



Part II

Private Investment and Disaster Risk

In May 2012, earthquakes of magnitudes of up to 6.0 on the Richter scale shook the Emilia Romagna region in Italy, followed by almost 2,000 aftershocks; the economic impacts—both immediate and downstream—unexpectedly reverberated across industries as varied as agribusiness, biotechnology, real estate and tourism (see Box II.1).

In March of the same year—just two months before the earthquakes—the Emilia Romagna region had been ranked as the fifth most attractive Southern European region and the first in Italy for business by the Financial Times foreign investment specialist division.ⁱ But even if disaster risk had been considered, and had negatively affected the ranking, business activity in the region may not have been significantly lower.

Investing in hazard-prone locations rarely reflects irrational behaviour by individual business investors. On the contrary, as highlighted in Chapter 2, many such areas offer comparative advantages that translate into higher productivity, profitability and competitiveness. Multiple investments over decades, however, have accumulated high levels of disaster risk, which now negatively affect the very competitiveness that investments sought in the first place. At the same time, risks are externalised

or transferred across space and time to other locations and sectors. This ‘external risk neglect’ or shared risk affects economic sustainability as a whole (Berger et al., 2010).

Part II of this report examines whether, how and why businesses have factored disaster risk into their investment decisions and with what consequences. This is examined in three risk-sensitive sectors: urban development; tourism; and agribusiness. The three chapters reflect on the perceived trade-offs between productivity and growth, on the one hand, and internalised and externalised risks, on the other hand, which characterise investment in these sectors.

Chapter 8 examines investments in the urban development sector, in particular the role of speculative investment, public regulation and major infrastructure projects in structuring-shared urban risks and costs.

Chapter 9 focuses on the tourism sector, with particular attention to tourism in SIDS. The chapter analyses the relative dependency of small and undiversified economies on tourism investments and revenues. It also explores the potential economic value of disaster risk management for businesses and national economies invested in tourism.

Box II.1 Cost to business investment in Emilia Romagna, Italy

Emilia Romagna is one of Italy's most productive regions, accounting for 10 percent of the country's GDP, and boasting one company for every ten inhabitants; most companies are small to medium-sized enterprises, but several are also large multinational corporations, including in the biomedical sector.ⁱⁱ Emilia's four most affected provinces provide almost 60 percent of the region's employment, spread over a range of industries including global automobile brands, pharmaceutical and biomedical plants, fashion and textiles, and construction firms (Government of Italy, 2012). Regional food production is of national importance and was significantly affected by the series of earthquakes that hit the region in 2011 and then again in 2012 when the quakes destroyed production facilities, and significantly affected the plants and investments of many multinational biomedical companies.ⁱⁱⁱ

An in-depth economic study of the damage assessed direct losses, including losses suffered by public and private sectors, at US\$11.5 billion (Government of Italy, 2012).^{iv} One month after the May 2012 quakes, several companies, in particular SMEs, had not yet reopened, and Italian officials estimated that about 20,000 workers in 3,500 companies had been temporarily laid off and their jobs at risk (Aon Benfield, 2012b). The disasters also deterred tourists from enjoying the region's 110 km of coastline, with major hubs such as Rimini and Riccione.

Chapter 10 looks at some of the key drivers of disaster risk within the agribusiness sector. It explores the impacts that the sector's vulnerability to hazards and a range of local and global pressures have on smallholders and household food security. Identifying new approaches to creating shared value along the agricultural value chain, the chapter focuses on sub-Saharan Africa and the specific vulnerabilities and opportunities of the sector in that region.

Notes

i http://www.investinemiliaromagna.it/wcm/investiner_en (accessed 27 February 2013).

ii <http://www.euronews.com/2012/06/05/italy-s-earthquakes-hit-economy>;
<http://www.euronews.com/2012/06/07/italian-quake-damage-estimate-grows> (accessed 27 February 2013).

iii <http://www.guardian.co.uk/world/2012/jun/05/italy-emilia-romagna-earthquake> (accessed 27 February 2013).

iv In contrast, the global disaster loss database EM-DAT reported economic losses of less than US\$16 million only, once again emphasising the staggering gap in global assessments of economic losses associated with disasters (<http://www.emdat.be>).



