Risk and Opportunity
Managing Risk for Development
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Foreword

In recent years, the world has suffered a multitude of crises. Financial and economic turmoil have disrupted the world economy through loss of income, jobs, and social stability. Intense natural disasters have devastated entire communities from Haiti to Japan, leaving a trail of fatalities and economic losses in their wake. Concerns about global warming have grown, as have fears about the spread of deadly contagious diseases.

As I travel around the world, I hear the same concern: how can we become more resilient to such risks? The World Development Report 2014 (WDR 2014), Risk and Opportunity—Managing Risk for Development, helps provide answers to this pressing question.

Another concern is the missed development opportunities that arise when necessary risks are not taken. Pursuing opportunities requires taking risks, but many people, especially the poor, are often reluctant to do so, because they fear the potential negative consequences. Failure to act can trap people in poverty, leaving them vulnerable to negative shocks and even less able to pursue opportunities that would otherwise improve their well-being.

The inability to manage risk properly leads to crises and missed opportunities. This poses significant obstacles to attaining the World Bank Group’s two main goals: ending extreme poverty by the year 2030 and boosting shared prosperity of the bottom 40 percent of the population in developing countries. Managing risk effectively is, therefore, absolutely central to the World Bank’s mission. The WDR 2014 demonstrates that effective risk management can be a powerful instrument for development—it can save lives, avert economic shocks, and help people build better, more secure futures.

This report calls for individuals and institutions to move from being “crisis fighters” to becoming “proactive and systematic risk managers.” There is substantial evidence that recognizing and preparing for risk can pay off abundantly. For instance, many developing countries displayed resilience in the face of the recent global financial crisis because they had previously reformed their macroeconomic, financial, and social policies.

Protecting hard-won development gains by building resilience to risk is essential to achieving prosperity. That is true whether one is grappling with natural disasters, pandemics, financial crises, a wave of crime at the community level, or the severe illness of a household’s chief provider. Risk can never be completely eliminated. But people and institutions can build resilience to risk by applying a balanced approach that includes structural policy measures, community-based prevention, insurance, education, training, and effective regulation. Countries have learned how to manage risk in diverse settings, but, until now, research related to risk management in the developing world has not been synthesized into a single source that is easily accessible and well-referenced.

This WDR aims to fill that gap. It serves as a valuable guide both for mainstreaming risk management into the development agenda, and for helping countries and communities strengthen their own risk management systems. The Report also offers important insight for changing the approach to risk in the Bank’s own operations. The World Bank Group is currently undergoing a transformation, which calls for shifting the institutional culture regarding risk from one of extreme risk aversion to one of informed risk taking. This year’s WDR cautions that the greatest risk may be taking no risk at all. I could not agree more.
My hope is that the WDR 2014 will lead to risk management policies that allow us to minimize the danger of future crises and to seize every opportunity for development. Success on this front will help us build the world we all want: one free of poverty, with shared prosperity for all.

Jim Yong Kim  
President  
The World Bank Group
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