Consultation Forum
"Understanding Public Investment in Managing Disaster Risk and Adapting to Climate Change"
San Cristobal, Mexico, 27-28 September 2012

BACKGROUND NOTE

Context.

The cascading impacts of disaster events across the world, from Japan to Thailand to Haiti, demonstrate clearly how public and private assets, in both high technology, industrialized societies, as well as low income countries, are so vulnerable to disaster. Such events, with socio-economic consequences well beyond the borders of affected countries (and in the billions of USD), have prompted many others to critically appraise public and commercial business models and the evolving risks to which they are exposed.

This public sector reflection mirrors that ongoing in the private sector, as insurance industry demands force a shift from traditional accounting-based management, to risk-based management[1]. This new form of financial management will soon begin to have an influence on company behaviour, as an evaluation of the risk to capital becomes prerequisite.

With countries and companies providing leadership, the international aid community is following suit. International donors and emerging economies pledged a new commitment[2]to investing in shock resistant infrastructure and social protection systems for at-risk communities, and for increasing the resources, planning and skills for disaster management. The OECD has recognised calls for greater political, strategic and policy leadership as well as guidance in positioning resilience within development co-operation. Building on country experience, not least in Latin America and the Caribbean, the OECD, supported by the World Bank and the UN, is exploring the dynamics of risk and will produce clearer guidelines for risk assessment and risk financing, programme design and implementation both for international donors and the G20[3].

Hence, the UN Office for Disaster Risk Reduction (UNISDR) together with the Asian Development Bank, has initiated preliminary studies of national budgeting for disaster risk reduction in India, Indonesia and the Philippines. These studies have proved illustrative of the detail with which governments are scrutinising the risk exposure of their short, medium and long term public investment portfolio. They also highlight the diversity of approaches and methodologies that different governments employ in planning and investing to reduce disaster risks; a function of differing governance arrangements (centralized versus decentralized, etc.) and varied accounting/budgeting systems.

Rationale.

Disasters and their downstream impacts represent major losses for governments, who are responsible not just for public assets, but implicitly at least, also for the uninsured assets of low-income households and communities. With the risk of economic losses growing in many countries faster than their GDP growth, an increasing number of countries have recognised that public investment planning must be

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[1] Rowan Douglas, CEO Global Analytics at Willis Group and Co-Chair of the UNISDR Private Sector Advisory Group
[2] at the 4th High Level Forum on Aid Effectiveness in Busan in 2011
3 See recent G20 publication "Improving the assessment of disaster risks to strengthen financial resilience: a special joint G20 publication by the Government of Mexico and the World Bank" see http://www.preventionweb.net/english/professional/publications/v.php?id=27246&a=email

re-engineered if it is to increase a country's stock of development assets rather than increasing its stock of risks and liabilities.

For this to happen, undertaking comprehensive probabilistic risk assessments, installing loss accounting mechanisms, and developing multi-hazard disaster risk management legislation, policy and inter-disciplinary risk-sensitive public investment strategies at national and sub-national levels are essential.

Although a growing number of countries in Asia, Latin America and Africa are now systematically accounting for physical disaster losses[4], economic losses are poorly documented in global disaster databases and the losses associated with frequently occurring low severity losses are rarely captured. Despite progress in strengthening capacities in disaster management[5], national planning and investment decisions do not necessarily take into account disaster risks, meaning in effect that public investment may be increasing future liabilities

The 2011 GAR[6] highlighted and recommended that a well-balanced portfolio of disaster risk management investments can produce powerful incentives for governments, including the enhanced quality and sustainability of public spending, increased public safety and business continuity, strengthened financial protection and fiscal stability, and avoidance of political fallout in the event of a catastrophic disaster

Countries therefore need to know what they are currently investing in DRR and CCA to provide clear evidence of the costs and benefits of different investments. This evidence needs to be based on verifiable and accountable data that is of use to governments and according to a logical and reasonable methodology previously structured.

Once countries have a clear view about the public investments done in DRR and CCA, they also need to measure the impact of these investments in order to do the follow-up and monitoring of future investments in disaster risk reduction, in accordance with their institutional and budgetary structure.

In the case of Indonesia, the ADB/UNISDR supported study has prompted a more serious reflection by the Ministry of Finance as to how it classifies and assigns budget codes for reducing disaster risk. This is an encouraging development, given that the ultimate objective is to nurture a measurable increase of national and sector-based public investment for a sustainable reduction in disaster risk and adaptation to climate change.

As one of the regions most at risk, some countries in Latin America and the Caribbean have placed risk reduction at the heart of their national strategies for growth and development. Elaborating legislative and regulatory frameworks, they have been able to develop mature, integrated budgetary systems for (centralised and decentralised) disaster risk-sensitive public investment.

[4] a total of 21 countries contributed national disaster data to GAR11
[5] e.g. in strengthening institutional capacities, systems, policies and legislation, as well as in early warning, preparedness and response
[6] 2011 Global Assessment Report on Disaster Risk Reduction http://www.preventionweb.net/english/hyogo/gar/2011/en/home/index.html

Peru is a prime example. In 2006, Peru introduced a risk analysis approach to examine the disaster risk implications of public investment decisions. It had recognised that the enormous losses and damages which it regularly experienced were not solely a function of the hazard events themselves, but that they were partly attributable to inappropriate and unsustainable planning and implementation of public investment projects. The Peruvian Ministry of Economy and Finance now routinely evaluates investments for their disaster risk implications, and a disaster risk analysis process has been incorporated into the national planning system for public investment – the Sistema Nacional de Inversión Pública (SNIP). By comparing costs with benefits, the SNIP helps rationalise the planning of public investment and improves the way public funds are used.

In establishing the current baseline and in capturing these approaches, experiences and processes (and the steps required), this initiative seeks to support countries' efforts to effectively reduce disaster risk and minimise losses and maximise the return on public investment.

Objective.

To improve the understanding of the degree to which disaster risk reduction is resourced and accounted for in national and sub-national budgets in Colombia, Costa Rica, Guatemala, Mexico, Panama and Peru, and explore practices and methodologies for consideration by other countries in the region and worldwide.

Country Case Studies.

The Consultation Forum in Mexico will be informed by a collection of country case studies to be undertaken in Colombia, Costa Rica, Guatemala, Mexico, Panama and Peru - both the studies and the forum will be facilitated by the UNISDR. Countries will have the opportunity to examine findings as well as compare the methodologies used in this preliminary analysis.

What is expected?

- **Each country is expected to draft and produce a case study** detailing how it currently resources and accounts for disaster risk reduction within its public investment portfolio.
- Each country will introduce the case study in the form of a powerpoint presentation for plenary discussion.

Draft studies and powerpoint presentations should be submitted to the UNISDR Regional Office for the Americas by 14 September, 2012.

The case study should seek to address the following issues:

- trends and types of public investments in reducing disaster risk;
- existing classification of budgetary allocation and accounting methodologies;
- how resources are allocated to sector-based programmes;
- how they are planning to measure the impact of the public investments done in DRR;
- how resources are allocated and devolved to provincial and local governments;
- identify critical gaps in investments;
- identify lessons learned/good practices regarding the processes required to develop budgetary mechanisms for DRR.

The study should be considered a preliminary analysis as a precursor to a more detailed research exercise in a subsequent phase. The methodology employed will be context specific. However, countries are encouraged to consider the following elements: classification, measurement and accounting metrics for current investments, definition/overview of existing financial mechanisms at the national, local and community levels.

In the case of Indonesia, two types of investment were explored:
- stand-alone DRR investments (e.g. early warning, preparedness, risk assessments, etc.), &
- integrated investment in risk reducing measures (embedded in for example, urban and rural infrastructure, transportation, health, agriculture, and other sector-based programmes.

Ultimately the increased resilience of society depends upon intelligent solutions in multiple areas, not least in the area of food production, resilient construction, financial stability and education.

Data on DRR investments and activities will be collected from various primary and secondary sources. Principally in this first phase, at the central level in a manner to be determined by countries themselves. In subsequent phases of analysis, detailed interaction with the ministries of finance and planning, as well as the planning bureaus of sector-based ministries and sub-national governments are encouraged. Budget allocations / programmes may be identified as per their explicit / implicit disaster risk reduction orientation. Equally they may be further classified as per the Priorities for Action, of the Hyogo Framework for Action 2005-2015: *Building the Resilience of Nations and Communities to Disasters*[7].

UNISDR is in the process of contracting a consultant that will provide advice and guidance on research, the production of individual case studies and presentations. The consultant will assist in organising national consultationsfor the documentation and identification of how investment is currently being made, tracked and accounted for in public accounts. The consultant will also produce a compilation of national case studies with comparative overview, and will play a facilitating role in the regional consultation and review of national investment practices and accounting methodologies by peers.

These case studies constitute a preliminary analysis and will form the basis of the discussions in Mexico. It is anticipated that the Forum will agree to support a comprehensive programme of research and support for informed public investment planning, entailing inter alia, a more thorough investigation of public investment and government expenditure on disaster risk reduction.

Practical Details.

This meeting, hosted by the Government of Mexico together with the support of the UN Office for Disaster Risk Reduction (UNISDR) and the sponsorship of the World Bank and GIZ will take place in the city of San Cristobal, Chiapas State, Mexico on 27-28 September 2012.

The primary interlocutors targeted by this forum are officials and experts from respective ministries of finance and planning. The forum will provide the opportunity for interaction between officials, who will be at different stages in the process of incorporation of disaster and climate risk management in national budgeting, as well as with disaster risk reduction experts.

The meeting will also see the participation of representatives of the ADB-supported pilot studies in tracking public investment in DRR in India, Indonesia and the Philippines. This will provide the opportunity for comparison and exchange on the findings and methodologies employed.

[7] http://www.preventionweb.net/english/professional/publications/v.php?id=1037&pid:22&pif:3

More information to follow.

Agenda.

See attached draft agenda.

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