FINANCING THE SUSTAINABLE DEVELOPMENT GOALS: THE CRITICAL ROLE OF RISK AND RESILIENCE

INTRODUCTION

The Third International Conference on Financing for Development (FfD) will take place in Addis Ababa in July 2015. Discussions are intensifying about the outcome document and will reach their finale over the next few weeks. There is a pressing need to continue and widen attempts to ensure that the financing of the Sustainable Development Goals makes issues of risk and resilience integral, and feature strongly in the conference outcome document, the Addis Ababa Accord.

As part of this work, UNDP and the Swiss Government hosted a technical workshop on 28 May 2015 in New York City. At this event, close to 20 external experts joined a UNDP team to discuss what should be changed within the current FfD outcome document. The event was designed to respond practically to the current set of issues by helping form a set of messages for FfD decision-makers. The task set was to create such messages that would highlight the critical role of risk and resilience considerations in all forms of finance - public and private, national and international - in achieving long-lasting sustainable development, whilst also discussing the financial implications of such considerations. It aimed to articulate a vision for resilience in light of sustainable development, ensuring that adequate financial attention is paid to tackling shocks and stresses (such as disasters, conflict, economic crises, and disease outbreaks) that adversely impact development and undermine progress.

KEY MESSAGES: OVERARCHING

Shocks and Stresses are Inherent to Development:
The development process is inherently complex and non-linear, and shocks and stresses are part and parcel of its progress. Development needs to be rethought where investments in risk and resilience are part of the process. This rethink demands a financial articulation.

Successful Development is Not ‘Business as Usual’:
The current draft of the outcome document implies that, despite our ever-more complex and interconnected world, and the very ambitious nature of sustainable development goals currently being discussed, that a somewhat similar model of financing as was discussed in Monterey, can be used now. That model said little about the need to target the financing of risk and resilience. However, we live in a volatile world, one where shocks and stresses are the new norm, and becoming more frequent and more severe. The human costs are high. Climate change is arguably the most important long-term stresser on development. The FfD Discussion needs to articulate the human and financial implications of this reality.

The Cost of Crisis Needs to be Articulated:
The cost of crises is not factored into the FfD debate strongly enough. There is not enough on the seemingly intractable rise of humanitarian spending (which has reached close to US$20 billion a year) and the challenge countries face in mobilizing funds during crises and shocks, or the costs of failing to transition out of crises situations. There is little on some of the consequential financial need arising from crisis, such as displacement (which now averages 17 years) or the impact of conflict across a border to a neighboring state. And more can be done to articulate the financial implications of 20 year losses stemming from

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1 See end of document for a full list of participants.
2 Beyond this, the work on financing resilience will inform UNDP’s considerations of the climate change negotiations and through to 2016 and the World Humanitarian Summit.
disasters reaching up to US$3 trillion, or that some small island developing states lose the equivalent of 300% of GDP in a single disaster.

**Development must be risk-informed in order for it to be sustainable:**
Achieving sustainable development will be impossible unless nations and communities are resilient, able to anticipate, shape and adapt to the many shocks and challenges they face. On the one hand if development investments need to be risk-informed in order to be sustainable; each investment can add or reduce risk and many investments do not have as their first motive the reduce of risk. On the other hand investments now in prevention and preparedness for all hazards, natural to man-made, public health or energy, will minimize risk and future costs. And finally, crucial for future opportunities, risk are not managed, then there are fewer incentives to take risks that are important for growth opportunities. ‘Risk-pricing’ (the extra investment needed to ensure risk-informed development) is therefore essential for ensuring we have development plans able to face the challenges of shocks and crises. The price of risk needs to be factored into all development costs and investments.

**The Evidence is clear: investments in resilience reduce losses and deliver on development:**
Investing in early response to drought in Kenya could save US$20 billion over 20 years. Flood management in Mexico reduces losses by three times more than the needed investment costed. Yet this is only half the picture, since the investment in risk-informed development and broad resilience has much wider impacts. Investments in water-supply protection in Bolivia not only delivered 14 times more value than the original investment, they also increased water-supply, irrigated area and household income. Such investments help countries avoid losses, protect development and deliver co-benefits, including the unlocking of growth potential by tackling ‘background’ risk.

**KEY MESSAGES: FINANCING APPROACHES**

**Aid Needs To Be Better Targeted:**
Currently aid is highly concentrated with 10 countries receiving 37% of official development assistance (ODA) and the top 20 getting 56%. The share allocated to the poorest and most vulnerable countries such as LDCs and SIDS has declined over recent years. In addition aid shocks are still a common occurrence, especially in the most fragile countries. The ‘kind’ of aid finance also matters for risk and resilience. For example, humanitarian financing (which adds little to long-term sustained development) is a sizeable component of ODA to conflict-affected countries. The money that is invested in supported countries to reduce their disaster risk is largely spent in middle-income countries that have both more capacity and financial ability; drought-affected sub-Saharan African countries receive very little financing at all. There needs to be a rethink in the way in which the limited ODA available is spent, both where and on what.

**Private Sector Investment is Essential to Deliver on Development:**
Resilience is as much an issue for private as it is for public financing. This is important for a number of reasons. Firstly, it is clear that the post-2015 agenda cannot be achieved by public finance alone, whether international or domestic. Secondly there is private money available that is actively looking for investment opportunities; such as the US$35 trillion the insurance sector holds (in this case both public, private and mutual insurers). Thirdly, the fact that between 70% and 85% of all global investment comes from the private sector demands attention, if we wish all development, for example to be truly risk-informed.

Incentives for the private sector to responsibly focus on sustainable development should be a focus for the FfD outcome document. The FfD discussion should focus on how private sector investments can be adequately leveraged towards sustainable development; the utilization of limited public funds to mobilize such private finance is one strategy. This focus should also include the barriers to investment such as over-regulation, weak financial structure/oversight and a high level of uncertainty (especially in developing
contexts.) How do we build the capacities of countries to develop high quality ‘bankable’ projects and absorb investments?

**Insurance has a critical role to play:**
The insurance sector is absent from the document. Yet it can potentially have a role in reducing risk, recovering from shocks and returning to a development path. The mapping out of climate risks, creation of resilient supply chains and supporting better health are possible roles that the insurance sector can play in building resilience. Shocks can destroy asset/capital bases but insurance can help protect those assets. Systems of social and financial resilience are key to protecting asset/capital bases from erosion on the account of crises.

**Social Protection delivers long-term community and family resilience:**
Social protection is a key element of community and family resilience, and is critical to the reduction of disaster risk (through reduced vulnerability). The draft of the outcome document refers to social protection as one of the cross cutting areas for provision of basic services to those below the poverty line. In line with this idea, promoting the use of crisis-linked social protection is critical since this mechanism provides immediate access to financial resources to the least resilient populations.

**Key Messages: Thematic**

Make infrastructure investments deliver on resilience, not contribute to risk:
Effective, reliable infrastructure underpins economic activity, and a failure to adapt, increases the possibility of adverse economic impacts. Ensuring all investments are risk-informed is an opportunity to reduce, rather than lock-in risk. An estimated US$6 trillion a year is to be spent between now and 2030 on new infrastructure, such as for energy, roads, houses, schools, hospitals and other public services until 2030. This investment needs to not only be informed by risk ‘considerations’, but also support the actual reduction of existing risks. These investments should also support the transition to economies that deliver growth and contribute to reduced climate change at the same time.

Make Climate Central to Discussions:
Climate change needs to play a central role in the outcome document, with frequent cross-referencing in specific areas of financing. A changing climate is arguably the largest single global risk to sustainable development, there exists a significant investment from the international community in climate-related financing mechanisms, and both mitigation and adaptation can help deliver on sustainable development. The essential inter-related benefit of adaptation financing in both reducing the impact of climate change and supporting long-term development, is especially important for low-income countries and SIDS, and needs specific reference.

Focus on Building out of Crisis:
Humanitarian financing is at an all-time high. Protracted crises often last decades and research shows that humanitarian work has contributed to ‘crowding out’ of long-term development. FfD negotiations can contribute substantially to two inter-related areas related to shocks and stresses. Firstly, financing can increase the resilience of communities and countries, through investments in social safety nets and multi-year planning cycles. Secondly, and more importantly, financing in protracted crises needs to tackle the underlying reasons for humanitarian need through investments in peace, security, governance and long-term development. The FfD discussion should articulate how fragile and conflict-affected states need particular financial solutions; without such tailored investment, close to 20 countries will remain unable to develop sustainably.

Enhance Macro-Economic Stability:
The impact of both internal and external\(^3\) shocks and stresses over the last ten years have proven the need for significant investments in macro-economic stability. On the one hand there is a need to enhance the debt management capacities of countries. Debt financing is not necessarily a negative, with it meeting urgent needs, maintaining fiscal stability, and creating new opportunities for risk-informed development; but it can also increase the risk of debt crises in the future. Access to the right kinds of finance is key to both mobilizing resources for resilience. Tools such as GDP-linked bonds and counter-cyclical loans are important innovations in financial instruments which can help reduce macroeconomic risk, and should be expanded post-2015.

**KEY MESSAGES: OPERATIONAL**

**Build Capacity and Leadership:**
The development of national capacity and national leadership is central to delivering on risk and resilience, and needs a much more prominent place within the FfD document. Specific references which need to be emphasized include investments in human and institutional capacity, specifically capacity that enables countries to adequately govern risk (which includes investments in supporting institutions such as those responsible for financing and planning). This capacity should be extended to ensure the effective management and leverage of financial sources of all kinds towards ensuring development remains risk-informed.

We need to develop and use practical tools for risk-informed development:
Investments in resilience should focus on a set of measures to ensure that all investments in sustainable development consider the risks posed to development through shocks and stress. This includes significant investments in the better management and usage of the many assessments for risk already undertaken. It should include the financing of comprehensive risk assessments, such as social and political dynamics, drivers of risk, cross-border dynamics etc. These shared tools should then be used much more systematically to ‘screen’ investments in sustainable development for both the risk to that development (from issues such as conflict, disaster, climate) and the way in which that investment can impact on future development (and those same issues.)

**FOLLOW-UP**
The messages presented here will be used throughout remaining negotiations around the Addis Ababa Accord (and for the post-2015 development agenda in general) to build a political momentum and consensus around the need to change the current approaches to shocks. This work will therefore continue beyond the FfD Conference, to the SDGs, COP and beyond to the World Humanitarian Summit in 2016.

As a first step, the messages from this technical workshop will be presented and debated by senior panelists at a special event on the 15\(^\text{th}\) of June, targeted to member-state negotiators. Subsequent to this, at Addis itself, UNDP will organize a side event with the Government of Switzerland and Government of Nepal bringing forward the recommendations, and presenting a round-up of existing research.

**FULL LIST OF WORKSHOP PARTICIPANTS**

1. Ajay Madiwale, Adviser, International Federation of Red Cross and Red Crescent Societies
2. Alex Warren-Rodriguez, Independent Researcher and Consultant
3. Amr Ragab, Economist, Bureau for Policy and Programme Support, UNDP
4. Courtenay Cabot Venton, International Development Economist and Director of International Programs for One Hen

\(^3\) Make note on the difference...
5. David Chandler, Professor of International Relations and Director of the Centre for the Study of Democracy at the Department of Politics and International Relations, University of Westminster
6. Elliott Harris, Assistant Secretary-General and Head of the New York Office of the United Nations Environment Programme
7. Erin McCandless, Co-Founder and Chief Editor of the Journal of Peacebuilding and Development, and tenured part-time Professor at the Graduate Program in International Affairs, the New School
8. Gail Hurley, Policy Specialist, Development Finance, Bureau for Policy and Programme Support, UNDP
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ANNEX: RISK, RESILIENCE AND THE CURRENT DRAFT OF THE ADDIS ABABA ACCORD (PRESENTATION NOTES)

Overall:
• **Principle Missing**: Development is undermined by shocks and stresses, and therefore the financing of that development needs to change.
• **Consequence**: Missed opportunity in not establishing a principle that all investments in development need to be risk-informed, given that investments can as much create/add to risk as reduce it.
• **Absence of underlying risks**: Very little on development finance (of whatever kind) reducing the underlying risks.
• **Conflict downplayed**: Conflict mentioned in preamble but little after that except ‘spend more/better in conflict contexts’ and nothing on insecurity more generally.
• **Recovery and transition**: Nothing on the importance of ‘moments’ such as recovery and reconstruction from crises, and the only reference to transition is a transition out of LDC status.

Specific Points:
• ‘Natural’ disasters are used in the Outcome document; only hazards are ‘natural’, disasters are distinctly of human creation.
• Risk-Informed Financing not just for development banks
• Finance needs to be seen as an incentive for peace, not just for filling gaps
• The relevance of climate change (certainly $$$ downplayed)
• Adaptation missing.
• Resilience ‘only’ for International Public Finance.
• Disease missing as a major threat to development.
• Risk is scattered

Positives
• Starting Position: Almost non-existent reference to key issues
• Shocks connected specifically to least-developed countries
• ‘Local’ financing for risk and resilience – domestic resources
• Recognition of shocks/stresses impact on most fragile… in IPF
• Link of disaster and economic shock to debt
• Risk of Financial Instability

ANNEX2: MEETING STRUCTURE

The meeting was broken up into five parts:
Introduction: Why are we here?: Pedro Conceição and Jo Scheuer
Introduction to the Status:
  • UNDP and FiD, Gail Hurley
  • Risk, Resilience and the *Current Draft of the Addis Ababa Accord*⁴, Jan Kellett

⁴ See annex for presentation brief.
Discussion Session 1: Crises, shocks, and vulnerability: the costs, inefficiencies, and distortions in resource allocation of the status quo, Introduced and facilitated by Gail Hurley

Discussion Session 2: How can we better address risk and resilience issues both at the national and the international levels? Mitigating risks, coping with and recovering from shocks, Introduced and facilitated by Sam Doe

Discussion Session 3: What stands in the way of enhanced risk management? Financial bottlenecks, political economy constraints, time consistency challenges, lack of partnerships, Introduced and facilitated by Jan Kellett

Summary: Pedro Conceição