



ECONOMIC

Economy of Disaster

Economic costs of disasters remain high and are likely to increase in the future. Nevertheless, economic assessments face both technical and policy challenges for of reducing disaster risk. Hence, the renewed commitment at Rio+20 for investing in disaster risk reduction is warranted. Populations and economies continue to grow; larger numbers of people and



more infrastructures are likely to be located in hazard-prone areas. Hence, future disasters in these areas are likely to be even more costly. An economic assessment for disaster risk reduction is usually based on a benefit-cost analysis. If the benefits exceed the costs then it makes economic sense to invest in reducing the risk of disasters. If the costs exceed the benefits, then the investment is not economically justifiable¹.

Economics of DRR²

Economic analysis is one of the mainstream tools for disaster reduction. There has been little effort to incorporate disaster risks into economic analysis to strengthen the hazard resilience, even in high risk areas. However, there have been few detailed economic analyses in the risk reduction projects, particularly in the developing countries. Results have shown that benefits of risk reduction are limited and highly context specific.

The lack of evidence on the benefits of disaster risk reductions has proved to be a major stumbling block in attracting the interest and commitment of policy makers

to disaster risk reduction. Two steps need to be taken so that economic risks of a disaster are well assessed.

- Firstly, the economic risks must be identified and given a priority and
- Secondly, the analysis of economics of a disaster risk should be applied early in a project cycle so that findings can be taken into account in the design of both disaster risk reduction projects and other development projects in the hazard prone area.

A reduction of disaster can sometimes be achieved via different methods ranging from large scale technical projects to small scale community based initiatives. Many of the disaster risk reduction measures, whether undertaken in the disaster risk reduction project related directly or indirectly to the losses that will ensue a hazard. Finally, it is important of any proposed disaster risks reductions and monetary value of the expected related flows of direct and indirect benefits into account in order to determine whether a project is economically viable or not. Sometimes it becomes very hard to estimate the benefits as they are realistic, with the actual level of benefits depending on the level of hazard, hence cost-benefit analysis is very important to study the economic dimensions of a disaster.

Disaster causes huge losses of private and public properties. There is no mechanism for managing these losses. However, the two instruments may be considered as an important tool for reducing the risk i.e. through micro-financing and risk financing mechanism.

I. Micro Finance

When natural disasters strike they do not discriminate between the social structures. Those who are in an economically sufficient may face the losses but their properties etc are insured. Those who are not so economically solvent, especially those from the developing countries may not have adequate means to cope with disasters. In such situations, micro-credit is very useful. This has been defined as the

"Provision of thrift credit and other financial services and products of very small amounts to the poor in rural, semi-rural and urban areas for enabling them to increase their income and improve their living standards."



The features of micro-credit make it a potential instrument of social development, women's empowerment and poverty alleviation. Micro-credit at the grass root level makes a considerable difference. It allows millions with better option for livelihood.

This movement has gained sufficient strength through network linkages with other groups at the global, national and local network.

In SAARC countries for instance, formal banking have developed operations with micro-finance groups, making them more viable and sustainable. They have assumed the shape of a silent revolution in the countryside. This is very helpful during the Tsunami recovery period and it gave micro finance an opportunity to be reviewed and assess the support it needed at various levels to make it sustainable in such situations, to examine the various levels of strengths to make it sustainable in such situation, especially in the rising trends of disasters across the globe.

II. Risk Financing

The cost of disaster relief and reconstruction has been steadily growing. A new form of public-private partnership can make societies more resilient by absorbing the financial impact of the catastrophes.



Partnerships such as these allow governmental and other organizations to manage disaster expenses in a more efficient manner by funding themselves beforehand. Insurers have developed innovative financial risk profiles that would

mitigate the impact of disasters. The insurers provide a model for public sectors to push their available credits and allowing governments to protect their budget and move the adequate funds for relief activities.

Therefore, risk avoidance is one of the key issues along with mitigation strategies and therefore must be the first priority in managing disaster. To reduce any kind of risk, funding is important, but no country can fully insulate itself from extreme events. Managing catastrophic events has to be a key element in financial strategy of every disaster prone region to enable a sustain growth in order to reduce financial volatility and potential ruin from events that exceed their resources.

Reference

¹<http://www.preventionweb.net/posthfa/documents/drreconomicsworkingpaperfinal.pdf>

²http://saarc-sadkn.org/theme_social_hospital.aspx