Inputs for an Elements Paper on Financing for Development

Submission by Australia, Indonesia, Norway and Peru
on behalf of the Group of Friends for Disaster Risk Reduction[1]

The Group of Friends for Disaster Risk Reduction (GoF for DRR) welcomes the opportunity to provide inputs to inform the co-facilitators of the Fourth International Conference on Financing for Development (FFD4) process in their preparation of an elements paper, which will put forward potential elements of the Outcome Document of the Conference.

INTRODUCTION

Disasters have increased in scale and frequency over the last decade, resulting in over $200 billion in economic losses per year globally[2] , contributing to national development gains being eroded and our collective journey towards achieving the Sustainable Development Goals being derailed. Current trends suggest a 40 percent increase in the number of disasters between 2015 and 2030, even before accounting for the accelerating pace and intensity of hazard events intensified by climate change.[3]

At the same time, chronic underinvestment in disaster risk reduction (DRR) and prevention prevails. The current scale of investments are not commensurate with evolving needs, and existing investments are concentrated in response and recovery.[4] Therefore, in the coming years, it is crucial to substantially increase funding for DRR from all sources and direct investments towards building resilience.

The outcome of the Fourth International Conference on Financing for Development (FFD4) provides an opportunity to systemically address the challenges and create an enabling environment to facilitate increased investments in DRR. This requires a mindset shift across the financial system, moving from a short-term outlook and underprioritizing disaster risks to promoting preparedness, prevention and building long-term resilience. Mainstreaming this approach globally is critical for advancing and retaining gains in sustainable development, leading up to 2030 and beyond.

In this context, the GoF for DRR puts forward the following proposals to be considered in the Preparatory Committee for FFD4:

PREAMBLE

Financial systems should be recalibrated to prevent and reduce risk and build long-term resilience, including through overcoming the bias towards reliance on ex-post disaster response and scaling up ex-

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[1] Comprising of: Antigua and Barbuda, Armenia, Australia (Co-Chair), Bangladesh, Brazil, Chile, China, Croatia, Denmark, Ecuador, El Salvador, Finland, Germany, Haiti, India, Indonesia (Co-Chair), Italy, Jamaica, Japan, Kenya, Maldives, Mexico, Morocco, Mozambique, Nauru, Nepal, Netherlands, New Zealand, Norway (Co-Chair), Pakistan, Palau, Peru (Co-Chair), Philippines, Poland, Portugal, Romania, Russian Federation, Samoa, Sweden, Switzerland, Thailand, United Kingdom

[2] https://www.undrr.org/explainer/uncounted-costs-of-disasters-2023

[3] United Nations Office for Disaster Risk Reduction (2022), *Global Assessment Report on Disaster Risk Reduction 2022: Our World at Risk: Transforming Governance for a Resilient Future*

[4] United Nations Office for Disaster Risk Reduction (2023), *The Report of the Midterm Review of the Implementation of the Sendai Framework for Disaster Risk Reduction 2015–2030*

ante investments for disaster prevention and preparedness, as well as building back better in reconstruction and rehabilitation to strengthen resilience.

Proposal:

Acknowledge that conventional approaches to disaster management are no longer adequate and recognize the need to shift from managing disasters and their impacts to reducing and preventing disaster risk. (A/RES/77/289, para 8)The current scale of investments in DRR is not commensurate with the needs of countries, especially developing countries, considering evolving and emerging risks. Domestic public resources alone cannot meet these costs, and there needs to be a renewed commitment to mobilize financing from all relevant sources for DRR and resilience building.

Proposals:

- Recognize that investments in disaster risk reduction and efforts to de-risk investments remain inadequate and do not match the scale of existing and future risk, and further recognize the need for prioritizing and enhancing the allocation of and access to sustainable and predictable financing for disaster risk reduction at all levels (based on A/RES/77/289 para 27, 30, 33(f))
- Commit to increasing financing for disaster risk reduction and the building of resilience to prevent, prepare for and reduce disaster risks with a renewed sense of urgency within the context of sustainable development and poverty eradication. (based on A/RES/77/289para 8)

Disaster risk is increasingly complex and systemic, with hazards that can trigger each other with cascading and compounding impacts within and across sectors and geographies. To future proof the new FFD Framework, it is important to factor in and build resilience for current, emerging and future risks and hazards.

Proposals:

- Use the term “disasters” instead of “natural disasters”, in line with the Sendai Framework, to ensure that the full scope of disasters caused by natural or man-made hazards are covered including risks of small- and large-scale, frequent and infrequent, sudden- and slow-onset disasters caused by natural and man-made hazards, as well as related environmental, technological and biological hazards and risks – Sendai Framework, para 15 and A/RES/77/289, para 2.
- Address existing, new, emerging and future disaster risks, including the impacts of climate change, biodiversity loss, environmental degradation and unplanned and rapid urbanization, as well as technological hazards and risks. (based on A/ RES/77/289, para 19)

DOMESTIC PUBLIC RESOURCES

Public-sector budget allocations and expenditures towards DRR have generally been significantly lower than for other national development priorities.[5] It is necessary to increase domestic resource allocation, by assessing current spending and mainstreaming DRR investments across all sectors at all levels.

[5] UNDRR (2023). The Report of the Midterm Review of the Implementation of the Sendai Framework for Disaster Risk Reduction 2015–2030. UNDRR: Geneva, Switzerland.

Proposals:

- Identifying gaps in public spending on disaster risk reduction, including by developing and utilizing budget tagging and tracking systems and allocating increased domestic resources to disaster risk reduction (based on A/RES/77/289para 33(a) and Budget tagging for Disaster Risk Reduction and Climate Change Adaptation)
- Mainstream disaster risk reduction into public budgeting, financial planning, expenditure, investment and procurement processes in all relevant sectors and at all levels of government (A/RES/77/289 para 33(a))

Lacking formal DRR financing frameworks, can limit the efficient allocation of available resources.

Proposals:

- Ensure that integrated national financing frameworks are risk-informed, according to national plans and policies (A/RES/77/289para 33(a))
- Develop comprehensive national and local disaster risk reduction financing strategies, that leverage the full spectrum of pre- and post-disaster financial resources from public, private, domestic and international sources (A/RES/77/289 para 33(b))

New investments in infrastructure should factor in resilience to disasters as disruptions to infrastructure systems, which provide critical services and support the economy, are becoming more frequent resulting in significant economic and societal costs.

Proposal:

- Ensure that infrastructure financing plans are aligned to disaster risk reduction strategies, promote multi-hazard disaster risk assessments as a prerequisite for infrastructure, housing and real estate investments in all sectors, and allocate adequate resources for stress-testing of critical infrastructure systems (based on SF MTR PD para 33(d))

Approaching disaster risk reduction and climate change adaptation separately, can lead to inefficiencies in resource utilization. The Paris Agreement (Article 8) and Sendai Framework (Target E), encourages a comprehensive risk management approach with integrated and synergized planning between disaster risk management and climate action.

Proposals:

- Establish or strengthen policy, programmatic and financing coherence between national climate change adaptation and national disaster risk reduction strategies, as well as sector-specific plans (A/RES/78/152 para 14)
- Conduct inclusive and multi-hazard disaster risk assessments that consider climate change projections to support evidence-based disaster risk reduction strategies and guide risk-informed development investments by the private and public sectors, including to support early action and recovery (A/RES/78/152 para 20)

DOMESTIC AND INTERNATIONAL PRIVATE BUSINESS AND FINANCE

Further actions, including adopting and implementing regulatory frameworks, are necessary to encourage private sector engagement and investments in disaster risk reduction.

Proposals:

- Collaborate with the private sector to promote resilience of businesses by integrating multi-hazard, long-term risk analysis into their management practices, to facilitate private investments in disaster risk reduction and to promote risk-informed private investments and the disclosure of disaster risk in business operations and asset values including through establishing and utilizing taxonomies and standards for financing resilience and disaster risk reduction (based on A/RES/78/152 para 49, Designing a climate resilience classification framework to facilitate investment in climate resilience through capital markets)
- Encourage financial authorities to integrate disaster risk reduction into their work to promote investments in disaster risk reduction and improve disclosures on disaster risk exposure and management (based on A/RES/77/289para 33(d), Integrated National Financing Frameworks for Disaster Risk Reduction)
- Collaborate with financial institutions, credit rating agencies and capital marker actors to better integrate disaster risk reduction, including multi-hazard and long-term risk analysis into their decisions (A/RES/77/289para 33(e))

More efforts need to be focused on non-traditional sources of financing, such as blended finance and other innovative financing options for DRR

Proposal:

- Encourage the engagement of credit rating agencies, the insurance sector and the financial services sector in disaster risk reduction, to support countries in the development of innovative instruments, tools and guidelines for de-risking investments and to enhance financing available for disaster risk reduction (A/RES/78/152 para 49)
- Encourage developing innovative financing solutions that also include pre-arranged financing mechanisms, adaptive social protection, and disaster risk financing. (based on A/RES/77/289 para 39(e), 27)

INTERNATIONAL DEVELOPMENT COOPERATION

Official Development Assistance (ODA) remains critical to ease the burden on domestic structures of DRR finance in developing countries, but ODA allocated for DRR remains insufficient. Other development financing institutions also have a role to play in facilitating investments for DRR.

Proposals:

- Recognize that the fulfilment of respective commitments of official development assistance by developed countries, is essential for effective disaster risk management and the ability of developing countries, including those most vulnerable to disasters, to effectively enhance and implement national disaster risk reduction policies and measures (A/RES/78/152 para 43)

- Recognize the need for the global community, including international financial institutions, development banks and the private sector, to enhance efforts to scale up disaster risk reduction financing instruments to meet the scale of financing needed by developing countries (A/RES/78/152 para 9)
- Incorporate disaster risk reduction measures, as appropriate, into multilateral and bilateral development assistance programmes and infrastructure financing (SF MTR PD para 33(h)
- Enhance investment in effective, national and regional multi-hazard early warning mechanisms and financing for early and anticipatory approaches to reduce the impact of disasters (based on A/RES/78/152 para 33, A/RES/77/289para 33(g))

DEBT AND DEBT SUSTAINABILITY

The use of public debt and renewed external borrowing to absorb the impact of disasters could lead to higher debt servicing for developing countries, constraining their growth and capacity to invest in long-term resilience-building.

Proposals:

- Recognize the detrimental impacts of disasters on debt sustainability, which requires ex-ante financing to enable the systemic reduction of disaster risk and resilience building as well as the disclosure of disaster risk to avoid exacerbating debt distress. (based on A/RES/77/289 para 29)
- Promote the development of climate resilient debt clauses, where appropriate, and the exploration of clauses that consider other catastrophic external shocks (based on A/RES/78/152 para 8)

ADDRESSING SYSTEMIC ISSUES

Additional steps need to be taken to integrate risk in global financial architecture, including considering multidimensional vulnerabilities in assessing needs.

Proposals:

- Pursue reform of international financial institutions to further consider integrating disaster risk reduction into their work, including through lending, debt support and sustainable development and adaptation financing streams and grants (A/RES/77/289para 33(g))
- Encourage the international community to consider multidimensional vulnerability as criteria to access concessional finance (based on A/RES/78/1 38(xii))

SCIENCE, TECHNOLOGY, INNOVATION, AND CAPACITY BUILDING

New and emerging technologies have the potential to address challenges in DRR including data availability, by providing timely, reliable data for early warning of disasters.

Proposals:

- Improve the delivery of means of implementation and strengthen capacity-building, financial resources, data and technology and partnerships to assist developing countries in implementing DRR strategies in all sectors, including for accessible and inclusive early warnings systems, and promoting early and anticipatory approaches (based on A/RES/77/289para 28, 35, 33(g)).

- Prioritizing and enhancing the allocation of and access to sustainable and predictable financing for disaster risk reduction at all levels and technology transfer on concessional and preferential terms, as mutually agreed to build resilient health, water, agriculture and agrifood systems, cultural heritage, transport, energy and digital connectivity systems; (A/RES/77/289para 33(f))

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