

# HD INSIGHTS

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## ***Risk, Vulnerability and Human Development***

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### ***Does risk matter?***

Individuals, families and communities are continuously exposed to a wide variety of risks: climatic, health, prices, crime, violence are just a few examples. Life histories of the poor reflect how the lives are often shaped by risk and shocks. They do not passively undergo these risks, but households and communities have developed sophisticated mechanisms to manage risk and cope with its consequences. They build up savings, not just in cash but often in the form of livestock or food stocks. They engage in mutual support networks within their extended families and communities, providing reciprocal assistance during crisis. They reduce their exposure to risk by diversifying their activities within the family, and by avoiding risky activities. Marriage and migration patterns also often reflect embedded ways of dealing with risk.

### ***What is the link between risk and human development?***

Despite these sophisticated mechanisms, all evidence suggests that individuals and families find it hard to keep nutrition and consumption smooth when faced with shocks. Temporary nutritional deprivation and other forms of hardship are widely reported. Increased exposure to risks have a direct impact on human development progress, particularly amongst the poor. The lack of choices and opportunities combined with their limited ability to cope, has a significant impact on the poorest communities across the world. For example, work in Ethiopia suggested that a drought shock in 2002 resulted in about 16 percent lower consumption in 2004 for those affected, a local output price collapse reduced consumption by 19 percent and a serious illness episode reduced consumption by 15 percent. Such evidence supports the establishment of safety nets, that can help to smooth consumption. However, it is often argued that schemes to deal with shock do little to alleviate poverty, but may only help not so poor people to stop them from drifting into temporary poverty. In other words, the chronic or permanently poor, who are poor irrespective of shocks, are not helped, and safety nets to deal with shocks are a luxury.

### ***Is risk a cause of poverty?***

This 'safety net' view of risk and poverty is flawed and ignores that risk and shocks are a cause of poverty and permanent hardship. Temporary malnutrition undermines long-term health, and especially for children, it can have important effects in the form of stunting, limited cognitive development and lower earning opportunities into adulthood. Children may have to be taken out of school to work to support the family, and even if only temporary, with potentially permanent effects on their future human development. Serious shocks force people to sell off productive assets, affecting future earnings, and undermining the cohesion of communities. The mere presence of a multitude of risk forces people to avoid high return but risky activities and investments, forcing people to choose poverty in the

long-term for basic safety in their current livelihoods. These different processes, contributing to permanent deprivation, are documented across world.

### ***What is vulnerability?***

The term is often used in a number of different senses, confusing its use in policy making. In one meaning, it refers to a "state of being helpless or weak", as in 'vulnerable groups'. This term has become familiar in policy circles to refer to groups such as orphans, female headed households, widows, disabled, the elderly, ethnic minorities, etc. It refers to groups that are likely to face serious hardship and poverty, as they are unable to take advantage of opportunities offered. In the context of risk and shocks, vulnerability tends to be used in a different meaning, emphasizing risk. It can then be defined as a referring to a 'threat of poverty'.

### ***Should and can vulnerability be measured?***

Current human development measurement, within multidimensional settings, is strikingly devoid of any attempt to incorporate risk. We tend to measure income poverty, or a state of malnutrition in terms of actual stunting or wasting of children. In this way, for policy making it is essentially backward-looking, focusing at actual realisations not the risks facing people. The fact that families may be at risk of facing poverty in the future and that children may face a threat of malnutrition is also of crucial importance for policy makers, and different people may face to a different extent a threat to deprivation. Working towards measuring vulnerability is important but faces serious difficulties. Based on the impact of previous shocks (related to the climate, crime, etc.), some analysis may be undertaken to formulate a predictive model. However, two main issues may arise:

(i) We need information on potential outcomes, not just actual outcomes. For example, rather than just measuring the level of consumption or malnutrition, we need to establish how likely it is that different levels of consumption or nutrition can be obtained. Within a data context, this requires the formation of prediction models with all the well-known statistical problems associated with prediction into the short-run or long-run future. Work is under way, but the practical problems are not to be underestimated; and

(ii) the possibility to find simple ways of summarizing this information into a measure of vulnerability of individuals and societies. Here, progress is steady and, just as with poverty and inequality measures, reasonable procedures have been developed. For example, a measure of vulnerability for a particular group could involve, first, constructing poverty levels for this group in all possible situations (such as in moderate drought, extreme drought and normal rainfall) and then constructing a weighted average, using as weights the likelihood of different outcomes.

### ***What does this mean for policy?***

The realization that risk matters crucially for people's lives has to feed into national policy thinking, particularly the poverty reduction strategy process, and reporting on the MDGs:

(i) It has implications for general policy design. For example, a striking feature in many well-meaning programmes for poverty alleviation is that they are designed as if this were a risk-free world. For example, the popular conditional-cash-transfer programmes (offering cash to households, contingent on their children attending schools) may have substantial impact on average, but tend to ignore the fact that during crises (such as a family health problem or a drought) the amount of money needed to allow a family to keep their child in school may have to be substantially higher than during a normal period. Similarly, institutional or economic reform programmes may well cause far higher hardship when other shocks occur than in a normal year; and

(ii) Policies that reduce the impact of risk on people have a positive impact on human development and growth, well beyond short-run protection: it protects people's ability to make a living, and offers opportunities to engage in risky long-term investments. A broad range of integrated actions are bound to be most successful, such as stimulating better savings and microinsurance products, strengthening existing mutual support systems, investing in risk-reducing infrastructure, credible disaster response schemes, and flexible and transparent social safety nets, accessible to all.

### ***Some general sources:***

[Click here](#)

2. Dercon, Stefan (2006), "Vulnerability: A Micro Perspective", in Annual World Bank Conference on Development Economics (ABCDE)--Europe 2006 . Ed. by François Bourguignon, Boris Pleskovic, and Jacques van der Gaag. Washington, DC: World Bank.

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