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Risk-sensitive Investments: Public Private Partnerships

High level multi-stakeholder partnership dialogue

I. Stock taking

Global and regional economic growth and globalization have led to an increase in economic activities in hazard-prone areas. As a result, the exposure of businesses and their supply chains to devastating hazards has grown rapidly. The accumulation of disaster risk in business and industry impacts the sustainability of economic growth. Given that a large part of disaster risk in assets is borne by the private sector, there is a strong business case for making risk-sensitive investments. Disaster risks resulting from private investment also often become shared risks between the private sector and society-at-large. At the same time, public investment in infrastructure and services that does not take into account long-term risk places business and industry at risk.

Investors have paid insufficient attention to the growing hazard exposure of business and its threat to business resilience, profitability, competitiveness and sustainability. Macroeconomic effects of disasters can include higher interest rates, labour shortages and reduced demand of goods and services, yet country risk rankings, competitiveness indices and business forecasts rarely mention disaster risk, even in hazard-prone regions. Some countries and cities, competing to attract investment, have tended to downplay disaster risks, in some cases even offering incentives to businesses to locate in hazard-exposed areas.[1] In addition to global businesses, SMEs both in the developed and in the developing world are particularly vulnerable to the impacts of disasters. Resilience in global supply chains is thus critical and links global businesses to SMEs. Most companies are managing risks solely through business continuity planning, and are continuing to make investments in a way that may increase their exposure to physical hazards like earthquakes, cyclones and floods in the medium term.

Business and investors are becoming increasingly aware of the need to address disaster risks in their assets. As the private sector is responsible for 70 – 85% of total investment in most countries, whether businesses factor disaster risk into their investment decisions will have a decisive impact on future risk levels at the local, national and even global levels, and on sustainable and inclusive economic growth and social welfare.[2]

At the same time, however, risk-sensitive public investments in key infrastructure areas, including transport, energy, water, communication, education and health, are key to building resilient societies and business. In some cases, disaster damage to public infrastructure accounted for 62% of total direct disaster losses.[3] These damages are not only costly for governments, but also disrupt

[1] UNISDR, 2013. From Shared Risk to Shared Value: The Business Case for Disaster Risk Reduction. Global Assessment Report on Disaster Risk Reduction 2013 (GAR13). Geneva, Switzerland: UNISDR.
[2] Ibid,
[3] See for instance the case of Costa Rica between 1988 and 2009 (UNISDR, 2013, p. 29).

business operations and erode competitiveness. Resilient infrastructure and public services are vital for business, with SMEs being the most heavily dependent.

Neither the private nor the public sector can address the challenge of disaster risk on its own. Studies have shown that while 90% of countries report that they evaluate disaster risk in public investment, only 52% of governments have adequate systems in place that allow them to do so.[4] Moreover, only 36% of countries indicated having dedicated funding in place to ensure risk reduction and prevention.[5] Progress in incorporating disaster risk reduction into public investment planning is still limited, with the disaster risk assessment of smaller to medium-scale projects and local investment decisions proving particularly challenging.[6]

Disaster risks result both from public and private investment and each source of investment affects the magnitude of disaster risks in both the public and the private sector substantially. This inter-dependency between the public and private sector related to disaster risk generation and impact mitigation renders public private collaboration key to ensure effective governance, planning and management of risks at the national and local level. Examples from urban planning and development have shown that bringing public decision-makers and private actors together from the beginning of the planning process can greatly enhance short-term efficiency and mid- to long-term resilience of investments.[7]

Public Private Partnerships are therefore an essential step towards combining public and private sector expertise, filling gaps in information and metrics, accelerating and encouraging risk-sensitive decision-making in all parties, public and private.

II. Overview

A range of public and private sector bodies, or Public Private Partnerships, can contribute to better understanding of asset exposure to disaster risk, data sharing, effective regulation implementation, and the development of policies, voluntary standards and guidelines that incentivize risk-sensitive public and private investments.

Amongst others, Public Private Partnerships will bring private sector expertise and experience in risk reduction and management to governments and public sector entities. This expertise can greatly contribute to effective regulations and policies, to efficient implementation and to transparent measuring and reporting of risks to public and private assets. Public Private Partnerships can also accelerate the development and institutionalization of voluntary standards and guidelines that incentivize risk-sensitive investment decisions by public and private entities. Public Private Partnerships combine the expertise and experience in planning, risk management and governance to advance the development of innovative local solutions that further risk-sensitive and sustainable business investments and development practice.

Increasing risk-sensitivity of investments will be key to reducing underlying risk factors. A number of arenas and actors that were not commonly considered central to disaster risk management will need to become engaged. For example, institutions involved with financial regulation currently do not reflect disaster risk in the regulation of capital and procedures of accounting to promote risk-sensitive financial decision-making. In addition, governments need to review their financial and

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[4] UNISDR, 2013, p. 218
[5] Ibid.
[6] UNISDR, 2013, p. 224
[7] Johnson et al., 2012 : Private Sector Investment Decisions in Building and Construction. Background Paper to GAR13.

fiscal policies and instruments to include disaster risk assessments into public investment decision and require private companies to manage and report on disaster risk.

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Private companies can modify their current investment decision-making, business models and wider corporate risk management strategies to embed disaster risk assessments. Innovative tools and approaches will be required to allow assessing and managing a wide range of disaster risks. Current voluntary reporting systems such as the Principles for Responsible Investment, Principles for Sustainable Insurance, Carbon Disclosure Project, and Global Reporting Initiative do not sufficiently include disaster risk. A more proactive approach from businesses and business associations will be important to further the development of voluntary standards and guidelines in the area.

To allow public and private entities to integrate disaster risk into their investment practices and reporting, clearly defined metrics on disaster risk and resilience are required. Access to accurate, up-to-date and easily understandable disaster risk data needs to be expanded. In addition, tools and approaches for catastrophe risk modelling will need to be rendered more accessible to both public and private decision-makers to develop risk scenarios. Innovative partnerships between commercial risk modelling companies, academia, countries and international organizations are beginning to address this need.

The reduction of existing and the accumulation of new risk is a challenge that neither public nor private sector entities can meet on their own. The successful long-term reduction of disaster risk will thus require new partnerships between business and governments, including business associations and chambers of commerce.

The Disaster Risk Reduction Private Sector Partnership with 84 members, covering engineering, health care, construction, IT and insurance sectors among others, develops solutions for resilient and disaster risk-sensitive private sector activities. The Partnership launched among others the Disaster Resilience Scorecard for Cities and a Briefing Kit on the collaboration between disaster risk reduction, sustainable development goals and the climate agenda.[8] There are also specific Public Private Partnerships focusing on risk-sensitive investments like the ‘1 in 100 Initiative’ - a commitment to integrate disaster and climate risk into the financial system by an alliance of public and private sector organizations – and the R!SE initiative, a global initiative to mobilize businesses, public sector, academia, civil society, insurance industry and investors to make investments risk-sensitive and to create risk-resilient societies.

III. Way forward

More is needed for effective Public Private Partnerships to promote risk sensitive investments. First, more dialogue is required to determine how risk-sensitivity can be integrated into investment and accounting practices. Secondly, Public Private Partnerships need to identify ways of combining risk management expertise of the private sector with the governance experience of the public sector to develop innovative approaches to assess and account for risks of public and private assets.

Active dialogue in the form of information-sharing platforms and systematically coordinated (i.e. regular, inclusive and transparent) exchange between national and local government representatives and businesses is the basis. Regular dialogue in this form will generate ownership across public and private actors alike and enable the identification of required joint action. Such regular exchange at both national and local levels can also contribute to the development of broad-based regulations and

[8] See http://www.unisdr.org/partners/private-sector.

policies that incentivize risk-sensitive investment. These can include relevant policies for tax breaks, accounting transparency, interest rate and insurance regulation based on the real price of risk.

Both public and private sector can also benefit from open data exchange as innovative tools and mechanisms developed by the private sector, such as disaster risk stress tests with up-to-date and accessible risk information, can be made available to governments and wider society. Finally, Public Private Partnerships can also incentivize private companies and industry associations to advance the development of voluntary standards and guidelines and sign up to them.

Concrete commitments by businesses, investors, insurers, regulators and governments in these areas will have to be made as part of country commitments to deliver the post-2015 framework for disaster risk reduction. The outcome of the High-level Partnership Dialogue will constitute an important contribution in this regard.