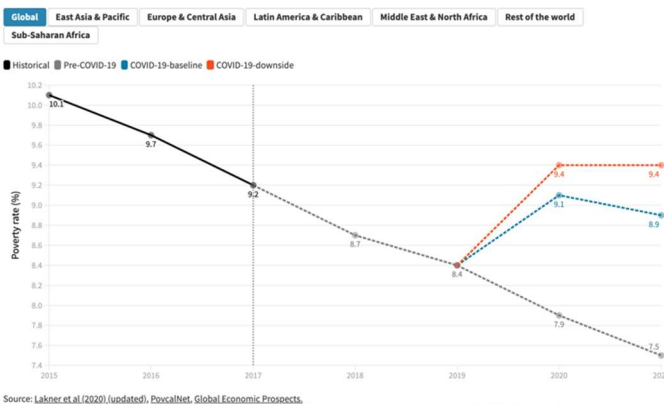


Figure - Source: Poverty and Shared Prosperity 2020, PovcalNet

To add, the COVID-19 pandemic has been a global shock that has wreaked havoc across the world. The economic impact of the pandemic has hit developing countries the hardest.

Developing countries face unprecedented debt accumulation, with over 100 countries to date having requested emergency funding from the IMF and close to 90 million people could fall below the \$1.90² a day income threshold

¹ <https://www.sciencedirect.com/science/article/pii/S2590061719300079#bb0035>

² <https://public.flourish.studio/visualisation/4517134/>



of extreme deprivation this year. One disaster has rolled back decades of development progress and has made a clarion call to global leaders to acknowledge and act on disaster risk as a systemic financial risk.

Least developed countries (LDCs), landlocked developing countries (LLDCs) and small island developing States (SIDS) are among the most vulnerable groups of countries in the world. They are disproportionately affected by the negative impacts of disaster caused by natural hazards due to their structural constraints and geographical disadvantage. It is estimated that people in least developed countries are, on average, six times more likely to be injured, lose their home, be displaced or evacuated, or require emergency assistance, than those in high-income countries (UNDRR 2019).

SIDS are the most disaster-prone countries, facing on average an annual loss of 2.1 percent of GDP due to disasters over the period 1970 to 2018. Due to small domestic markets, SIDS are highly vulnerable to global economic shocks: with the COVID-19 crisis, SIDS are expecting a drop in the current account balance from on average -2.7 percent of GDP in 2019 to -13.1 percent of GDP in 2020, mainly due to the drop in tourism (UNCTAD, 2020). It will be crucial to ensure that there is greater financing for disaster risk reduction so that countries can be much more resilient in the face of future hazards'. This is important in particular for SIDS and LDCs, which suffer most and longest from the human and economic effects of disasters.

In countries with very low rates of capital investment, such as LDCs, LLDCs and SIDS, recovery may take years if a crisis or disaster destroys a significant proportion of their capital stock. Countries with small and vulnerable economies many times depending on only a few sectors as their main source of GDP, have particularly low resilience, as their entire economy may be devastated by one single disaster; if they also have limited fiscal maneuverability, they may also have difficulties financing a recovery (for instance, the 2017 Atlantic Hurricane season led to an economic losses estimated at USD130 billion with more than one million people affected in the Caribbean region³).

This is also highlighted by the increase in long-term debt post-disaster in developing countries⁴. COVID-19 further turned the dial: six developing⁵⁶ countries have defaulted or restructured debts as the economic fallout of the COVID-19 pandemic mounts and global poverty rates are predicted to rise again for the first time in years.

But even developed nations are battling potential long-term debt issues. At the end of the third quarter of 2020, impacted by policy responses to the COVID-19 containment measures which materialized in increased financing needs, the government debt to GDP ratio in the euro area stood at 97.3%, compared with 95.0% at the end of the second quarter of 2020.⁷ Negative effect

³ <https://www.undrr.org/news/caribbean-hurricane-season-under-review>

⁴ E.g. impact of Irma and Maria on long term debt of low- and middle-income countries: <https://www.imf.org/external/pubs/ft/fandd/2018/03/otker.htm>

⁵ Zambia, Argentina, Belize, Ecuador, Lebanon and Suriname

⁶ <https://www.economist.com/leaders/2020/11/21/many-countries-need-debt-relief>

⁷ https://ec.europa.eu/eurostat/documents/portlet_file_entry/2995521/2-21012021-AP-EN.pdf/a3748b22-e96e-7f62-ba05-11c7192e32f3

on the global international cooperation levels is foreseeable, thus further aggravating the vicious disaster debt cycle of developing countries.

What this makes clear is that financial losses from disasters are a systemic financial risk. Pandemic risk – which is within the scope of the Sendai Framework for Disaster Risk Reduction as a biological hazard⁸- puts the spotlight on the unsustainable economic losses from disasters. Disaster risks have the potential to dwarf losses recorded from past events, as its impact cascades through the financial system causing capital flight from vulnerable sectors and communities, increasing sovereign credit risk, sovereign defaults, sudden and sharp write downs from devaluation and rising insurance premiums. The fact that countries with the greatest exposure to disaster risk overlap with some of the most economically vulnerably is not a coincidence.

The imperative

Investing in disaster risk reduction is a precondition for developing sustainably in a rapidly changing climate. It can be achieved and makes good financial sense. Global annual investments

Return on investment Benefits of investing in resilience are substantial.

(percent change with increase in resilient investment)

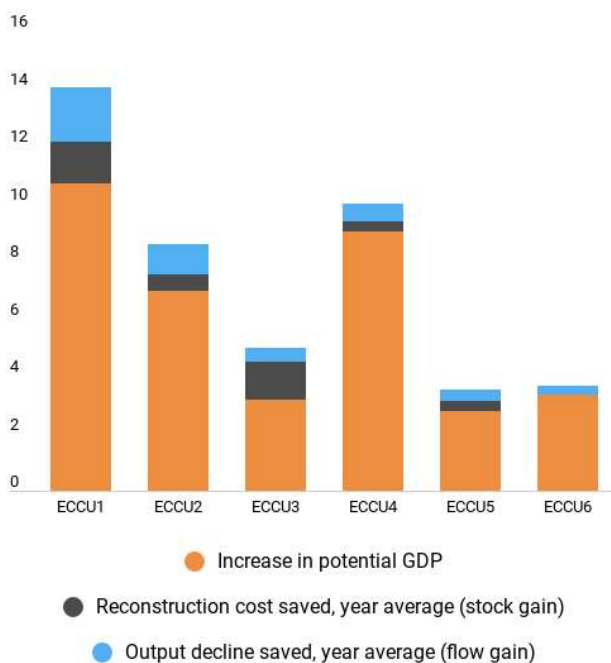


Figure: Adapted from IMF.
<https://www.imf.org/en/News/Articles/2018/12/07/NA120718-Building-Resilience-to-Natural-Disasters-in-Caribbean-Requires-Greater-Preparedness>

of only US\$6 billion in appropriate disaster risk management strategies could generate benefits of US\$360 billion or an equivalent of more than 20 per cent reduction in new and additional expected annual losses. (UNDRR 2015)

Not just the Sendai Framework, but also the Addis Ababa Action Agenda (para. 62) equally calls for innovative financing mechanisms that allow countries to better prevent and manage risks, and to strengthen the capacity of national and local actors to manage and finance DRR.

The economic benefits of investment into disaster risk reduction have been long recognized, with the need for increased investment into multi-hazard disaster risk reduction as agreed by all Member States in the Sendai Framework since 2015.

For example, over a period of 40 years⁹, the benefits of multipurpose dams for flood risk management, were estimated to bring approximately US\$ 6 million in Angola,

⁸ <https://www.undrr.org/publication/sendai-framework-disaster-risk-reduction-2015-2030>

⁹ Assuming a dam's lifetime to be 40 years, and operation and maintenance costs equal 5% of the capital cost

US\$ 5 million in Tanzania, and US\$ 7.2 million in Zambia and the co-benefits in the form of enhanced savings and investment, hence economic growth, additional power production, and better access to water when combined, would increase the countries' respective GDPs. The total growth effects of investment were estimated at 8.5% of GDP for Angola, 8.8% of GDP for Tanzania, and 7.6% of GDP for Zambia respectively. (UNDRR 2020)

The policy space is opening. Faced with an increasingly tight fiscal space and existential dilemmas over whether to allocate scarce public resources to immediate relief or to invest in a more inclusive sustainable recovery, political leaders discussing development finance in the era of COVID-19 have recognized the value of investing in ex-ante disaster risk reduction to bridge the short term with the long term, whilst addressing climate change and ensuring environmental sustainability¹⁰.

The Menu of Options for the Consideration of Heads of States and Governments Financing for Development in the Era of COVID-19 and Beyond¹¹, conclusions and recommendations of the ECOSOC Forum on Financing for Development¹², the High-Level Political Forum¹³, the need to link DRR strategies with Nationally Determined Contributions (NDCs)¹⁴¹⁵ and related financing frameworks – are some of the many strong commitments agreed through intergovernmental negotiations to increase financing for disaster risk reduction in 2020.

Though action is lagging behind, the combined effect of COVID-19 and increasing disaster risk from climate emergency provide the G20 leaders with an unique opportunity to put the world on a path for a long-term, resilient, green and sustainable future. The following section outlines four recommendations for how the G20 can address the challenges and support acceleration in financing for disaster risk reduction.

¹⁰ https://www.un.org/sites/un2.un.org/files/financing_for_development_covid19_part_i_hosg.pdf;

¹¹ E.g. Thematic Session on Protecting the planet and building resilience;
<https://sustainabledevelopment.un.org/index.php?page=view&type=20000&nr=7130&menu=2993>

¹² <https://www.un.org/development/desa/financing/document/outcome-2020-ecosoc-forum-financing-development-follow>

¹³¹³ https://sustainabledevelopment.un.org/content/documents/26486Background_note_protecting_the_planet_and_building_resilience.pdf

¹⁴ <https://unfccc.int/resource/docs/2017/tp/03.pdf>

¹⁵ https://gar.undrr.org/sites/default/files/chapter/2019-06/chapter_13.pdf; <http://www.oecd.org/env/climate-change-adaptation-and-disaster-risk-reduction-3edc8d09-en.htm>



I. Develop targeted DRR financing strategies and integrate DRR into national and local financing strategies

Between 2018 and 2019, UNDRR carried out risk-sensitive budget reviews in 16 African countries, which have identified that direct disaster risk reduction spending is, on average, only 1% of their national budgets. In spite of progress in implementing disaster risk and climate activities, in most countries no definite and systematic DRR investment policy exists. This points to an urgent need to increase direct disaster risk reduction spending in developing countries to ensure that investments towards the SDGs are not creating new risks but rather building resilience.

For indirect spending on DRR, it is also crucial to understand whether links with social projects have been designed with a DRR lens to give a more accurate indication of the level of DRR mainstreaming.

Increasing disaster events and the lack of adequate financing severely undermine the capability of developing countries to achieve the Sustainable Development Goals (SDGs). Take the case of [Nigeria](#), as Africa's biggest economy and a population of over 200 million people. Yet, the country faces numerous challenges as it struggles to achieve the Sustainable Development Goals (SDGs) with flooding being the most prevalent and recurring disaster. [SDG1] As floods have become an annual occurrence, poverty is further rooted, 87 million Nigerians out of a population of 200 million now live-in extreme poverty (Homi Kharas and Hofer 2018). [SDG 2] In 2012 in Adamawa state alone, floods affected more than 35% of the vegetation cover and 56% farmland cover while in 2014, 42% of the total vegetation cover was overtaken by floods while 51% of the total farmland cover was inundated (Musa and Shabu 2019). This has a direct impact on food security and food insecurity leads to hunger. Nigeria's flooding is mainly human induced with poor urban planning practices and inadequate to non-existent environmental infrastructure contributing to and exacerbating the issue.¹⁶

[Uganda](#) pursued the mainstreaming process through an integrated approach that encompassed DRR and climate adaptation into development planning. Both issues are recognized in the Resilience and Disaster Risk Management Strategic Framework and Investment Program 2015, which will operationalize the country's National Development Plan 2015–2020. DRR and CCA have also been integrated into Uganda's National Building Control Regulations and the National Urban Policy, which reaches over 1.2 million people with its safety measures. In 2018, the National Development Plan was being reviewed to assess the impacts of disasters during its implementation period, which will provide recommendations for the development of the third National Development Plan.

Source: UNDRR 2019

Building on the commitments made during 2020¹⁷, G20 leaders could call for:

- prioritizing more financing to high-risk, low capacity countries;

¹⁶ Adaku Jane Echendu (2020) The impact of flooding on Nigeria's sustainable development goals (SDGs), Ecosystem Health and Sustainability, 6:1, 1791735, DOI: 10.1080/20964129.2020.1791735

¹⁷ strengthen long-term financial resilience and support growth, including through promoting sustainable capital flows and developing domestic capital markets



- national risk-informed budget reviews to assess the level of domestic financing for disaster risk reduction.
- putting in place bankable strategies for systemic disaster risk reduction, and building resilience;
- ensuring integration of disaster risk reduction as a necessary criterion for COVID19 recovery packages.
- stronger coherence in the financing and implementation of national and local disaster risk reduction strategies and national adaptation plans.

II. Promote a ‘Think Resilience’ approach to all financial investments

The COVID-19 pandemic has exposed how we have undervalued resilience and underpriced risk. Progress has been seen in the enhanced inclusion of climate change adaptation as an environmental objective in the context of green financial products and services. However, there is a wider concern that while financial investments are cognizant of their contribution to carbon emissions as well as the impact of climate change on the potential return on investment, they do not often consider how the investment may be creating disaster risk in terms of exposure and vulnerability of workers, local communities, supply chains and natural ecosystems.

In developing sustainable and climate finance, it is important to integrate disaster risk reduction to reorient financial flows and financing in support of disaster risk reduction. This would enable a fundamental shift from utilizing financial measures for funding emergency response to disasters to ensuring capital markets support the financing of action to reduce the risk of disasters from the outset.

Governments have a critical regulatory role to play to make all financial investment resilient to disasters and to ensure that they do not create disaster risk. At the same time, the private sector also needs to lead and promote risk-informed business behaviours that include reporting and disclosure of material, long-term sustainability risks, as well as impact reporting on how companies are contributing to resilience aligned with the Sendai Framework, Paris Climate Agreement and SDGs.

Supporting public and private investments to be resilient to multiple natural, biological, environmental and technological hazards, could be furthered by using stress tests to make disaster risk reduction and resilience a baseline requirement for investments – a ‘*Think Resilience*’ approach. This principle should ensure that investments are not only sustainable but also resilient.

Some of the areas that G20 leaders may consider, could include calling for:

- stronger integration of disaster risk reduction into financial sector investment decisions, including comprehensive risk disclosure, prudential regulation and reporting standards and Environmental, Social and Governance (ESG) data;



- promoting a ‘*Think Resilience*’ approach that should become mandatory in all public procurement processes, as well as private sector investment, for example through integration under the Taskforce for Climate Related Disclosures and Net-Zero initiative;
- integration of disaster risk reduction into taxonomies and definitions of sustainable finance and considering activities that are building in greater disaster risk, as unsustainable;
- improving the policy, fiscal and financial space for resilience of SMEs, including addressing interdependencies and inequities across value and supply chains.

III. Targeted investment in resilient infrastructure

Resilient infrastructure is an essential component of financing for DRR. It also represents an enormous collective investment by our society and a resource for our economy and communities. However, these essential assets are increasingly vulnerable. According to the World Bank, infrastructure disruptions impose costs between \$391 billion and \$647 billion a year in low and middle-income countries (WB 2016). Investment required in infrastructure and to address resilience of these assets is immense while public sector resources are limited. This financing gap is not new, but it continues to grow rapidly (UNDRR 2019).

As highlighted in the 2020 G20¹⁸ discussions, inclusion of robust risk assessment in public infrastructure spending will not only improve resilience, but also lead to an increase in the contribution of the private sector as the investment environment becomes more attractive (Woetzel et al. 2017). This reiterates the argument that for infrastructure investment there are huge benefits in risk-informed decision making in terms of reduced risks, lower investment costs, and improved returns, which provides strong incentives for the public and private sectors to implement it.

For this to be achieved, G20 leaders should promote the following ‘resilience points’¹⁹ for investing in new or replacing existing infrastructure, as a core element of the recovery from COVID-19 and beyond, into the G20 Principles for Quality Infrastructure Investment:

- support strengthening infrastructure regulations: infrastructure Regulations should have a clear definition of resilience and include risk assessments and stress tests to be conducted periodically to ensure that assets and services meet established standards for resilience. For infrastructure to be classified as ‘sustainable,’ regulators need to include both natural and human induced hazards as a key criterion.
- ensure that exposure of infrastructure investments to risk is measured and monitored with disclosure of disaster risks made mandatory: This requires investors, operators and decision makers to ensure that disaster and climate risks are considered in the location, design, construction and operation of infrastructure investments. Support needs to be extended for collection of disaggregated infrastructure loss and exposure data to inform decisions and ensure that public safety is a core consideration.

¹⁸ https://www.g20-insights.org/policy_briefs/policies-and-implementation-guidelines-for-data-driven-integrated-risk-based-planning-of-sustainable-infrastructure/

¹⁹ <https://www.undrr.org/publication/working-paper-options-addressing-infrastructure-resilience>



- promote financing models based on PPPs ensure that disaster risk associated with new infrastructure is accounted, avoided and or mitigated: Co-benefits, bankability and pipelines of infrastructure projects supported by strong commitment of national governments will drive markets' interest and foster stronger partnership between public and private sector.
- invest in enhancing knowledge and building capacity with a targeted focus on LDCs, LLDCs and SIDS. Infrastructure development involves multiple stakeholders, and for that awareness-raising, advocacy and training programmes targeting each category of stakeholder across a range of national and local contexts is necessary, in particular in countries at risk with limited capacity.

IV. Urge international financial institutions and development banks, as well as national financial institutions, to align their strategies, operations and activities with the Sendai Framework

In September 2020, Heads of States and Governments considered several policy options on financing COVID-19 recovery and sustainable development related to financing for disaster risk reduction. International development and finance institutions, including the International Monetary Fund, the World Bank Group, regional development banks, the G7, the G20, and the OECD, are called upon to strengthen the alignment of their strategies, operations, activities and financing with the Sendai Framework.

The menu of policy options also calls on national Governments, through reviews of central banks and supervisor mandates, to issue guidelines for sustainable financial systems which include risk management rules and risk-informed standards to promote SDG-aligned investment and building resilience. Central banks and financial supervisors are encouraged to integrate sustainability, climate, and environment-related risks, consistent with the Sendai Framework, into financial stability monitoring and macro and micro prudential supervision.

In calling for the immediate and swift implementation of these recommendations, G20 Leaders can have a significant impact on the integration of disaster risk reduction in its own work, as well as in the economic and financial decisions taken by international financial institutions, global and regional development banks, and national governments.

The G20 may consider:

- developing and issuing a set of principles or operational/policy guidance to support international development and finance institutions and national governments to turn these policy options on financing for disaster risk reduction into action.

Mainstreaming disaster risk reduction and the implementation of the Sendai Framework in the activities of international financial institutions and development banks will ensure that their lending decisions and financial support to developing countries will help reduce existing disaster risk and avoid the creation of new risk which will deliver economic, social, and environmental dividends and build resilience to future shocks and hazards.

