**Better Risk Management Can Unlock Opportunities, Prevent Crises, and Protect Poor amidst Disasters and Shocks, Says World Bank**

**WASHINGTON, October 6, 2013** – In the face of social unrest, economic crises, and more frequent natural disasters, preparation and recovery efforts by governments, communities, and individuals have become increasingly essential. Effective risk management can provide both resilience to withstand adverse events and the ability to take advantage of development opportunities. It is, therefore, a critical ingredient in the fight to end poverty, says a new report from the World Bank Group.

According to the **World Development Report 2014**, titled ‘**Risk and Opportunity: Managing Risk for Development**, adverse shocks – above all health, weather shocks, and economic crises – play a major role in pushing households below the poverty line and keeping them there. The report concludes that managing risks responsibly and effectively can save lives, avert economic damages, prevent development setbacks, and unleash opportunities. Risk management can be a powerful instrument for development, bringing security and the means of progress to people in developing countries and beyond.

Over the past 25 years, the world has experienced rapid integration, economic reform, technological modernization, and increased democratic participation, but has also endured financial turbulence, job and income loss, and environmental damage. The WDR contends that, rather than rejecting change in order to avoid risk, people and institutions need to prepare for the opportunities and risks that accompany change. The report argues that proactive, systematic, and integrated risk management efforts are needed more than ever.

“We’re advocating a sea change in the way risk is managed,” says **World Bank Group President Jim Yong Kim**. “Our new approach calls for individuals and institutions to shift from being ‘crisis fighters’ to proactive and systematic risk managers.  Doing so will help build resilience, protect hard-won development gains, and move us closer to achieving the World Bank Group’s goals of ending extreme poverty and boosting shared prosperity.”

The report finds that the benefits from preparing for risk can significantly outweigh the costs.  For example, mineral supplements designed to reduce malnutrition may yield benefits 15 times greater than the costs.  The report also finds that preparation induces people to be less risk averse. For instance, having access to rainfall insurance can induce farmers to invest in fertilizer, seeds, and other inputs, instead of simply stashing money in a mattress as a cushion for when the next dry spell comes.

Some risks have fallen dramatically in recent years.  Life expectancy, for example, has risen thanks to expanded immunization, better safety nets, and improved forecasting of cyclones, tsunamis, and quakes.  Moreover, most developing countries undertook reforms over the last decade that helped them build greater resilience to swings in global capital flows.  This improved resilience helped countries maintain growth and poverty reduction during the recent global financial crisis.

“Risk drives a wedge between outcomes and decisions. If a person puts all her savings on a roulette bet, and wins, the outcome is to be cheered but the decision to place the bet may, nevertheless, be regarded as faulty,” says **Kaushik Basu, World Bank Chief Economist and Sr. Vice President**.  "This World Development Report shows human decision-making falters most where risk is involved – for this reason, risk creates special challenges for development policy. As globalized nations contend with fluctuations between good and bad outcomes, there is at times a propensity to shy away from development and globalization, when in fact doing so is to opt for the bad outcome in perpetuity.”

The report finds that, because most individuals remain ill-equipped to confront many shocks, they must depend on shared action and responsibility at different levels of society.  Households provide support, pool resources, protect members, and invest in their future.  Communities provide informal networks of insurance and pool resources to confront common risks.  Enterprises provide employment and income, and foster innovation and productivity.  The financial system offers risk management tools such as savings, insurance and credit.  The state manages large systemic risks, provides an enabling environment, and supports the vulnerable.  And the international community offers expertise, facilitates policy coordination, and pools global resources.

As **WDR Director Norman Loayza** points out, “Although people’s own efforts, initiative, and responsibility are essential to manage risk, their success –in terms of resilience and prosperity – will be limited without a supportive environment.”

Effective risk management consists of combining the capacity to prepare for risk with the ability to cope afterwards, while pitting the upfront cost of preparation against the probable benefit, according to the report.  A strong risk management strategy consists of four components: knowledge, protection, insurance, and coping.

Beyond amassing information, knowledge involves using information to assess exposure to events and possible outcomes, and then deciding how to act.  Protection constitutes actions that lower the probability and size of negative outcomes or raise the probability and size of positive outcomes.  To the extent that protection cannot entirely eliminate the risk of negative outcomes, insurance, whether formal or informal, helps cushion the blow from adverse shocks.  Finally, coping encompasses all actions taken once a risk or opportunity has materialized.

Individuals and societies fail to tackle risk proactively for a variety of reasons, including lack of resources and information, missing markets and public goods, and even social exclusion.  The drainage system in the Indian city of Mumbai, for example, heavily clogged by rubbish and over 100 years old, is hardly able to handle the annual monsoon rains.  Over the years, multiple proposals to improve the system have been put forth, but the city has yet to fully adopt most of them, and Mumbai remains vulnerable to flooding.  Effective risk management in cases such as this requires identifying and addressing the obstacles that prevent people, communities, and countries from taking necessary actions.

This year’s WDR proposes policies for the household, local, national and global levels. But its overarching advice centers on the need to manage risk proactively at every level, and in a way that aligns with and supports broader objectives, such as national development plans, municipal infrastructure investment programs, or even household savings goals.  At the country level, the WDR recommends setting up national risk boards, an institutional reform already in place in Singapore and being considered in Morocco, Jamaica, and Rwanda.  The World Bank Group stands ready to support risk management reforms in countries across the developing world.

Today, all arms of the World Bank Group – including the International Bank for Reconstruction and Development, International Development Association, International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency – provide assistance aimed at fostering effective risk management.  Assistance comes in the form of policy advice, support for private sector development, plus loans and programs to advance urbanization, infrastructure, and human development, including social protection.  The World Bank Group will use the findings of the WDR 2014 to scale up this vital support, so that countries can more effectively manage risk in the future.