Financing sustainable development

The critical role of risk and resilience

Charlene Watson and Jan Kellett

March 2016

Empowered lives.
Resilient nations.

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Agency for Development and Cooperation SDC

Acknowledgements

This report represents one element of a continuing examination of the role of financing resilience and sustainable development by the United Nations Development Programme (UNDP) and the Swiss Government. It is in part the result of a high-level technical workshop convened by UNDP in May 2015 where 20 external experts joined a UNDP team to consider the Financing for Development negotiations (Annex II). The outcome of that workshop was a set of key messages crafted by UNDP for presentation at the Addis Conference on Financing for Development (these messages can be found in Annex III and at http://bit.ly/1M56S8e). This report builds on the outcomes of the workshop, presenting key aspects of the messages in graphic form.

The authors thank Gail Hurley (UNDP), Taija Kontinen-Sharp (UNDP), Smita Nakhooda (ODI) and Paddy Carter (ODI) for their constructive comments and thoughts in the review stage. Thank you also to Sam Barnard and Graham Banton, from ODI, and Nick Ramos, UNDP, for their support in the report's production as well as Soapbox in the report's design.

The authors also thank the UNDP Finance for Development team for their invaluable work in helping carve out the original set of messages, and their support throughout the process. Led by Pedro Conceicao, the team included Gail Hurley, Nergis Gulasan, and Amr Ragab.

The corresponding authors are Jan Kellett, email: jan.kellett@undp.org and Dr. Charlene Watson, email: c.watson@odi.org.uk

Empowered lives.
Resilient nations.

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Agency for Development and Cooperation SDC

This study has been prepared with the financial support of the Swiss Government.

Acronyms

DRR	Disaster Risk Reduction
FDI	Foreign Direct Investment
FfD	Financing for Development
GDP	Gross Domestic Product
GFDRR	Global Facility for Disaster Reduction and Recovery
GHA	Global Humanitarian Assistance
LDC	Least Developed Country
MDB	Multilateral Development Banks
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
SDGs	Sustainable Development Goals
SIDS	Small Island Developing States
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNICEF	United Nations Children's Fund
UNHCR	United Nations High Commissioner for Refugees

Contents

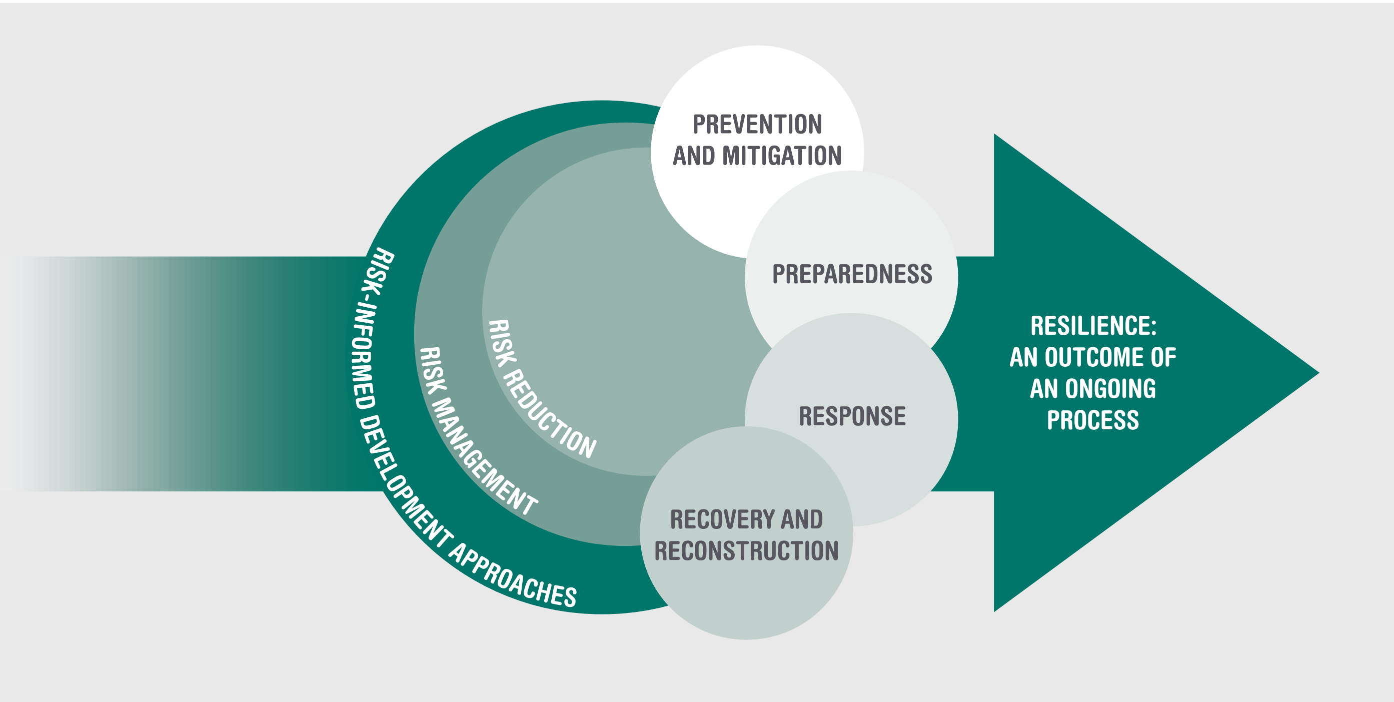
Introduction

Shocks and stresses are part and parcel of development pathways. Economies must withstand the impacts of conflict, natural hazards and climate change and resulting impacts on their financial, political and trade systems. In 2014, for example, 10.7 million more people were adversely affected by natural hazards across the globe than in 2013, and the number of displaced people due to conflict and persecution in the same year reached 59.5 million (GHA, 2015; UNHCR, 2015). These short-term shocks or long-term stressors – such as creeping changes in rainfall and average temperatures – can have real and lasting impacts that frustrate and even undermine the development and economic growth of nations and communities. Such shocks affect the development process via their impacts on education, health and economic productivity. However, shocks and stresses also have the potential to inform development progress. The Bangladesh cyclone of 1991, one of the deadliest on record, for example, triggered subsequent investments in cyclone shelters and early warning systems. The experience of the Ethiopian famine of the early 1980s heavily influenced the country's Productive Safety Net Programme (PSNP), enabling rural poor facing food insecurity to become self-sufficient, and which became one of the most influential aid progammes in the last two decades.

Resilience refers to the anticipation of and adaptation to the risks of these shocks and stresses. The extent to which these risks are managed will determine the impact that shocks and stresses will have on various stakeholders and underpin their resilience to impacts. Taking into account vulnerability and capacity, building resilience can prevent crises from worsening or reduce long-term negative development impacts (Mitchell and Harris, 2012). An outcome of an ongoing process, resilience involves prevention and mitigation of risks, preparedness, response, and recovery and reconstruction (Kellett and Peters, 2014; Figure 1). Going beyond classic risk management, multiple risks and how they inform and influence each other are considered in a single context (Organisation for Economic Co-operation and Development (OECD), 2014).

The Third Financing for Development (FfD) Conference in Addis Ababa in July 2015 recognised that current global development policy, financing and investment patterns need to deal with new risks in an increasingly interconnected world (United Nations (UN), 2015). The Secretary General's report on the post-2015 development agenda underscored this, referencing resilience in

Figure 1. Resilience is an outcome of an ongoing process to cope with risk



Source: Kellett and Peters, 2014

relation to disasters, climate change, reintegration after conflict, state fragility, peace building and financing itself (UN, 2014). Similarly, the Sustainable Development Goals (SDGs) acknowledge resilience both directly and indirectly. Under Goal 1 – reducing poverty in all its forms everywhere – Target 1.5 suggests that by 2030, the resilience of the poor and those in vulnerable situations must be built, and their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters reduced (United Nations General Assembly, 2015).

With a growing recognition, in the post-2015 development agenda, of the need to build resilience to a broad suite of shocks, the necessary financing must be considered. It is imperative that this goes beyond Official Development Assistance (ODA) or domestic public finance to include all future investments, ensuring that they do not lock-in or introduce risks. If the anticipated $90 trillion in infrastructure investment over the next 15 years is not driven by low-carbon and climate resilient choices, the pace of climate change – and vulnerability to it – could increase dramatically. More remains to be done to ensure that all development finance (especially that spent in fragile and conflict-affected contexts) is risk-informed, and that financial flows adequately consider risks and build resilience. This report makes a case for financing that directly manages risk and builds resilience. It highlights that all forms of finance – including public and private, domestic and international – have a role in such an effort and demonstrates this through examples in key development themes. It ends by noting some of the operational aspects of how this might be achieved and development safeguarded.

Report rationale and genesis

In 2015, the United Nations Development Programme (UNDP) and the Swiss Government hosted a series of events around the financing of risk and resilience. This report is in part based on a set of key messages crafted from the work of a technical workshop featuring the involvement of experts from across the aid and financing worlds (see Annex II for participants). Subsequently, these messages were presented at a high-level meeting in New York and at the Addis FfD conference itself. Elaborating on some of these messages, this report is designed to influence state actors, development finance practitioners and private sector stakeholders. Data and examples are used throughout for emphasis, but this report is not a comprehensive analysis of the various risks, and the requirements, for building resilience. It does however make the case that better risk management and the building of resilience are imperative for sustainable development.

Why finance risk management and resilience?

Shocks and stresses are inherent to development

The many health threats, climate-related disasters, conflicts and other related humanitarian crises make development progress – already complex and non-linear – more difficult to achieve and sustain (Figure 3). These risks can damage productive assets, lives and livelihoods; constrain economic growth; put pressure on limited national resources and increase fiscal deficits; and impact health care, nutrition and education. They can highlight gaps in governance, or lead to collapses in governance in their aftermath. Acting at individual, community, national or even regional scale, these risks lower resilience to future shocks and slow development progress.

Greater attention should be paid to making societies more resilient. Increasing investments in resilience would ensure that people have resources and capacities to better reduce, prevent, anticipate, absorb and adapt to a range of shocks, stresses and uncertainties (Bahadur et al., 2015). Stemming from multidisciplinary origins and despite ongoing debate around its definition and practicality in application (Mitchell and Harris, 2012; OECD, 2013), one of the strongest features of resilience is that it captures a growing recognition that different types of risk are interconnected, driven by natural, geopolitical and economic factors, and that multiple risks must be considered together. Understanding the risks posed both now and in the future, and managing and integrating these risks in development, peace consolidation and humanitarian programming, can help safeguard progress.

Better understanding the costs of crises will shape more appropriate responses

The costs of shocks and stresses are substantial (Figure 2). In 2014 alone, disasters affected more than 140 million people and cost $99.2 billion worldwide (CRED, 2014). Evidence shows that cyclones have a dramatic influence on national incomes and long-run development by supressing growth rates (Hsiang and Jina, 2014). The Ebola outbreak in West Africa has so far infected 28,331 people leading to 11,310 deaths and estimated loss in output of $1.6 billion in 2015 for West Africa (World Bank, 2014; WHO, 2015). Syria's ongoing conflict had cost the country over $200 billion by the end of 2014, or four times Syria's gross domestic product (GDP) in 2010 (UNDP, 2014). These costs can also spread beyond the host country borders (Box 1).

Intended to save lives, alleviate suffering, and maintain and protect human dignity during and after emergencies, humanitarian expenditure is rising, reaching its highest levels in 2014 at $24.5 billion, up from $20.5 billion in 2013 (Figure 4). This resulted from a greater need, a greater and wider calculation of need, and a failure to adequately transition out of crisis. Two thirds of 2014 spending went to long-term recipient countries due to protracted

Figure 2. The costs of shocks are substantial and diverse