**Disaster Risk Financing Instruments**

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| Type of Instrument | Advantages | Disadvantages | Best-suited |
| Ex-ante | | | |
| Contingency /Reserve funds | * Can be cheap, particularly for frequent shocks * Fast * Allows implementers to plan * Approach has been used in many contexts; thus, experience is available for countries to build upon | * Requires fiscal discipline * High opportunity cost of funds, given high rates of return on other government investments * Can be hard to defend given the opportunity cost | * Low-risk layer such as frequent low-level events (annual flooding, localized drought, conflict) |
| Contingent credit | * Can be cheap, particularly for mid-frequency shocks * Fast, when conditions for disbursement are met * Allows implementers to plan * Can incentivize proactive actions to reduce risk (for example, policy actions in DRR and DRM) | * Has conditionality * Opportunity cost of loan * adds to the country’s debt burden, must be repaid * Current low (but growing) uptake of Cat DDOs as some countries prefer investment projects guaranteed resources over contingent instruments | * Mid-risk layer such as higher-magnitude, less-frequent events whose damages exhaust the resources of national contingencies (widespread flooding, hurricanes) |
| Market-Based Risk transfer instruments | * Can be cheap, particularly for extreme shocks * Can be fast * Allows implementers to plan * Supports fiscal discipline * Risk diversification | * Can be expensive for frequent shocks * Can be vulnerable to criticism and “regret” * Can miss need * Need a level playing field to negotiate * Trade-off between the cost of premiums and the frequency or scale of the pay-out | * High-risk layer such as extreme, less-frequent events, less than every 5-10 years (severe droughts, hurricanes, earthquakes) |
| Ex-post | | | |
| Humanitarian assistance | * Flexible – can respond to need * Doesn’t have to be repaid | * Can be slow to be mobilized * Can be unreliable * Undermines pre-planning | * Only as a last resource |
| Other ex-post instruments | * Approach has been used in many contexts; thus, experience is available for countries to build upon | * Can be slow * Can have negative impact on long-term development/ investment programs * Can be expensive | * Only as a last resource |