**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)
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| 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)
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| 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)
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| 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
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| 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
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