

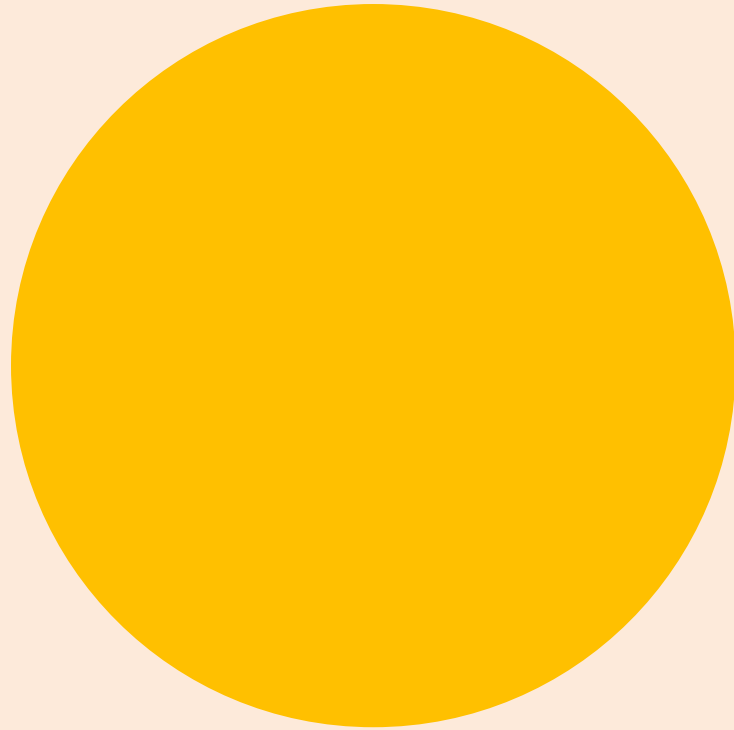
The background features a lighthouse on a brown hill, with two beams of light shining outwards. In the foreground, a white boat with four yellow rowers is on a dark blue sea. The overall color palette is dominated by orange, brown, and dark blue.

# Risk and Opportunity

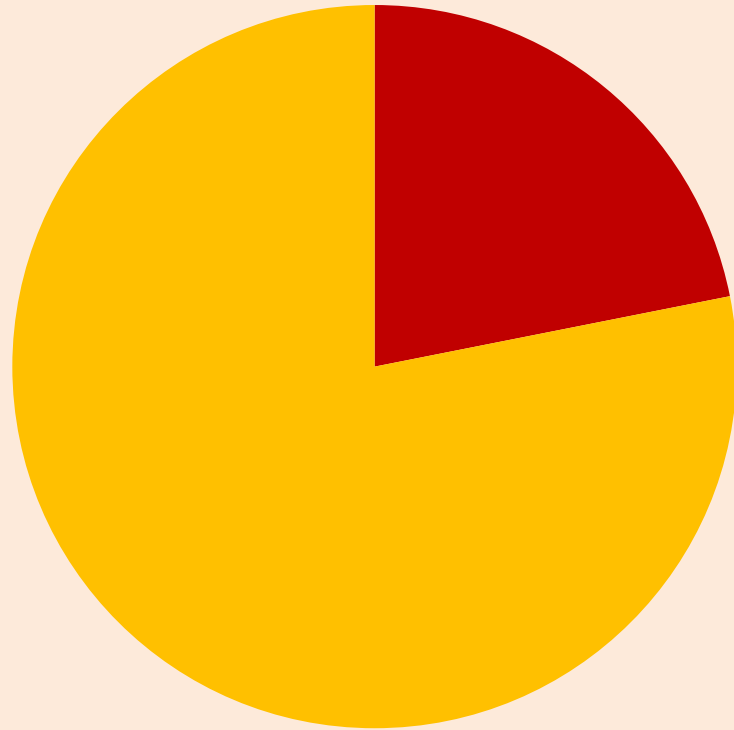
## Managing Risk for Development

ANU, 6 March 2014

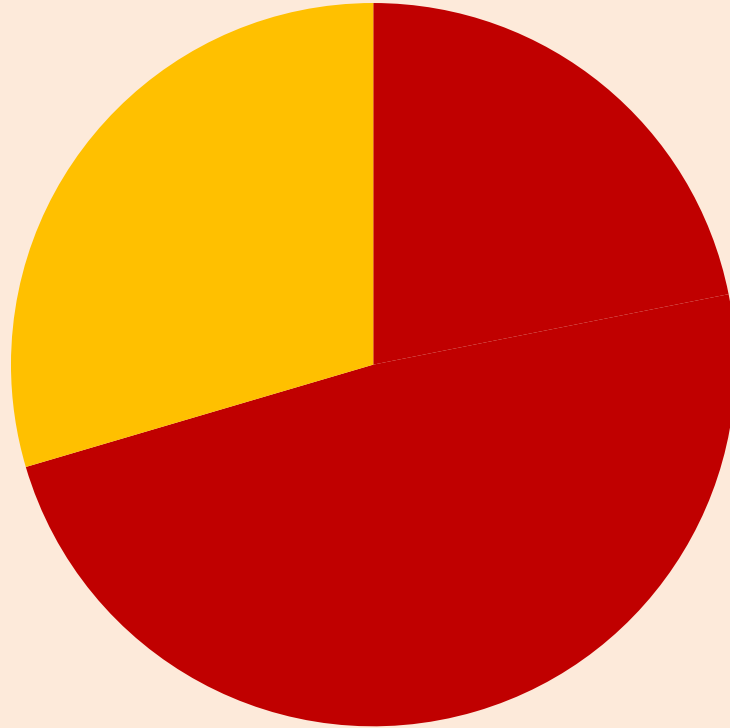
Of the 5.5 billion people living in  
developing countries...



Over 20% live on less than \$1.25 per day



And almost 75% live on less than \$4 per day



→ Despite some progress, many remain vulnerable

# Risk and opportunity

- Risks can turn into crises that reverse development gains
- Important opportunities may be missed because people fear the downside of risk







# The dual objective of risk management

- **Resilience:** ability to mitigate losses from adverse shocks and foster recovery
- **Prosperity:** obtained by improving the benefits from pursuing opportunities
  - Undertaking new ventures, which involve larger risks but also larger benefits

**WHAT DOES EFFECTIVE  
RISK MANAGEMENT  
ENTAIL?**



- It is essential to shift from unplanned and ad hoc responses when crisis occur to proactive and systematic risk management

From “crisis fighters” to proactive and systematic “risk managers”

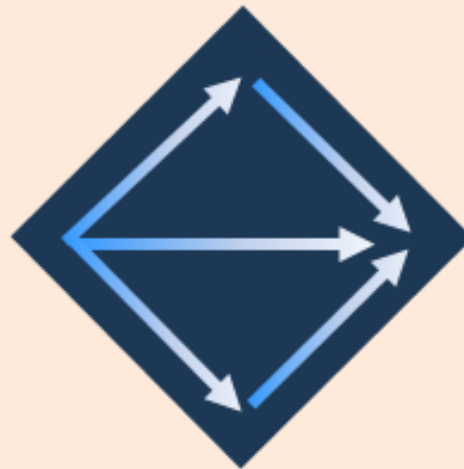
# Components of risk management

## Insurance

to transfer resources across people and over time, from good to bad states of nature

## Knowledge

to understand shocks, internal and external conditions, and potential outcomes, thus reducing uncertainty



## Coping

to recover from losses and make the most of benefits

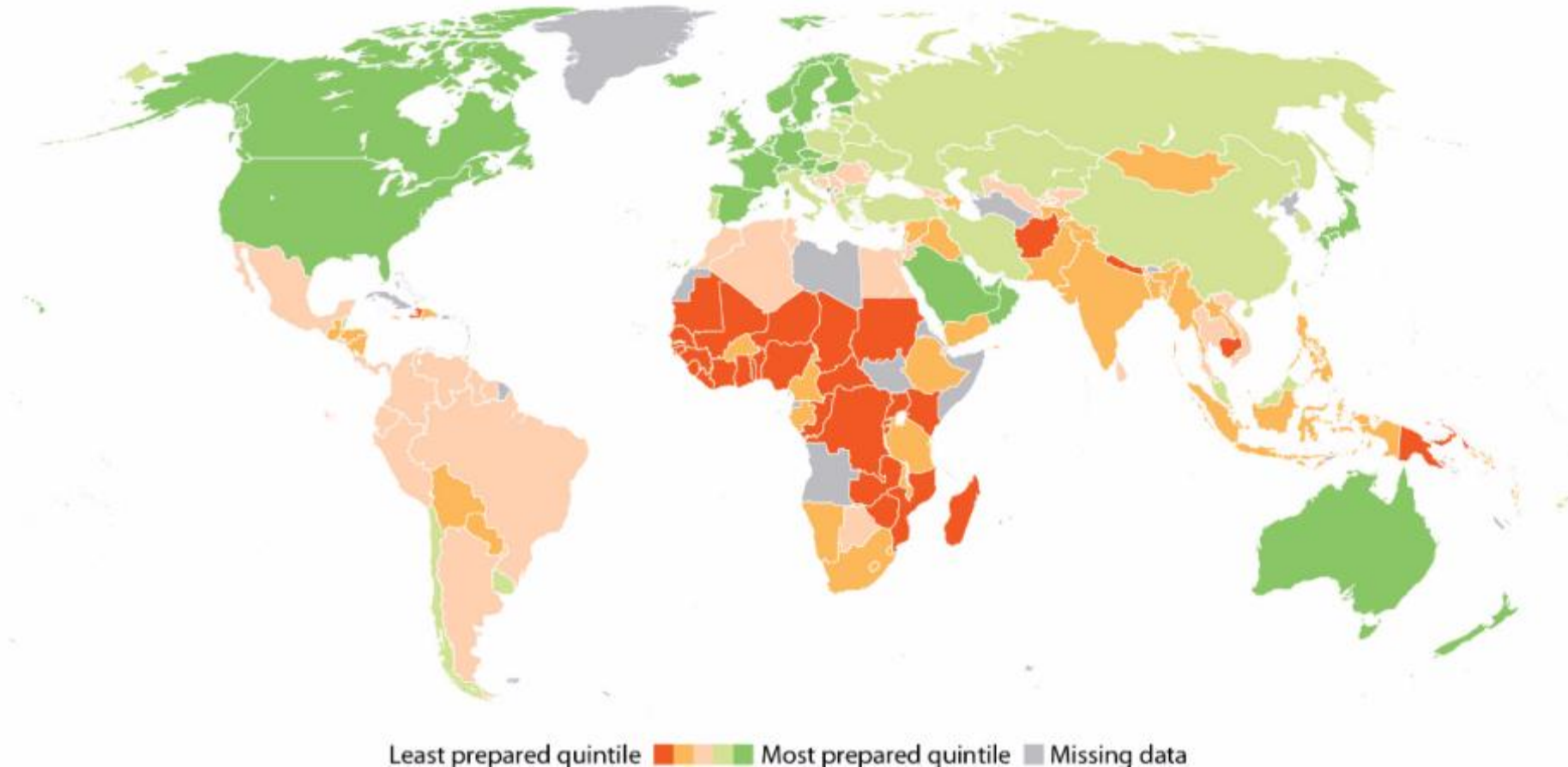
## Protection

to reduce the probability and size of losses and increase those of benefits



# BEYOND THE IDEAL

# Preparation



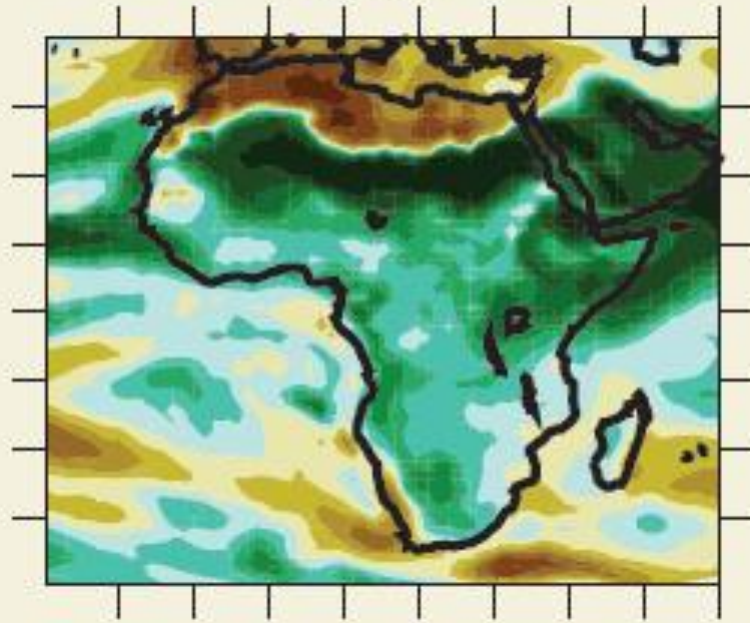
**The index of preparation** comprises human capital, physical and financial assets, social support, and state support measures.

# Obstacles and constraints facing individuals and societies

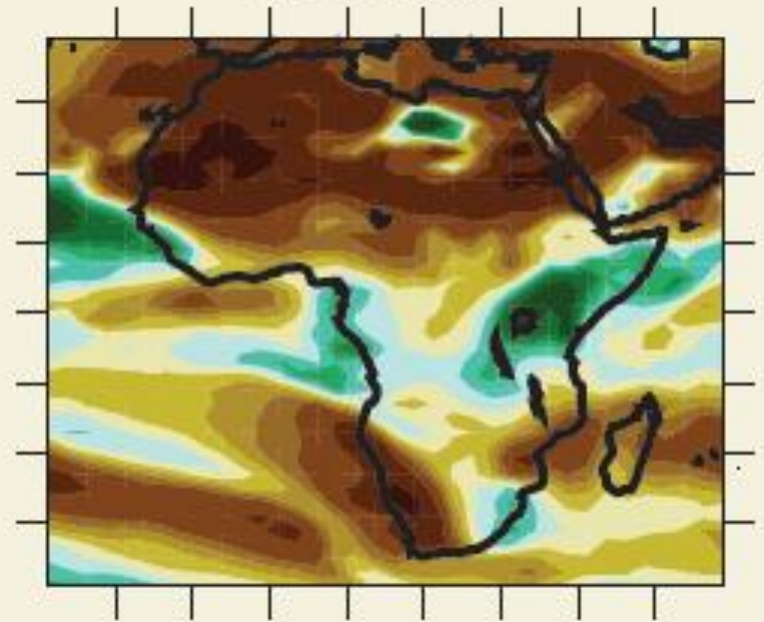
- Lack of resources and information
- Missing markets and public goods
- Lack of collective action
  - due to misaligned or wrong incentives (social and economic externalities, gender bias, discrimination)
- Cognitive and behavioral failures
- Political economy issues



CCSM3



GFDL-CM2.0



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# Obstacles and constraints facing individuals and societies

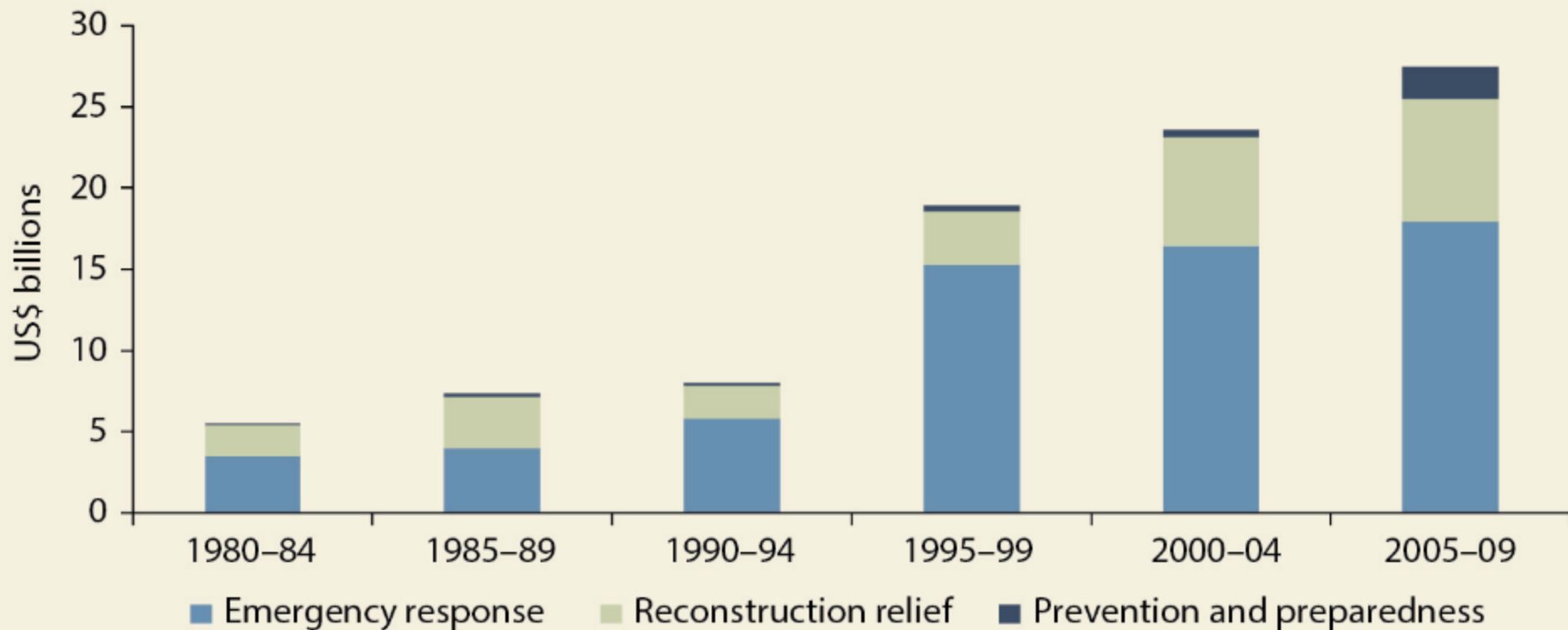
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# Spending on preparation is a small part of donor assistance for disasters

**Disaster-related donor assistance**



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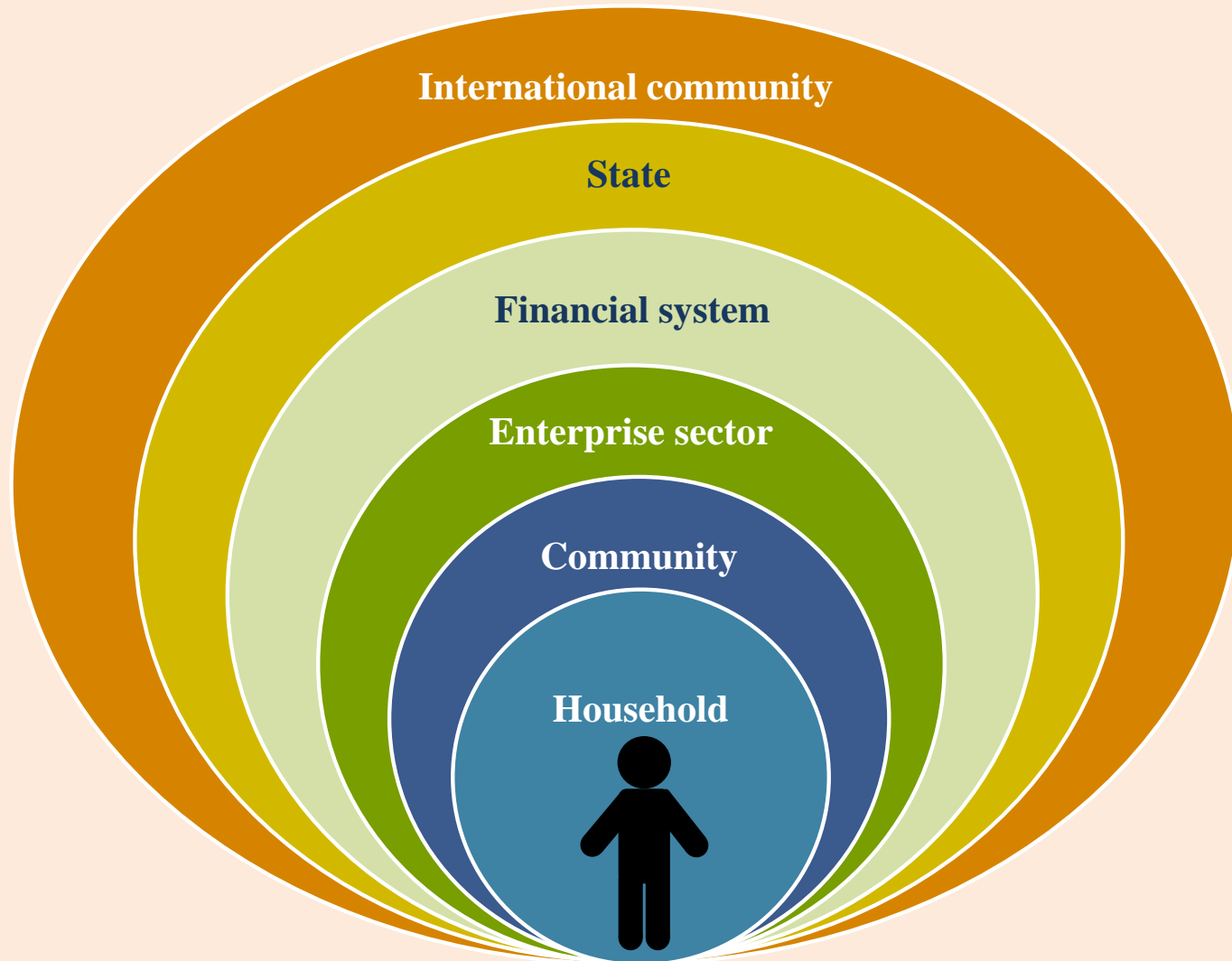
An illustration on the left side of the slide. At the top, a lighthouse with a white and black striped tower sits on a brown cliff against an orange sky. A beam of light from the lighthouse illuminates the scene. Below the cliff, a dark blue body of water contains a white rowing boat with three yellow figures rowing. The overall style is flat and graphic.

# Improving outcomes requires assessing failures in risk management

- Identifying risks is not enough: the trade-offs and obstacles to risk management must also be identified, prioritized, and addressed through private and public action

**A HOLISTIC  
APPROACH TO RISK  
MANAGEMENT**

# Risk management requires shared responsibility and action



# The critical role of the state

- Governments have the scale to manage systemic risks, to provide an enabling environment, and to support vulnerable people directly



# *Well-provided and protective households*



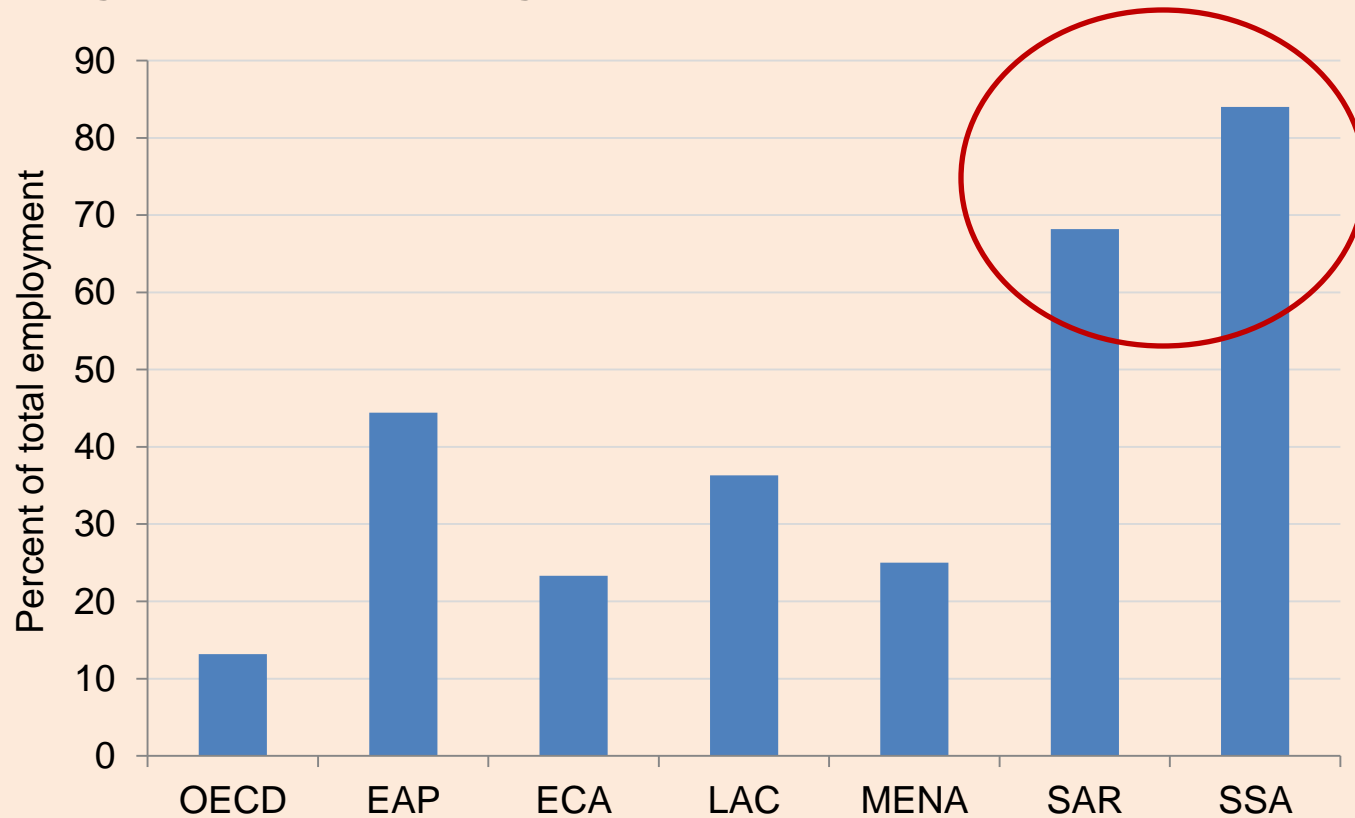
# *Cohesive and connected communities*



# *A vibrant and flexible enterprise sector*

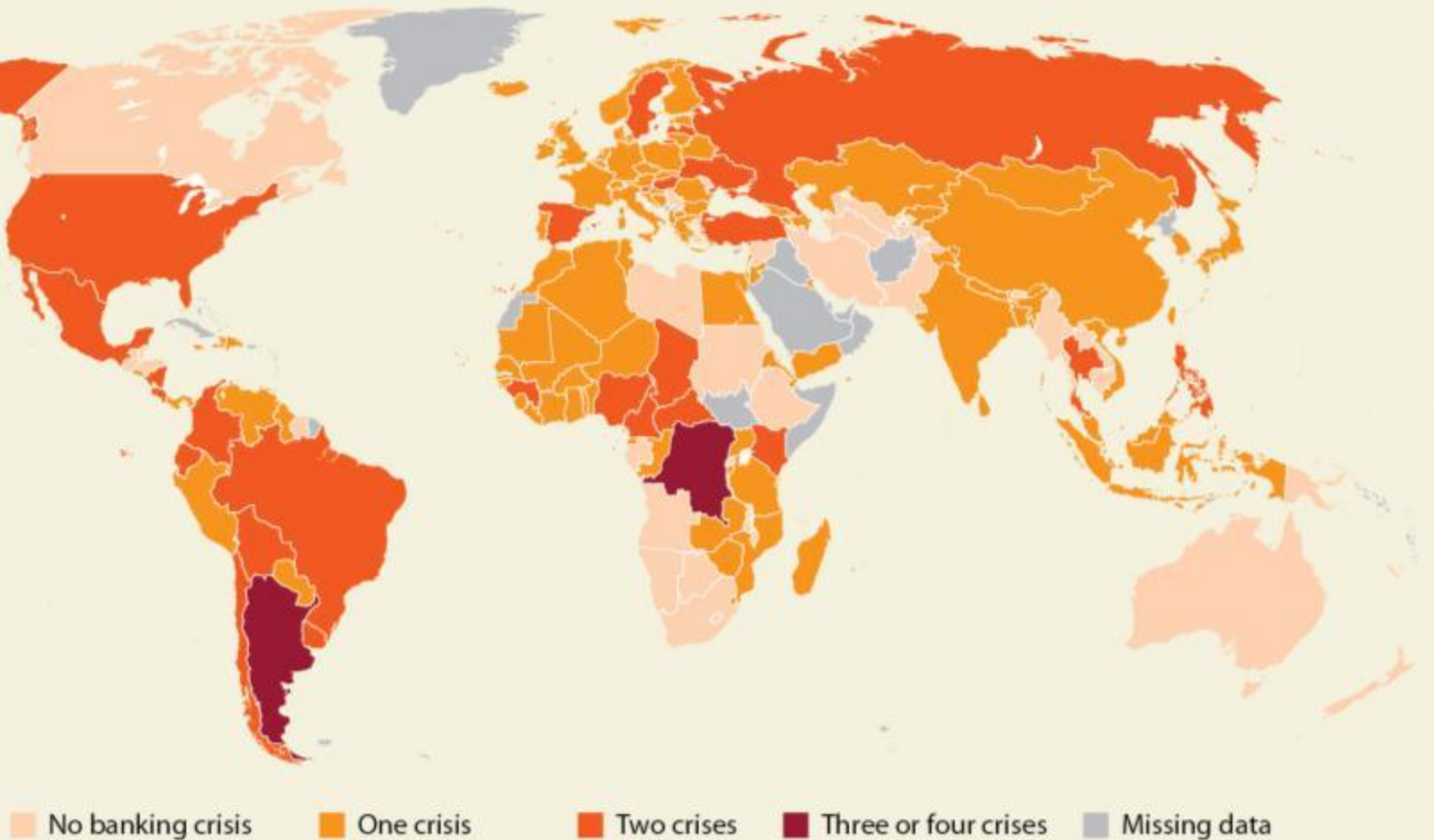
## **Self-employment**

**Regional median, average 2004–06**



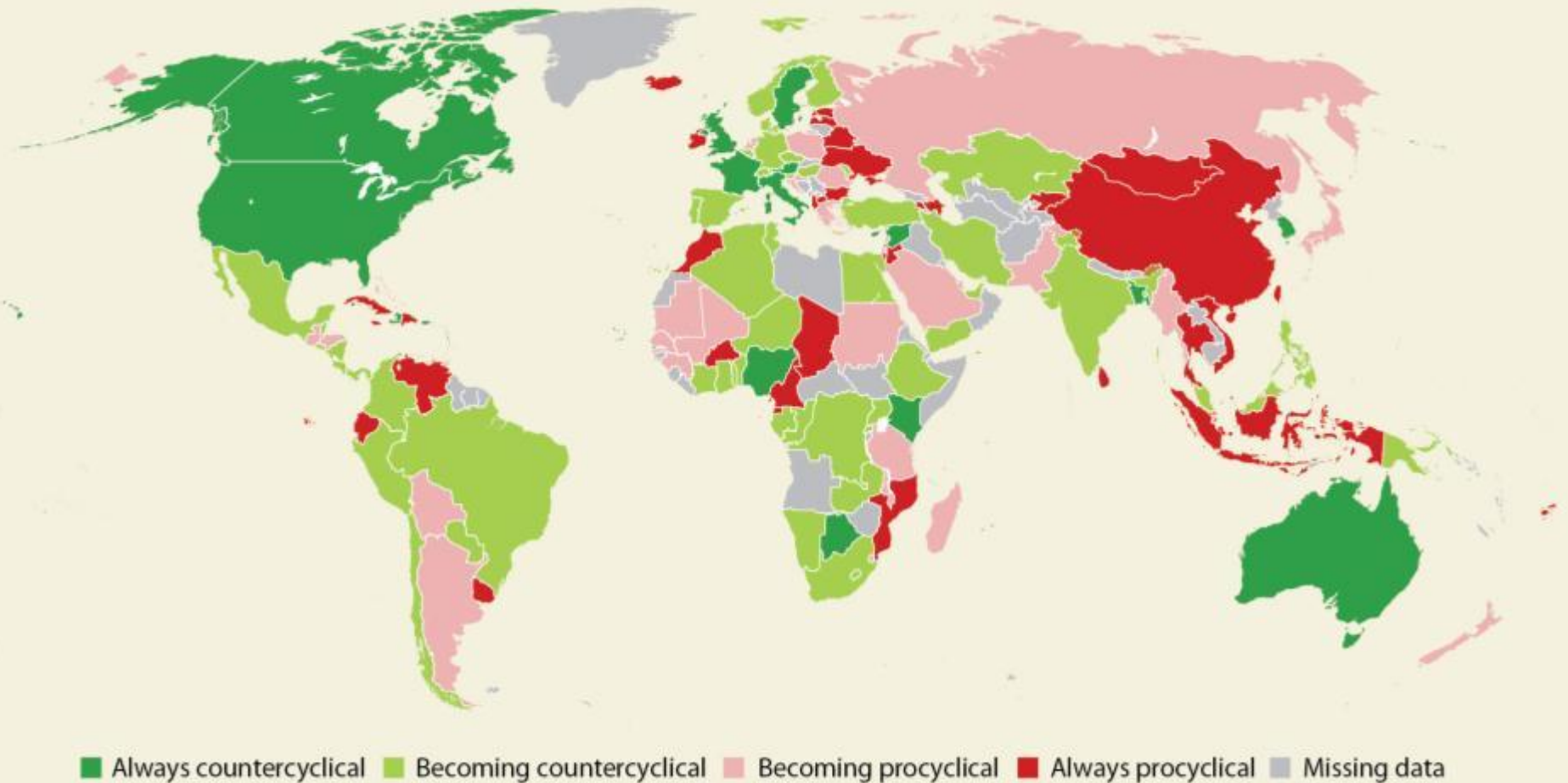
# *An inclusive but stable financial system*

**Banking crises around the world , 1970–2011**



# *A stable and supportive macroeconomy*

**Evolution of fiscal policy from 1960–99 to 2000–10**



# *A proactive, strategic international community*



# **MAINSTREAMING RISK MANAGEMENT**

# A change in approach to development planning

- What is most important is a change in approach in the way governments and institutions develop and implement their general plans,
  - **Moving from planning under certainty to considering change and uncertainty as fundamental characteristics of modern economies**



# Through institutions: National Risk Board

- *Why?* To integrate risk management – considering synergies, tradeoffs, and priorities in addressing different risks in different contexts
- *How?:* The NRB should combine advisory and implementation roles.

**THANK YOU!**

**[WWW.WORLDBANK.ORG/WDR2014](http://WWW.WORLDBANK.ORG/WDR2014)**