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Latino-Americano e do Caribe

Système Economique  
Latinoaméricain et Caribéen

## Speech by Elaine Dezenski, Senior Director of the Risk Response Network of the World Economic Forum

### Economic and Technical Cooperation

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Ladies and Gentlemen:

On behalf of Professor Klaus Schwab and the World Economic Forum, I thank you for the opportunity to participate in today's important conference. My name is Elaine Dezenski and I am Senior Director of the Forum's Risk Response Network. I regret that urgent business keeps me from joining you in person for such a timely and important gathering in Lima, a city that is a regional hub of growing importance and where the Forum will hold the World Economic Forum on Latin America in 2013. I hope my comments will provide a view of the Forum's work in risk management and how it can contribute to new approaches in disaster risk reduction.

We face a complex and interconnected set of risks as a global community, and no one organization, no matter how capable, can face these challenges alone. The Risk Response Network was launched in January 2011 to bring together a network of global risk experts and expertise to bring new insights and solutions to the global risks discussion. Under the umbrella of the Risk Response Network, the Forum is pursuing research, public-private collaboration, risk analysis and analytics, and the development of tools and services to help organizations map, monitor and mitigate a range of risks.

The flagship effort of the Risk Response Network is the annual *Global Risks Report*, a comprehensive review of the most important risks affecting global, regional and national leaders and decision-makers, as chosen by our network of over 1,200 experts from around the world. Contextualizing risks is where the Forum can bring unique value to the global risks agenda, and, as part of that conversation, new ideas and approaches in the area of disaster risk reduction. To give you a sense for how this emerging landscape of risks is evolving, I invite you to watch a short video highlighting the main findings of our most recent *Global Risks Report 2012*.

Ladies and Gentlemen:

The focus on public-private engagement as a key element in disaster risk reduction is absolutely critical and an area where our collective efforts can help build innovative partnerships that improve both risk management and risk resilience in the face of a variety of catastrophic risks.

The definition of catastrophic risks includes natural disasters, critical infrastructure breakdown, major systemic financial crises and other large-scale events with global impact. Across this range of catastrophic risks, it would be impossible to identify one that does not require strong public-private collaboration in order to effect real risk reduction.

Over the past two years, earthquakes, floods and other natural disasters have hit numerous areas around the globe, including Latin America and the Caribbean, causing loss of life, suffering and large economic loss.

The number of people affected by increasingly frequent hydrological events has doubled over the past 30 years. The contrasts between countries that have suffered a similar severity of hazard, but whose losses have been in orders of magnitude greater for lesser-developed countries, have shown that there is much work to be done to eliminate inequity in mitigation, response and recovery. Public-private partnerships are critical to achieving this.

In Rio de Janeiro in April 2011, the Forum released a report entitled *A Vision for Managing Natural Disaster Risk*. The report offers a focused vision for dealing with natural disasters in three areas: raising awareness, enhancing resilience and encouraging preparedness. Let me briefly touch on all three.

**Awareness** – Building awareness brings recognition of risk and initiates behavioural change. To begin the process, we need to collect appropriate data on risks, which need to be made publicly available. Communicating the message in a way that informs the affected public of the risks they face is needed to motivate an increase in resilience and preparedness.

**Resilience** – Reducing risk through enhancing resilience requires an integrated planning process to make sure that structures are resilient to current and future hazards. This involves a) land use management; b) better building codes through an efficient code improvement plan, applied to rebuilding as well as new structures; c) enhanced supervision of construction and building end-use; and d) retrofitting existing structures for increased resilience.

At some point, additional resilience measures are not cost-effective. For example, it may not be economically justifiable to use limited resources to build a sea wall another metre higher to only combat the 1-in-100 year event.

At this point, financial preparedness should be used to mitigate the remaining risk. Economic incentives that tie financial preparedness to resilience measures, such as their link to a property, may increase investment in resilience. Economic incentives must be based on the correct pricing of risk.

And finally, preparedness – Financial preparedness includes the concept of risk transfer to protect people's livelihoods. Traditional insurance using risk-based pricing free from political intervention is an important part of the toolkit to enable faster recovery and reconstruction. Alternative preparedness measures include micro-insurance; catastrophe bonds (or cat bonds), which in parametric form can provide fast liquidity in times of crisis; and country-level funds to help reduce public sector liability. Making these measures affordable may require additional support from other stakeholders or post-disaster funding mechanisms.

A common understanding of the roles and responsibilities of public and private actors facilitates an effective framework for awareness, resilience and preparedness.

The private sector's knowledge and capacity is underutilized. There are many obvious, but also less obvious, private sector organizations with useful expertise. The need to understand risk puts the insurance industry at the centre of private stakeholders and as a bridge to the public sector. However, the role of the insurance industry needs to be complemented by other key stakeholders including banks, engineering, construction and real estate companies, and the media.

The public sector role depends largely on a country's capacity to mitigate and respond to natural disasters. Despite different starting points for various countries, the recommendation for an overarching risk management body, called the country risk officer, would provide a systematic approach to risk reduction through national and regional plans that coordinate multiple stakeholders to bring about the necessary solutions. A lesser-developed country will need to develop institutional, legislative and operational mechanisms. For developed countries, the public sector's assumption of the

role of payer of last resort will support deeper risk transfer and an increased willingness to incentivize resilience.

Finally, the international community should promote capacity building for lesser developed countries through knowledge, technical skills and funding. Its focus should shift away from disaster response towards pre-disaster resilience measures. Establishing an international response unit with standardized guidelines for disaster risk reduction could reduce adverse impact on society.

Now, let us turn to some other examples of the Forum's engagement.

In 2009, the Forum established the Disaster Resource Partnership initiative, a network of many of the world's largest engineering and construction companies committed to strengthening the response to disasters. Rather than acting as a fundraiser, the Disaster Resource Partnership aims to build the capacity of the humanitarian field by leveraging the core strengths and capacities of the private sector, and integrating them into the immediate response.

- In the immediate aftermath of a disaster, a construction company already operating in the affected area is well placed to contribute labour, materials and equipment, as well as mobilizing networks and supply chains that can save lives and reduce suffering.
- In the months following a disaster, the engineering and construction industry has specific knowledge and technical expertise that are essential to promoting early recovery, particularly the reinstatement of critical infrastructure that is essential to establishing supply chains and making health and education facilities operational. Equally, the industry can provide services such as damage and hazard assessment, hydrological surveys, seismic expertise, design, planning and programme management.
- Early engagement in the relief and recovery phases means that engineering and construction companies are well placed to contribute strategically to longer-term planning of reconstruction, playing a critical role in mitigating the risk of future disasters.

The Disaster Resource Partnership is structured so that it allows the activities of individual organizations to be facilitated at the global level through its Secretariat in the World Economic Forum, and at the national level with the progressive development of Disaster Resource Partnership National Networks.

In Latin America, the only Disaster Resource Partnership network is in Mexico, where it was established through the *Unidos por Ellos* foundation, regrouping the main corporate social responsibility companies in assistance to the humanitarian sector, with an emphasis on fundraising and humanitarian shelter. The model aims to be replicated in the region, based on the vulnerability of individual countries to natural hazards and the interest of the government to support such a mechanism.

The World Economic Forum is also a convener of thought leaders from academia, government and business in the field of disaster risk management. Experts from these sectors are organized into what we call Global Agenda Councils which monitor key trends, identify global risks, map interrelationships and address knowledge gaps. The Councils put forward ideas and recommendations to address global challenges.

The Global Agenda Council on Disaster Management is one example of this transformational innovation in global governance, gathering key representatives from the private sector, the United Nations system, humanitarian organizations and academia.

Looking into the current state of society's resilience to disasters, the Council identified a gap around small and medium-sized enterprises. Due to their size, these SMEs are highly vulnerable to disruptions in supply chains, shrinking local markets or defaulting customers. Yet, they are also essential to the ultimate recovery, since their role as employers and customers make them an integral part of the local economy. Their engagement is therefore critical for community-based risk reduction and recovery, and their contribution has not yet received the recognition it deserves. The Council members are now looking to implement a pilot project in Turkey, on building small business resilience to disasters.

The Global Agenda Council on Catastrophic Risk has also been contributing to the development of new ideas and models for addressing complex, large-scale risks with global effects. The Council set out to identify means for better understanding, communicating and managing as well as mitigating catastrophic risks. The Council worked constructively in close collaboration with the Forum's Risk Response Network to shape ideas central to global risk management. By drawing on each other's experience and expertise, members of the Council have been able to advance thinking on the subject. This has resulted in valuable tangible products, such as a framework for identifying catastrophic risk management leading practices as well as comprehensive insights drawn from recent catastrophic events.

The ***Risk Framework Matrix*** produced by the Council is in direct alignment and in collaboration with the Risk Response Network's Leading Practice Exchange, which was developed in parallel. It was produced for use by decision-makers in the public and private sector, as well as the community of risk managers, researchers and implementers of public policy related to catastrophic risks. The Framework is a basis for sharing lessons from eight functional phases of risk management, within the Forum's five categories of risks and cross-references the typology of global risks in the 2012 *Global Risk Report*.

The Council demonstrated the value of understanding higher levels of vulnerability as a result of increasing interdependencies between telecommunications, critical infrastructures and integrated supply chains. These principles have been adopted within other Forum initiatives as a core principle. They determined that increasingly efficient supply chains encourage greater economic interconnectedness, which results in a wider and greater economic impact of catastrophic events than has previously occurred. It was also determined that various existing risk management tools are currently mobilized to address tractable risks while intractable risks urgently require different approaches.

The Council built on this by exploring recent catastrophic events such as in the 2011 Great East Japan Earthquake, the 2011 Thailand floods, and the 2005 Hurricane Katrina in the United States. They revealed that such catastrophic events immediately affect not only the country where they occur but also, through various interdependencies and networks, numerous others.

They were able to articulate the concept of tractable and intractable risks which is now a fundamental part of the Forum's risk vocabulary and activities. The Risk Response Network's Supply Chain Risk Radar, the Network's newest analytic tool, measures the level of tractability across a range of global supply chain disruptions touching economic, geopolitical, environmental and technological spheres.

**Tractable** risks are those where the likelihood and consequences can be estimated with a high degree of accuracy and reliability. Such risks have been described as “routine”, because they can be dealt with by technical, routine risk management analysis and action. Because they can be studied:

- Examinations can be conducted and understanding improved
- Data can be collected for a better prediction of likelihood and consequences
- Calculations can be made about the forms of mitigation worth considering
- Strategies may be developed for avoiding or mitigating them
- Preparations can be made to respond effectively if the event occurs

Such risks can therefore often be insured against or directly hedged through financial instruments to redistribute the load of risk-bearing towards those in a better position to carry it.

**Intractable** risks defy detailed and definitive analysis. They are difficult to prevent, mitigate or prepare for. The likelihood or magnitude of consequences cannot reliably be estimated with precision; therefore, standard tools of risk assessment and management fail. Catastrophic risks, by nature, tend to be intractable.

The Catastrophic Risk Council’s work in this area provides an opportunity for a different approach to addressing major disasters by converting them to tractable risks if they can be better assessed and addressed when they arise. For example, the “probability of a major terror event in an American city next year” may not be a well-defined concept in the same way that the “probability of a typhoon striking Hong Kong” is. Neither can the likelihood nor the consequences of “a major disruption to the European power grid from an electromagnetic pulse” be reliably estimated. However, it may still be possible to manage or address intractable risks, although it is imperative that strategies be developed for managing them.

Ladies and Gentlemen, I hope you found this short review of the Forum’s risk initiatives to be useful for today’s discussions, and look forward to our continued collaboration as a global community of stakeholders committed to saving lives, building resilience and advancing true disaster risk reduction.

Thank you.