**Economic and Financial Impacts of Natural Disasters: an Assessment of Their Effects and Options for Mitigation**

Research reports and studies

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**Economic and financial impacts**

Major natural disasters can and do have severe negative short-run economic impacts. Disasters also appear to have adverse longer-term consequences for economic growth, development and poverty reduction. But, negative impacts are not inevitable. Vulnerability is shifting quickly, especially in countries experiencing economic transformation - rapid growth, urbanization and related technical and social changes.

In the Caribbean and Bangladesh there is evidence of both declining sensitivity to tropical storms and floods and increased resilience resulting from both economic transformation and public actions for disaster reduction. The largest concentration of high risk countries, increasingly vulnerable to climatic hazards, is in Sub-Saharan Africa. Risks emanating from geophysical hazards need to be better recognized in highly exposed urban areas across the world because their potential costs are rising exponentially with economic development.

Natural disasters cause significant budgetary pressures, with both narrowly fiscal short-term impacts and wider long-term development implications. Reallocation is the primary fiscal response to disaster. Disasters have little impact on trends in total aid flows.

**Public policy implications**

A full reassessment of the economic and financial impact of a major disaster should be made 18 to 24 months after the event that is then taken into account in reviewing the affected country’s short-term economic performance and assistance strategy.

Governments need appropriate risk management strategies for future disasters that include medium-term financial planning for 8 – 10 years. The basis of funding has to be broadened, applying a combination of mechanisms at different layers of loss coverage to help overcome the obstacles to increased coverage of insurance and capital market tools.

Natural hazard risk management should be integrated into longer-term national investment policies and development strategies and appropriately reflected in the allocation of financial resources.

Quality, reliable scientific information is a necessary condition for effective disaster risk management. The international community should support global and regional research and information systems on risks. It should also ensure that there are adequate complementary monitoring and dissemination programs at the national level. Priorities include climatic variability, regional and national flood forecasting and geophysical hazards.

**Economic research on natural disasters**

Vulnerability to natural hazards is determined by a complex, dynamic set of influences, such as economic structure, stage of development and prevailing economic and policy conditions. To understand and assess the economic consequences of natural hazards and the implications for policy, it is necessary to consider the pathways through which different types of hydro-meteorological (climate-related) and geophysical hazard impact on an economy, the different risks posed and the ways in which societies and economies adapt to or ignore these potential threats.

The eclectic approach adopted in this study, employing largely qualitative methods, is particularly useful in exploring the many complex and dynamic pathways through which extreme hazardous events influence an economy and its financial system and also for identifying areas and issues where further investigation includ ing quantification would be worthwhile.