

## Improving the Evidence Base on the Costs of Disasters: Towards an OECD Framework for Accounting for Risk Management Expenditures and disaster Losses

### Key points from the 21 November Expert meeting

#### Objectives of the meeting

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The overall goal of the meeting was to contribute to improving countries' disaster risk management policies as set out in the *OECD Recommendation of the Council on the Governance of Critical Risks*. With the development of a framework for assessing disaster risk-related costs the OECD seeks to improve the evidence base for evaluating and comparing risk management policies. The goal of the workshop was to discuss the state of the art of national engagements to collect information on disaster losses and to propose and discuss a framework for public expenditure on disaster risk management, exploring the possibilities to mainstream the initial pilot framework.

#### *The objectives of the meeting were to:*

- better understand current country practices to consolidate expenditure data on disaster risk management ex-ante and ex-post;
- distil good practices and existing challenges when it comes to consolidating public expenditure data for disaster risk management, and
- facilitate exchange and contribute to the discussion on how governments can introduce methodologies and standards to produce comparative data on disaster risk expenditures to inform policy decisions.

#### Next steps

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**It is recommended for the OECD to contribute to setting a common standard on defining economic losses to increase availability and comparability of data.** International and private sector efforts that collect comparable disaster statistics would welcome if the OECD engaged in establishing guidance and references on the calculation of direct and indirect economic losses. This would provide meta-data providers with a tool to guide country data collection processes, and would help inform countries directly on how they could improve their disaster information collection procedures. This could also contribute to the efforts of the global risk management community to learn of and adopt a new standard of collecting economic loss information, and could inform experts' discussions during the meetings in Sendai in March 2015 to discuss the follow-up of the Hyogo Framework for Action (HFA). These meetings will seek input on the indicators to be used to evaluate the performance of the next HFA. The reference work of the European Union and the Center for Epidemiology (CRED) may underline the value of the OECD as a possible reference point in their consultation processes.

**The development of a common framework for accounting risk management expenditure is a novel approach that would bring significant value to risk managers in countries. As such the approach is highly welcomed but will require further efforts over the coming year.** The fact that little work has been done on this internationally is a key advantage as it allows the OECD to start with a new definition, rather than having to reconcile existing approaches.

In going forward a phased approach is needed. It is suggested to:

1. Propose a framework that is simple, aggregate and robust enough for countries to provide information, and yet accurate and informative enough for policy making (i.e. it should enable to distinguish ex-ante and ex-post spending).
2. Focus on a few hazards at first so as to be able to compare across countries. An all-hazards approach to expenditure might be difficult to achieve across OECD countries at first. It is suggested for countries to report expenditure data according to their most important risks.
3. Collect data on a voluntary basis, starting with countries that have already engaged in such an effort. This should also help refine the definition of common reporting standards.
4. Collect such expenditure information every 3-5 years, given administrative and institutional constraints in countries.

## Summary of key discussion points

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**The workshop underlined the importance of disaster statistics for policy making.** In Japan these statistics enable risk managers to show the effectiveness of their risk reduction measures for comparable disaster events. Over the course of 10 years, on average, these measures have shown to reduce asset loss as well as the loss of lives by 90%. Japan is able to demonstrate that total economic losses were significantly reduced with only a fraction of the expected losses invested in risk reduction measures. Some, but not all, OECD countries have a clear framework, set forth in DRM legal documents, on how to assess actual losses after disasters.

**Several international disaster statistics repositories exist that are working to improve the quality of disaster information and to increase its comparability across countries.** Information on disaster events is not consistently reported by national governments, nor are statistics reported in a standard manner in international databases. Although significant improvements have been made in the definition of a range of social indicators, e.g. the deaths associated with disasters, ambiguity persists in the definition of other social loss indicators, such as “missing people” or “affected people” that are still subject to relatively large ambiguities.

**The information on actual economic losses remains difficult to compare.** Although straightforward definitions exist for calculating direct physical impacts, such as affected buildings, agricultural assets and civil infrastructure, this is not consistently done for all disaster events across countries. Other losses are even less reported. These include indirect damages such as interruption of activities at business and household levels, transport interruption or interruption of lifelines or business activities. More intangible costs such as the impact on health or the environment are hardly ever accounted for due to difficulties in monetisation. As indirect and intangible losses are included to different extents, the comparability is not given. Economic losses are only reported for 30-40% of disaster events, and for those events where numbers exist, they can vary widely.

**Gathering and comparing loss estimation methods of countries brings added value.** The analyses of various damage estimation methods of countries and sharing them are useful exercises as this helps to design better estimation methods, with a clear focus to contribute to increasing the accuracy of existing disaster statistics. Coupled with actual loss assessment it is useful for countries to understand how they can conduct forward-looking ex-ante loss estimations, which can inform policy decisions especially on a project to project basis.

**Collecting data on public (and private) expenditure for risk management is novel and could inform the assessment of the effectiveness of risk management policies.** Systematic information on risk management expenditure, in combination with data on disaster losses would allow policy makers to evaluate whether risk management spending is effective in reducing the harmful impact of disasters. It would contribute to transparency and to promote risk management within countries. A common language to inform common approaches across countries in terms of risk management expenditure tracking would be valuable. The private sector would appreciate a method on risk expenditure as this would allow them to better assess the level of improvement in resilience against risks.

**Tracking risk management expenditure has been established in a number of countries to promote a shift in investments from ex-post to ex-ante investments in risk reduction measures.** The bulk of risk management funding still goes towards recovery and rehabilitation after disasters. Providing a full picture on where disaster spending flows helps to make the case for increased prevention and mitigation as well as preparedness funding. Additional motivators to collect such information were to ensure that level of investment is proportionate to risk, to ensure appropriate cost sharing arrangements, to demonstrate performance of risk management spending in reducing impacts in the long term.

**However, expenditure information is not collected consistently.** Very few countries systematically collect information on public (and private) expenditures. Australia, for example, collects this information regularly, but does so only for rehabilitation investments and not for overall risk management. In France, this has been done only for prevention investments. Physical infrastructure investments are widely included, but soft, non-structural investments in prevention are often not captured. The inclusion of private (e.g. HH and business) expenditure is more difficult – e.g. a questionnaire in France yielded little response. Analysing local budgets is important, but difficult to do without a proper mandate.

**A common approach to accounting risk management expenditure is challenging.** The countries that have collected such information have come across difficulties. In most countries there is no central repository (such as the national accounts) that clearly distinguishes and accounts for risk management. One challenge is therefore to identify all units that invest in risk management across sectors and levels of government. Depending on the administrative set-up of a country this exercise may be highly complex and requires research. Another challenge entails identifying “embedded” spending items, i.e. spending on a project that only partly contributes to risk management such as the meteorological office whose forecasting is a crucial element for early warning systems. The collection of such information is rarely mandatory, which makes it difficult for risk managers to extract such information across ministries and municipalities, as it has an administrative cost.