

Inputs for an Elements Paper on Financing for Development

*Fourth International Conference on
Financing for Development*

I. A global financing framework (including cross-cutting issues)

Disasters are taking a heavy toll on people, the planet and prosperity, setting back the development gains of many countries, and eroding collective progress towards the Sustainable Development Goals (SDGs). In 2023, a re-insurance company estimated that disasters resulted in 74,000 fatalities and \$250 billion in losses globally.¹ While considerable, these estimates only paint a partial picture of the true toll that disasters take as many disasters are simply not included in these estimates – such as those associated with slow-onset and small-scale events, and the knock-on effects of broken supply chains, losses in productivity, compromised physical and mental health, and the enduring impacts of disrupted education.²

Disasters also exacerbate social inequalities and have disproportionate and unequal impacts on different demographics, particularly affecting marginalized groups such as women, older persons, persons with disabilities, migrants, Indigenous Peoples and local communities.

Looking ahead, current trends point to an increase in the frequency and intensity of disasters, with a possible 40 per cent rise in the number of disasters from 2015 to 2030.³ There are also emerging and future risks that must be managed effectively to avoid further intensification of the ongoing global challenges. The urgency to address these challenges through accelerated financing for disaster risk reduction (DRR) has never been more critical.

Investing in DRR is not only a moral imperative but also a sound economic strategy. Several studies have quantified the benefit-cost ratio for disaster risk reduction measures. Overall, they indicate that the benefits of such measures significantly exceed their costs, with a ratio ranging from 2:1 to 10:1 or higher,⁴ depending on the type of DRR measures and local context.⁵ The recently adopted Pact for the Future⁶ also calls for promoting a disaster risk-informed approach to sustainable development that integrates disaster risk reduction into policies, programmes and investments at all levels.

Yet, investing in disaster resilience remains vastly insufficient. While assessing gaps is complex and mired with assumptions, it is estimated that current domestic and international expenditures for DRR and climate change adaptation (CCA) are only meeting 10% to 25% of total needs in a wide range of countries.⁷ This lack of investment results in a vicious circle where the financial cost of disasters is rapidly rising, strapping governments in their ability to mobilize and provide

¹ Munich Re, *Record thunderstorm losses and deadly earthquakes: the natural disasters of 2023* (2024).

² *Uncounted costs: Data gaps hide the true human impacts of disasters in 2023* available on UNDRR website

³ UNDRR (2022), *Global Assessment Report on Disaster Risk Reduction 2022: Our World at Risk: Transforming Governance for a Resilient Future*

⁴ World Resources Institute, *Adaptation Finance and Investment* (2019).

⁵ See Pew's analysis of data from the National Institute of Building Sciences, *Data Highlight State-by-State Benefits of Federal Natural Disaster Mitigation Grants* (2019)

⁶ A/RES/79/1, Action 6(g)

⁷ UNDRR, *Resilience Expenditure Landscape: Tracking spending on disaster risk reduction and climate change adaptation* (2024)

necessary funds, trapped in the vicious and self-fulfilling cycle of disaster-response-recover-repeat.

Countries need to develop tailored financing strategies to change this trajectory. While national DRR strategy and other policy documents, such as National Adaptation Plans (NAPs), have provided strategic direction for countries, they often lack to be associated with comprehensive financing strategies. These strategies are necessary to mobilize the full spectrum of finance from public, private and international sources. They need to combine options to mobilize financing for risk reduction with financial instruments designed for risk retention (e.g., contingent credit lines) and risk transfer (e.g., insurance). By conducting structured assessments of DRR investment needs, these strategies also help countries better identify priority areas for the effective mobilization of available resources. Tailored financing strategies and instruments will need to address both immediate and future challenges, as well as all types of emerging risks, including environmental, technological, and biological hazards.

DRR and CCA financing strategies could be developed as standalone documents or as part of integrated national financing frameworks (INFFs). The Addis Ababa Action Agenda has advanced the INFF concept, which provides a framework for financing national sustainable development priorities and the SDGs at the country level. The INFF approach ensures the coherence of different financing policies. However, INFF covers a wide range of issues, and a deeper-dive analysis is required to tailor the financing options to specific national objectives.⁸

In this context, the FFD4 Outcome document should:

- **Acknowledge that investing in DRR is a precondition for achieving sustainable development, and prioritize the prevention of new risks, the reduction of existing risks, and the enhancement of preparedness and response systems and instruments where risks cannot be fully mitigated.**
- **Enhance local, national and global resilience for current, emerging and future risks, recognizing the increasing risks across timescales due to climate change.**
- **Promote the use of comprehensive cost-benefit analysis at all levels that showcase the cost-effectiveness of DRR investment and create awareness of the socio-economic benefits of investing in resilience.**
- **Call on countries to establish tailored DRR and CCA financing strategies, with the support of development partners, while using integrated national financing frameworks to ensure synergies and complementarities with other national objectives.**

⁸ See for instance: UNDESA/UNDRR: *INFFs for Disaster Risk Reduction* (2023), and the forthcoming G20 input paper on financing options for resilient solutions.

II. Action areas

DOMESTIC PUBLIC RESOURCES

Public expenditures in DRR and risk-informed public investment promote resilient socio-economic development and long-term fiscal sustainability. Considering the resilient dividends of investing in prevention, such as avoided losses, sustained economic growth and stability, and accelerated progress towards the SDGs, there is a compelling need to increase public investments in DRR. For instance, advances in early warning systems and preparedness have saved tens of thousands of lives and hundreds of billions of dollars. Similarly, anticipatory actions have provided timely and cost-effective means of supporting those in vulnerable situations and at risk of imminent disasters. Indeed, anticipatory financing leverages forecast-based triggers and pre-established financing arrangements to enable early and more targeted interventions before the onset of a specific shock event. Institutionalizing anticipatory financing in social protection systems could help build more resilient communities.

However, disaster resilience tends to be underprioritized in domestic budgets, in part due to fiscal constraints and competing priorities, but also because it might not carry sufficient political weight – a cost for an event that might never happen within a political term. In certain countries, domestic public finances earmarked for risk prevention as a primary objective are on average less than 1% of national budgets,⁹ suggesting a chronic underinvestment in DRR.

To increase domestic resources allocated to DRR, countries need to combine the ring-fencing of budgetary resources for DRR activities with the mainstreaming of DRR into sectoral budgets. Establishing ring-fenced financing mechanisms ensures dedicated and sustained resources for DRR activities and enables targeted DRR programs. These ring-fenced resources also need to support lower levels of governments which have significant DRR responsibilities.¹⁰ Meanwhile, mainstreaming DRR into sectoral budgets, such as health, education, infrastructure, and agriculture, ensures that resilience-building measures are embedded across all facets of development planning and that all sectoral activities contribute to risk reduction.¹¹ This dual approach of ring-fencing and mainstreaming makes DRR both a specialized focus and a generalized responsibility.

Yet, for successfully mainstreaming DRR into sectoral budgets, structural reforms are necessary. For instance, policymakers could review public investment management systems to ensure that resilience-building measures are integrated across all aspects of development planning and financing. This might involve making disaster risk assessments mandatory in public infrastructure projects, requiring regular stress tests of infrastructure systems, and developing

⁹ UNDRR (2023). The Report of the Midterm Review of the Implementation of the Sendai Framework for Disaster Risk Reduction 2015–2030. UNDRR: Geneva, Switzerland

¹⁰ The Philippines established the National Disaster Risk Reduction and Management Fund, a ring-fenced fund that ensures dedicated budget allocation for disaster risk management activities, demonstrating a proactive approach to DRR financing.

¹¹ For example, the Productive Safety Net Programme (PSNP) in Ethiopia integrates DRR by providing cash and food transfers to vulnerable populations while engaging them in public works that enhance community resilience, such as building terraces to prevent soil erosion.

national standards grounded in international references such as the Principles for Resilient Infrastructure.¹² Policymakers could also introduce resilience ratings to support decision-making and ensure proper valuation of resilience benefits in project economic assessment.

Clear accountability systems and improve coordination are also necessary. Monitoring systems need to be in place to assess whether sectors integrate DRR measures in their operations. A budget tagging and tracking system would be instrumental for this purpose, as it would enable governments to estimate and track expenditures related to DRR; while also enabling target setting, improved transparency and enhanced accountability. Strengthening institutions and platforms for inter-agency and cross-sector coordination on DRR would also enhance efforts to mainstream DRR into all government activities.

Even when public resources are available for DRR, their impact depends on the ability of public entities to plan, implement, and manage DRR projects efficiently. This type of capacity is often lacking, not only in developing countries but also in more advanced economies. Building the capacity of government officials is critical to ensure that they have the skills, knowledge, and tools to use these funds effectively and that sector agencies understand how to incorporate DRR considerations into their day-to-day activities. Without adequate capacity, the potential benefits of dedicated and mainstreamed DRR funding would be undermined.

In this context, the FFD4 Outcome document should recommend to:

- **Commit to increasing domestic resources to DRR, including through the ring-fencing of budgetary resources for DRR activities and possibly assigning a minimum share of national budgetary resources to this objective.**
- **Create financing mechanisms that enable local governments to invest in DRR, such as dedicated funds or cost-sharing arrangements with the national government.**
- **Scale up financing for multi-hazard early warning systems and enhance anticipatory finance, for instance through social protection systems.**
- **Mainstream DRR in sectoral planning, budgeting, and operational processes at appropriate scale, with a particular focus on infrastructure resilience.**
- **Develop and institutionalize budget tagging and tracking systems for DRR and CCA allocation and expenditures.**¹³
- **Review public finance management systems to monitor the effective use of budgetary resources allocated to DRR, and better identify gaps in DRR-related public spending.**
- **Launch an initiative to support capacity-building of governments to apply DRR knowledge in public investment and expenditures, particularly in developing countries.**

¹² UNDRR, *Principles for resilient infrastructure* (2022).

¹³ In addition, conducting DRR-sensitive budget reviews to assess the direct and indirect allocation and expenditures for DRR can provide valuable insights to inform decision-making and prioritization of funding based on identified gaps and shortfalls.

DOMESTIC AND INTERNATIONAL PRIVATE BUSINESS AND FINANCE

Private sector involvement can complement domestic public and international DRR financing efforts but remains limited due to financial constraints and uncondusive regulatory frameworks.

Private investment could inject much-needed capital into resilience-building projects, such as resilient infrastructure development, and support innovative market solutions. However, many small- and medium-sized enterprises (SMEs) face challenges in accessing financing to realize much-needed investment in DRR and climate adaptation. In addition, most companies, including larger ones, fail to internalize the true costs of disasters in decision-making. While there has been progress toward mandating climate-related disclosures, the broader spectrum of disaster risks remains largely unaddressed in accounting and disclosure frameworks. This may result in risk-blind investments by private companies that continue to exacerbate systemic risks.

Capital market investors struggle to include disaster risks in their capital allocation decisions due to inadequate information and a lack of market standards.

Most jurisdictions still lack standards and taxonomies on adaptation and resilience finance, which are necessary for the emergence of financial instruments, such as resilience bonds. This lack of conducive regulatory frameworks prevents financial markets from playing a greater role in this area. Policymakers could address this issue by drawing on emerging frameworks, such as the Guide for Adaptation and Resilience Finance, and the Climate Bonds Resilience Taxonomy.¹⁴ Investors could then leverage these market standards to guide their investment decisions and allocate capital to activities and companies with positive contributions to disaster resilience.

Policymakers need to consider all levers they have to foster private investment in DRR.

Those levers include creating public-private partnerships for resilience-building investment, as well as implementing targeted tax incentives to encourage research in resilient technology. Financial regulators could also adjust regulatory frameworks for incentivizing investment in disaster resilience, for instance by lowering capital adequacy requirements for investment meeting certain resilience standards. Likewise, development partners could create financial incentives for countries investing in DRR. For example, the EU announced in 2024 the establishment of a green coupon facility to reduce the interest rate paid by green bond issuers in developing countries. Combined with market standard development, this type of incentive could be a game changer for capital market investment in climate adaptation and disaster resilience.

Meanwhile, as risk increases, insurance and other risk transfer/sharing solutions are becoming increasingly unaffordable.

For example, six consecutive years of above-average losses led to an increase of over 30% in the cost of property catastrophe insurance in Europe in 2023,¹⁵ increasing the likelihood of under-insurance in the public and private sectors. Even in Europe, only about a quarter of losses resulting from extreme weather and climate events are covered by catastrophe insurance, with coverage in many parts of the world being far lower.¹⁶ This represents a currently

¹⁴ Standard Chartered, KPMG and UNDRR, *Guide for adaptation and resilience finance* (2024) and Climate Bonds Resilience Taxonomy Methodology.

¹⁵ ECB and EIOPA, *Policy options to reduce the climate insurance protection gap*, discussion paper (2023)

¹⁶ Ibid.

unaccounted for burden on households, businesses, and ultimately governments. A lack of insurability also reduces property values, further exposing banks to credit risks.

The changing risk environment calls for innovative approaches to insurance and increasing the industry's role in DRR. The insurance industry has traditionally focused on protecting insurers from disaster risks by transferring these risks to external parties through insurance policies. However, this approach only addresses the aftermath of disasters rather than actively reducing the risks. To enhance the industry's impact, it is essential to shift from protection to prevention by incentivizing policyholders to invest in risk-reducing measures. This could require creating public-private partnerships to develop insurance schemes that integrate DRR measures, or incorporating anticipatory actions into insurance solutions. For example, insurers could implement risk-based pricing models that adjust premiums based on the effectiveness of policyholders' preventive measures. Yet, this may require moving beyond the current annual insurance renewal cycle and exploring options for multi-year risk-sharing products that can better include resilience measures in premium settings.

In this context, the FFD4 Outcome document should recommend to:

- **Collaborate with the banking sector to facilitate access to finance for investment in resilience-building measures by SMEs, including through blended finance mechanisms and training support.**
- **Create incentive schemes that promote investment by private companies in climate adaptation and disaster resilience.**
- **Mandate and improve companies' disclosures on disaster risk exposure and management to incentivize larger companies to assess risks and put in place measures to mitigate them, in line with the principle of what gets measured gets managed.**
- **Develop standards/taxonomies on adaptation and resilience finance, which are necessary for the emergence of financial instruments, such as resilience bonds, and for guiding investor decisions.**
- **Review regulatory frameworks for institutional investors, such as pension funds and insurance companies, to incentivize capital allocation to purpose-built disaster risk reduction instruments, aimed at market-rate returns.**
- **Promote innovative approaches for the insurance sector to improve insurance coverage and reduce risks, such as risk-pooling tools and market instruments to manage exposure to lower probability, high-impact events.**
- **Develop and support initiatives that encourage the insurance sector to further embed prevention and risk reduction into insurance solutions.**

INTERNATIONAL DEVELOPMENT COOPERATION

The current allocation of international funds to DRR remains alarmingly inadequate. Of the total Official Development Assistance (ODA) disbursed between 2010 and 2019, only 0.5% was spent

on disaster prevention and preparedness, while close to 11% went to emergency response and reconstruction.¹⁷ This limited investment fails to address the root causes of disaster vulnerability, particularly in developing countries where the impacts of disasters are disproportionately felt. Increased international financing for and investment in prevention and resilience building is crucial for achieving the SDGs, especially in developing countries, which often lack the financial capacity to take necessary DRR measures.

DRR tends to be treated as a standalone issue rather than being integrated into broader development and plans, or within humanitarian programmes. While humanitarian-focused ODA adeptly addresses post-disaster response and reconstruction needs, there exists a deficiency in proactive investment to mitigate future disasters in high-mortality areas. In the same vein, development-focused ODA often put limited emphasis on DRR despite being a precondition for sustainable development in most regions. Similarly, there is scope to better integrate climate finance and DRR, building on existing instruments such as the Green Climate Fund (GCF), Adaptation Fund, and Global Environment Facility (GEF).

Further integrating DRR in development programmes and climate finance could contribute to enhancing their effectiveness and impact. It is important to foster the integration of DRR and resilience-building assessments into all development programmes and projects. This requires ensuring that risks are accounted for through appropriate preparedness and mitigation measures. The inclusion of DRR into disaster response programmes should also be supported to align with the Build Back Better approach, including through the promotion and scale-up of joint risk analysis and innovative financing models.

To center risk reduction into international assistance and climate finance, there is a need for a global commitment around a percentage of ODA on DRR, with transparent tracking. Such commitment will create the necessary momentum for scaling up financing in this area as well as the incentive to better integrate DRR in development assistance and improve reporting. In this regard, the precision in reporting the DRR Policy Marker by donors should be enhanced to more accurately track the proportion of aid directed toward reducing vulnerability to disasters.

Similarly, there is a need to further integrate DRR into the work of development finance institutions (DFIs). For instance, this could translate by having all providers of development financing introducing mandatory climate and disaster risk screening in their projects. This could also translate into having disaster risk finance instruments (e.g., Catastrophe Deferred Drawdown Option) systematically associated with DRR measures/reforms such as a national DRR financing strategy. IFI's could also use their influence and conditionalities to further promote DRR in national policy frameworks, for example leveraging policy engagement from the IMF under its Resilience and Sustainability Facility (RSF).

In this context, the FFD4 Outcome document should recommend to:

- **Enhance DRR integration in development and humanitarian assistance and strengthen synergies with climate finance instruments.**

¹⁷ UNDRR (2021). International Cooperation in Disaster Risk Reduction. Target F.

- **Ensure that at least 10% of disaster-related ODA is targeted for DRR and prevention, with enhanced and systemic tracking, including through the use of the DRR Policy Marker.**¹⁸
- **Establish pre-arranged financial mechanisms that can be rapidly activated to reduce impacts when a disaster occurs or is forecasted.**
- **Further integrate DRR in decision-making and operation of DFIs, and embed DRR measures into programmes designed for disaster response, for instance, through the provision of support for DRR financing as part of financial instruments such as contingent credit facilities.**
- **Conduct assessments of countries' disaster costs and DRR financial needs, and comprehensively factor in country vulnerabilities for concessional finance eligibility.**

DEBT AND DEBT SUSTAINABILITY

Many developing countries are facing important debt burdens that prevent them from investing in DRR measures. Yet, these measures would improve their long-term fiscal sustainability given their significant positive benefit-cost ratios (e.g., future damages avoided).

The international community should help unlock these investments, for instance through targeted concessional lending. Investing in resilience through concessional financing reduces the likelihood and severity of future disasters and improves a country's ability to manage debt sustainably over the long term.

Debt sustainability assessment should be reviewed to ensure proper accounting of this positive impact. For example, countries should not be reflexively penalized by Credit Rating Agencies for seeking debt assistance after disasters strike but rather the country's readiness and action on DRR should be given proper weight to reflect the country's commitment to resilience (and thus debt sustainability).

Development partners should also pursue their efforts to create debt suspension periods in case of disasters to allow governments to direct their limited resources to response and recovery in times of crises, thereby limiting human suffering and long-term economic scars.

In this context, the FFD4 Outcome document should recommend to:

- **Scale up concessional financing from DFIs for investments that prevent new and reduce existing disaster risk, while ensuring that such financing does not jeopardize debt sustainability.**
- **Reassess the approach taken by Credit Rating Agencies and other debt sustainability assessments to ensure that the positive impact of DRR investment is taken into account.**
- **Promote the inclusion of disaster-related clauses in sovereign debt instruments.**

¹⁸ Based on data from 2010-2019, about 4% of disaster-related ODA were allocated to disaster risk reduction.

ADDRESSING SYSTEMIC ISSUES

Higher disaster risks potentially create large contingent liabilities on the balance sheets of countries, which need to be recognized and managed to avoid systemic crises. When disaster strikes, governments face heightened fiscal pressures as expenditures rise and tax revenues fall, intensifying debt risks while also worsening the balance of payments. Yet, climate and other hazard-related fiscal risks remain too often absent from national fiscal sustainability frameworks, meaning that funding for disaster response is often made after an event drawing on ad-hoc reallocations of funds, with no guarantees of enough funding being available.

Countries should pre-emptively assess whether the size of financing they have access to is likely sufficient to cope with the fallout of a disaster. A layered financing approach is useful in this context to strengthen a country's financial resilience. This type of approach involves using a combination use of financial instruments, each designed to manage different levels of disaster risk. For example, low-cost, high-frequency events might be covered through national reserves or contingent credit lines, while rarer, more severe disasters would require risk-transfer solutions such as insurance. Securing access to financing ahead of disasters will enable countries to quickly respond to the urgent needs of their population, fast-track the rebuilding of their economy, and avoid costly defaults as well as a debt crisis.

Meanwhile, central banks and financial supervisors are recognizing climate change as a significant threat to financial stability.¹⁹ Capital market investments and private companies often do not properly account for disaster risks, leading to the mispricing of assets and investments. This mispricing can result in significant financial repercussions for companies, credit organizations, and institutional investors. Indeed, when disaster risks are underestimated, they can cause unexpected financial losses that impact balance sheets and income statements.

Integrating DRR into the work of central banks and other financial and regulatory authorities should help promote better accounting of disaster risks. Central banks and financial authorities need to consider integrating disaster risk considerations into their financial stability monitoring and supervision efforts. For instance, financial regulators could require commercial banks to include in credit decisions disaster risk assessments, which could also benefit their clients. Proper integration of disaster risks involves not only focusing on climate-related risks but also addressing the full range of hazards, including environmental, geophysical, technological, and biological risks.

In this context, the FFD4 Outcome document should recommend to:

- **Develop a layered financing approach to disasters to ensure the financial resilience of countries in the aftermath of a disaster, which should be part of a broader DRR financing strategy**

¹⁹ For example, in 2021, the Bank of Mauritius (BoM) published the Draft Guideline on Climate-related and Environmental Financial Risk Management which requires financial institutions to assess climate-related and environmental risks when issuing loans and borrowers' ability to manage and reduce these risks.

- **Integrate DRR into the work of central banks and other financial and regulatory authorities to better manage risks and incentivize investments in risk reduction and resilience, while also allowing a better understanding of the exposure of financial institutions in countries to disaster risks**

SCIENCE, TECHNOLOGY, INNOVATION AND CAPACITY BUILDING

New and emerging technologies offer significant potential to accelerate DRR by providing innovative solutions for enhancing resilience, improving data collection, and supporting timely analysis for early warning systems. To fully harness these advancements, it is necessary to close the digital divide to ensure all countries and communities have equitable access to these technologies and services. Greater investment in technology and infrastructure for DRR is necessary to achieve this.

At the same time, it is critical to factor in the risks associated with new technologies and ensure that they do not increase vulnerabilities in the future. Technology transfer should also be tailored to local needs through robust engagement with national and local stakeholders in the planning and delivery process.

In this context, the FFD4 Outcome document should recommend to:

- **Enhance the scientific and technological capacity, including with respect to research, of countries for DRR and resilience building, particularly in developing countries**
- **Promote risk-informed investments in science, technology, and innovation, including Earth and climate observations as well as geographic information systems.**
- **Develop and strengthen human and financial management resource capabilities and of technical expertise including through technical support, education and training, and the transfer of technology**

DATA

Quantifying disaster losses and risks is both critical to building the basis for investments, as well as to benchmark progress in reducing risks. Data on disaster losses can enhance the efficiency of markets and support risk reduction efforts that help build resilience to future shocks and volatility. It can also incentivize a new generation of innovation in both risk assessment and mitigation product design. Yet, data limitations and the lack of interoperability between risk and financial data remain a challenge for many countries.

Access to quality analysis on hazard, exposure, and vulnerability to key disaster perils should be seen as a common public good. This is particularly important in a context where climate change undermines the value of historical data and as risk maps evolve. In addition, enhanced transparency of financial flows combined with better disclosure of disaster risks can help direct funding where it is most impactful. Without proper, it is challenging to implement efficient DRR measures. For example, the successful design and implementation of anticipatory finance measures requires accurate and up-to-date data on disaster risks and vulnerabilities.

In this context, the FFD4 Outcome document should recommend to:

- **Improve access to standardized, open-access, quality risk data helping countries to better assess hazards, vulnerability, and exposure.**
- **Share knowledge and research capabilities to strengthen disaster risk modelling, as well as concrete data applications such as for multi-hazard early warning systems.**
- **Enhance national and local capacities for better data collection, analysis, management and application for more risk-informed development decisions**
- **Strengthen systematic tracking of financing for DRR at national and international levels**