



# Program Information Document (PID)

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Appraisal Stage | Date Prepared/Updated: 26-Apr-2022 | Report No: PIDA33568



**BASIC INFORMATION**

**A. Basic Project Data**

Country	Project ID	Project Name	Parent Project ID (if any)
Indonesia	P175742	Indonesia Human Capital Development Policy Loan (P175742)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
EAST ASIA AND PACIFIC	21-Jun-2022	Social Protection & Jobs	Development Policy Financing
Borrower(s)	Implementing Agency		
Republic of Indonesia	Coordination Ministry of Human Development and Culture, Ministry of Finance		

**Proposed Development Objective(s)**

The Program Development Objective is to enhance human capital development in Indonesia by (i) improving the effectiveness of public spending for human capital and (ii) protecting existing human capital investments.

**Financing (in US\$, Millions)**

**SUMMARY**

<b>Total Financing</b>	350.00
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**DETAILS**

<b>Total World Bank Group Financing</b>	350.00
World Bank Lending	350.00

**Decision**

The review did authorize the team to appraise and negotiate

**B. Introduction and Context**

Country Context

**This Program Information Document proposes an Indonesia Human Capital Development Policy Loan (DPL) for the Republic of Indonesia in the amount of US\$ 350 million.** The proposed DPL is a stand-alone single tranche IBRD loan that aims to support the Government of Indonesia in enhancing human capital development by (i) improving the effectiveness of public spending for human capital and (ii) protecting existing human capital investments.

**Indonesia has been an early and strong champion of the World Bank’s Human Capital Project, launched at the 2018**



**Annual Meetings in Bali, and is committed to accelerating multisectoral efforts to enhance human capital outcomes.** The proposed DPL will support medium- and long-term human capital development by embracing a multisectoral approach and supporting mutually reinforcing reform areas that are aligned with Indonesia’s short-, medium- and long-term plans, including the Long-Term National Development Plan 2005–2025 and the Medium-Term Development Plan 2020–2024.

**In recent years, Indonesia has significantly advanced the human capital agenda by reducing stunting, expanding social protection coverage, progressing toward universal health coverage, as well as expanding student enrollment in education.** The period 2010 to 2019 saw robust economic growth, job growth and poverty reduction. The poverty headcount ratio at the national poverty line fell from 13.3 percent in 2010 to 9.4 percent in 2019. In parallel, Indonesia’s performance in the World Bank’s Human Capital Index (HCI) – which quantifies the contribution of health and education to the productivity of the next generation of workers – steadily improved, with the overall HCI value increasing from 0.50 to 0.54 from 2010 to 2020. Accordingly, a child born today in Indonesia will be 54 percent as productive as an adult compared to what he or she could have achieved with optimal education and health. Key drivers of progress were reductions in stunting and expanded enrollment in secondary education.

**Nevertheless, low absolute levels of human capital driven by the low quality of education, a stunting rate that remains high, and weaknesses of social insurance systems represent a key structural bottleneck to achieving Indonesia’s inclusive growth and poverty reduction agenda.** Indonesia’s HCI score is below the average of countries in East Asia and the Pacific, driven by the low quality of education and a stunting rate that despite notable improvements at 28 percent remains high. Average test scores of students are 395 on a scale where 625 represents advanced attainment. In schools, challenges related to staff hiring and training and student assessment are three primary constraints to achieving better student learning. While recent efforts to address stunting have led to impressive progress, Indonesia can further accelerate its performance by focusing on additional interventions, such as the expansion of improved quality of frontline services across the entire country. In addition, because of weaknesses in the social insurance system workers are not sufficiently protected against deprivation during unemployment or old age.

**COVID-19 has put recent human capital gains at risk and increased the impetus of both investing better and protecting better.** The pandemic has led to a sharp contraction in private consumption as well as substantial losses of labor income and business revenue that has affected households’ consumption and ability to invest in human capital. While the fiscal response to COVID-19 in human-capital-related areas has been strong, spending adjustments are planned due to the structural constraints on fiscal space. Given these constraints, it will be important to both improve the effectiveness of existing spending for human capital and protect existing human capital investments. Indeed, proactive policies are needed to ensure that previous achievements are sustained, and Indonesians can seize the opportunities presented during the recovery period. Human capital development will be critical in facilitating Indonesia’s structural transformation during what will likely be the endemic phase of COVID-19. Given the need for synergistic investments across social sectors, coordinated interventions in nutrition, health, and social protection can play a transformational role in helping Indonesia to ‘build back better’ and increase the country’s resilience to future shocks.

#### Relationship to CPF

**The proposed DPL is fully aligned with the World Bank Country Partnership Framework (CPF) for Indonesia for FY21–FY25 and with the World Bank’s goals of eradicating extreme poverty and promoting shared prosperity.** In line with the four pathways to overcome the constraints to poverty reduction and shared prosperity identified in the Systemic Country Diagnostic Update, the CPF is structured according to four engagement areas: (i) strengthening economic competitiveness and resilience, (ii) improving supply of and access to sustainable infrastructure services, (iii) nurturing human capital, and



(iv) strengthening management of natural assets, natural resource-based livelihoods and disaster resilience. The proposed DPL directly contributes to the third CPF engagement area. In addition, each policy reform to be supported directly speaks to the World Bank's twin goals of eradicating poverty and boosting shared prosperity. The proposed DPL also emphasizes monitoring and evaluation for improved service delivery across social sectors. This will ensure that available resources are more efficiently allocated to where they are most needed and can make optimal impact, hence making social programs more impactful in addressing poverty and promoting shared prosperity.

### C. Proposed Development Objective(s)

**The Program Development Objective is to enhance human capital development in Indonesia by (i) improving the effectiveness of public spending for human capital and (ii) protecting existing human capital investments.**

#### Key Results

**The DPL aims to strengthen reform policies that boost human capital throughout the life cycle.** The interventions supported by the DPL integrate social services that support good health and nutrition during pregnancy, and healthy, well-nourished and stimulated growth during early childhood. They further help ensure that every child arrives to school suitably protected from preventable diseases and with optimum nutrition. Further, by improving income protection, augmenting access to healthcare services and discouraging harmful behaviors, the DPL also addresses several important gaps in human capital protection during adulthood and contributes to better human capital utilization. The actions supported in this DPL complement each other by reinforcing the impact of the reform program on human capital development over the life course.

### D. Project Description

**The DPL is structured around two pillars.**

**Pillar A of this DPL is about *improving the effectiveness of public spending for human capital*:**

- **First**, the DPL supports the formalization of governance arrangements, institutional roles and mandates of ministries, agencies, districts and villages underpinning the expansion of the anti-stunting program to improve the effectiveness of the Government's considerable investments to improve maternal nutrition and decrease childhood stunting across Indonesia.
- **Second**, it supports the institutionalization of a comprehensive, multisectoral and integrated regulatory mechanism for the TB control program that is expected to improve value for money along the entire TB service delivery cascade and accelerate the recovery from the disruption created by COVID-19.
- **Third**, it supports the establishment of a legal and regulatory framework for telemedicine which will improve access to health services particularly for those currently facing challenges, such as the population of rural and remote areas where health outcomes are significantly worse than in urban centers.

**Pillar B is about *protecting existing human capital investments*.**

- **Fourth**, the DPL supports taxation measures related to smoking which will incentivize behavior change to reduce smoking and support improvements in long term health outcomes. Reducing household spending on products harmful for health through tobacco taxes can also contribute to poverty reduction, as individuals in the bottom 40 percent of the income distribution are likely to be more price sensitive.



- **Fifth**, it support the introduction of unemployment insurance based on the mutual obligation principle and provision of cash benefits, training, and jobs-search assistance. Unemployment insurance will support workers and families as working lives get longer and the skills demanded change more rapidly, and as economic and natural disaster shocks become more frequent. It will also reduce negative coping strategies that erode human capital.

## E. Implementation

### Institutional and Implementation Arrangements

**The Coordinating Ministry for Human Development and Culture (Kemenko PMK) will be the executing agency for the proposed DPL.** As executing agency, the Kemenko PMK will take the overall responsibility for monitoring and evaluation, while coordinating relevant activities with the other ministries involved in the agenda and reporting to the World Bank. Other ministries with which the World Bank team will liaise on the monitoring and evaluation of the DPL will include the Ministry of Health and the Ministry of Manpower, as well as the Ministry of Finance (MoF). While with the exception of the MoF these ministries have limited experience in implementing DPLs with the World Bank, each of them has the monitoring capacity to track the result indicators of the operation. Accordingly, the proposed DPL will rely on the existing systems of each of the ministries to monitor the progress of the corresponding results indicators. The World Bank team will provide close support and supervision.

## F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

### Poverty and Social Impacts

**As the reform program focuses on strengthening human capital, a central driver of sustainable growth and poverty reduction, the program's overall poverty and social impact is expected to be positive.** Reform areas under Pillars A and B play interlocking, complementary roles to improve human capital and increase productivity, empowering beneficiaries in the long run to participate in labor markets that are increasingly demanding workers with higher levels of human capital. By reducing inequality in early childhood experiences arising from limitations in parental resources, environmental and other factors at, before, or immediately after birth, for instance, Pillar A contributes to lowering inequality in ability, achievement, health, and adult success. Building on these foundation Pillar A also fosters reductions in socioeconomic gaps in health outcomes through the provision of telemedicine across Indonesia. Similarly, a decrease in smoking supported by Pillar B could also have positive poverty and social impacts while Pillar B is also expected to reduce vulnerability to poverty by cushioning impacts of employment shocks.

### Environmental, Forests, and Other Natural Resource Aspects

**The policies supported by the proposed DPL are not expected to result in significant effects on Indonesia's environment, forests, and other natural resources.** The expected policy-induced changes in human behavior supported by the proposed DPL are not expected to lead to significant changes in the quantity or quality of environmental resources of a magnitude, duration or intensity to have non-negligible effects on ecosystems or human welfare. Any effects on environmental, forest and natural resource aspects are expected to be negligible, and if any, positive environmental effects are expected.



## G. Risks and Mitigation

**The overall risk rating for the proposed DPL is substantial, with three main sources of risk.** The three main sources of risk rated as substantial after mitigation are the macroeconomic risk, the institutional capacity for implementation and sustainability, and the stakeholder risk. Macroeconomic risks are substantial due to increasing energy and food commodities and global shocks as well as the potential negative impacts of the COVID-19 crisis on the program development objective. This risk is partially mitigated by the Government's policy space, recent reforms and strong commitment to human capital development. In addition, the proposed DPL contributes to mitigating this risk by supporting actions that will improve the effectiveness of existing human capital spending and deploying human capital more effectively. The risk around institutional capacity is rated as substantial as well. The technical design of the proposed DPL involves several line ministries and agencies, some of them with limited experience with DPLs. The resulting risk to institutional capacity is being mitigated by close dialogue between the World Bank and the Government. The stakeholder risk is substantial given the challenges in ensuring broad buy-in for the reforms within Indonesia. To mitigate these stakeholder risks, the World Bank will provide technical support to the Government throughout the reform implementation phase and continue to disseminate evidence underlying the reform program supported by the proposed DPL with a wider group of stakeholders. The potential benefits of the proposed DPL outweigh the residual risks and warrant the World Bank's assistance.

### CONTACT POINT

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**APPROVAL**

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**Approved By**

Country Director:	Bolormaa Amgaabazar	26-Jan-2022
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