Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 11-Jul-2019 | Report No: PIDC191912

BASIC INFORMATION

A. Basic Program Data

Country	Project ID	Parent Project ID (if any)	Program Name
Indonesia	P166693		Indonesia Skills Development Project
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Does this operation have an IPF component?**
EAST ASIA AND PACIFIC	20-Jan-2020	12-Mar-2020	No
Financing Instrument	**Borrower(s)**	**Implementing Agency**	**Practice Area (Lead)**
Program-for-Results Financing	MINISTRY OF FINANCE	COORDINATING MINISTRY OF ECONOMIC AFFAIRS, BAPPENAS	Social Protection & Jobs

Proposed Program Development Objective(s)

To support the Government of Indonesia' development of a more skilled workforce by enhancing the institutional mechanisms for skill development and increasing access to quality and market-relevant training for the workforce.

COST & FINANCING

SUMMARY (USD Millions)

Government program Cost	6,000.00
Total Operation Cost	6,000.00
Total Program Cost	6,000.00
Total Financing	6,000.00
Financing Gap	0.00

FINANCING (USD Millions)

Total World Bank Group Financing	200.00
World Bank Lending	200.00
Total Government Contribution	5800.00

B. Introduction and Context

Country Context

Indonesia is the world's largest archipelagic state, fourth most populous nation, and eighth-largest economy in purchasing power parity terms. It is a member of the Association of Southeast Asian Nations group of countries as well as the G-20. There are 261 million Indonesians, comprising 300 distinct ethnic groups and speaking over 700 languages and dialects, who inhabit 11,500 of the 17,500 Indonesian islands. With a gross national income per capita of about US$3,846 (2017), Indonesia is classified as a lower-middle-income country.

Indonesia has made significant gains in economic growth and poverty reduction in the past decade. Relatively strong economic growth (on average, 5.5 percent per year since 2000) has been accompanied by a sustained decline in poverty rates: about 31 percent and 6.8 percent of the population lived on $3.1 a day and $1.9 a day, respectively, in 2016, down from 82 percent and 48 percent, respectively, in 1998. However, Indonesia's performance in terms of reducing vulnerabilities or boosting sharing prosperity is less impressive. The number of vulnerable in 2016 (i.e., those between the poverty line and 1.5 times the line) remains high, at 24 percent of the population, mainly due to a lack of productive employment and vulnerability to shocks. Together, the poor and vulnerable are 35 percent of the population. Inequality, as measured by the Gini coefficient, increased from 30 points in 2000 to 41 points by 2014, one of the fastest widening in the East Asia and Pacific Region.

In terms of human development indicators, despite progress, several challenges remain. More Indonesians are going to school than ever before, but enrollment is not equivalent to attainment. Low-income students continue to have worse indicators. Between 1990 and 2015, the average years of schooling in Indonesia increased from 3.3 to 7.9 years, and the expected years of schooling increased from 10.1 to 12.3 years. Indonesia achieved near universal enrollment in primary education, yet only three-quarters of students continue to secondary school. Dropout and discontinuation are driven by both economic and personal factors, and students of higher socio-economic backgrounds are more likely to enroll and stay in school. Disparities in access amongst socio-economic groups have also persisted. About 23 percent of villages do not have any pre-primary education services. There are also severe disparities in education service provision between urban and rural areas and across provinces. Moreover, Indonesian students perform below what is expected according with its income level on international assessments in literacy, math, and science, and nearly half of fourth- and eighth-graders demonstrate at best only a rudimentary understanding of these topics.[1] Math achievement is hindered by curriculum flaws and poor instruction methods. All this signals inadequate skill training in public education. Indeed, the country's current Human Capital Index (HCI) score is 0.53, reflecting low levels of learning, specifically 7.9 learning adjusted years for 12.3 expected years of education, among other challenges.[2] In terms of health, there are also important pending challenges, in particular with 37.2 percent of Indonesian children under 5 years of age being stunted (2013 National Health

[1] The PISA assessment is one of the most well-respected international measurements of school quality. It evaluates 15-year-old students on science, reading, and mathematics skills every five years. Indonesia has participated since 2000. In 2015, out of 72 economies, Indonesia ranked 66th in reading, 65th in mathematics, and 64th in science, making it the lowest-scoring among the Southeast Asian participating economies.

[2] Human Capital Index and Components, World Bank. 2018. https://www.worldbank.org/en/data/interactive/2018/10/18/human-capital-index-and-components-2018. 'Learning adjusted years' means that students who attend on average 12.3 years of education are only expected to cumulatively learn the equivalent of 7.9 years.

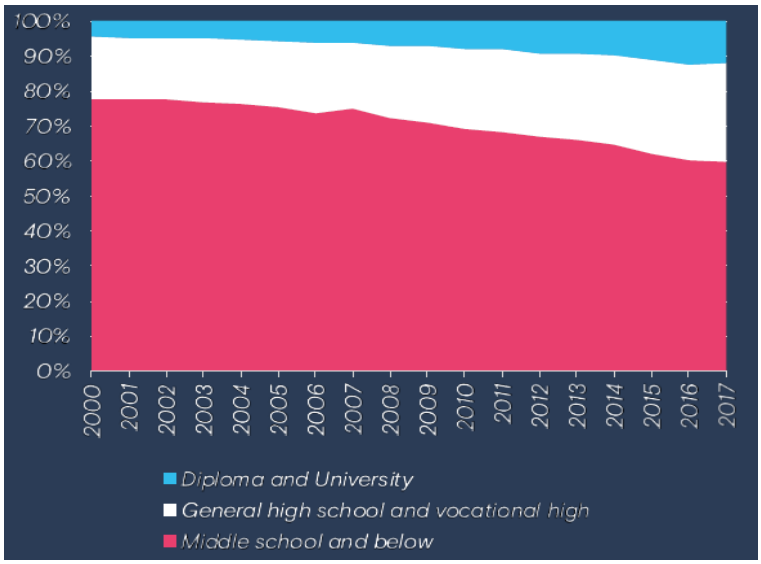
Survey), and 19.6 percent being underweight. However, there is a high degree of commitment by the Government to improve Indonesia's human capital.

Sectoral (or multi-sectoral) and Institutional Context of the Program

Indonesia is experiencing structural transformation, with employment shifting away from rural areas into urban areas. The employment rate reached a two-decade record high in 2018 while the unemployment rate continues to fall. Approximately half of workers in 2017 had wage-paying jobs, compared to 2001, when only 39 percent of workers were paid by an employer. Also during the same period the share of employment in the agriculture sector declined from 44 to 30 percent. This is relevant as one-third of agricultural employment is in the form of unpaid family workers, leaving workers more vulnerable to economic shocks or poor working conditions. Conversely, over the same period of time, employment in trade, restaurants and hotels increased from 19 to 23 percent, while employment in community, social, and personal services rose from 12 to 17 percent. This signals a shift in labor demand towards more productive sectors.

At the same time, the Indonesian labor force is expanding, growing by 1.7 million people in 2017. Between 2016 and 2017, the labor force participation rate slightly rose from 66.3 to 66.7 percent. However, the quality of jobs in Indonesia is still mostly low. Approximately 40 percent of workers are employees without a work contract, and more than 20 percent are (farm or off-farm) household enterprise owners. However, Indonesia is not expanding much the share of skilled workers in the labor force: just 11 percent of labor market entrants had a university degree or higher, which is equivalent to the share of tertiary-educated people (university or higher) in the labor force: 12.1 percent. This also suggests that most of Indonesia's labor market growth is still driven by low-skilled laborers.

Educational Attainment of the Labor Force

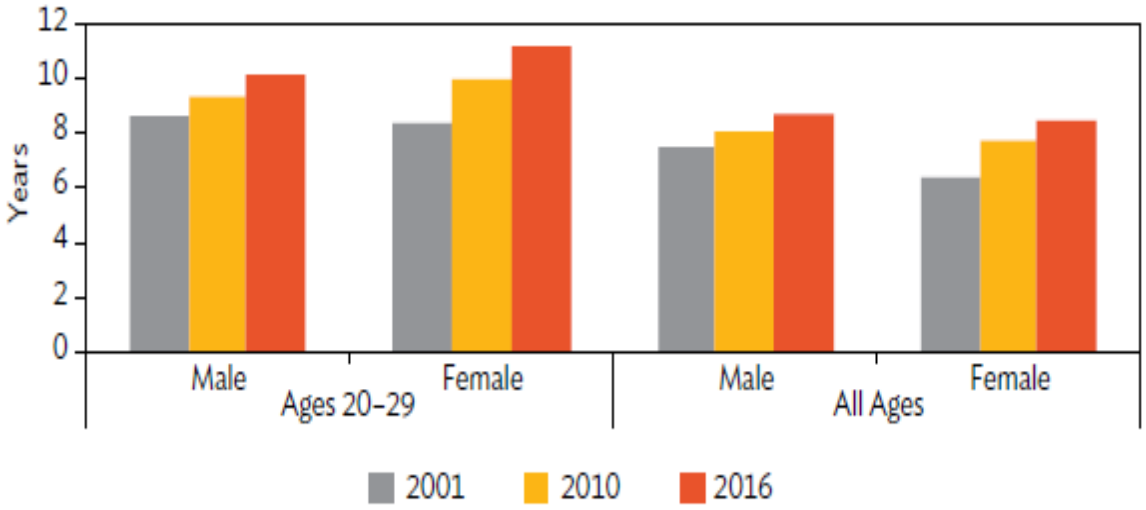


Source: Sakernas 2000-2017, WB Staff Calculations

The percentage of women who participate in the labor market has also remained low, at roughly 50% since 1990 (much lower than Vietnam, China, or Thailand, all above 65%), and only 38% of the workforce is comprised of women. These rates are lower than regional and income-level counterparts and can be attributed several barriers. Cultural norms and legal barriers include the exclusion of women from serving as heads of household and better treatment for sons over daughters in inheritance law, and even the 1974 Marriage Law states a wife "has the responsibility of taking care of the household to the best of her ability." Women from poor or rural households are particularly subject to discouragement

to enter the labor force.[3] However, these trends are expected to change as women are becoming increasingly more educated and closing the gap with males. For instance, in 2016, the number of females in the labor force with Diploma was higher than males.[4]

Mean Years of Complete Schooling by Gender

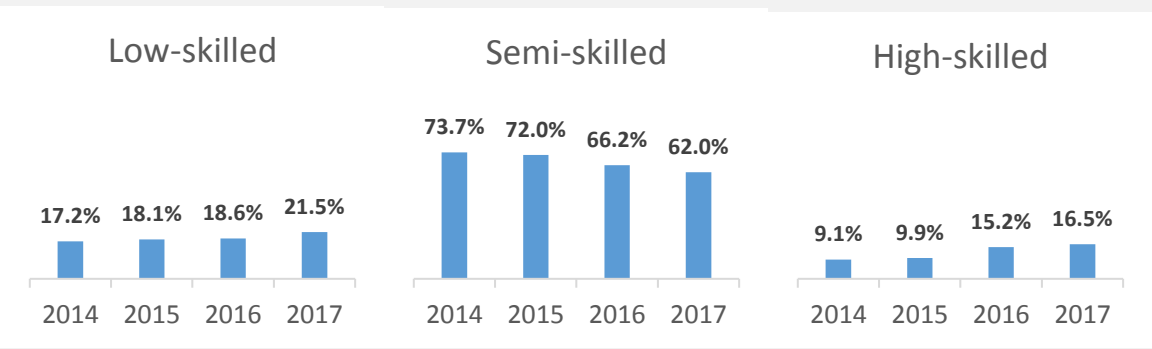


Source: Asian Development Bank (2018)

Most workers in Indonesia are employed in semi-skilled occupations (62 percent of Indonesians). Yet the proportion of semi-skilled workers has been declining over the past few years, while both low skilled and high skilled worker shares have increased. This suggests a "hollowing-out" of the mid-skilled middle of the Indonesian labor market, which is of serious concern as the country seeks to move up the value chain. One possible explanation behind these trends is the changing nature of jobs due to technology advancement. Representatives from Indonesia's employers' association say that the doubling of minimum wage between 2012 and 2018 has increased the rate of automation in some sectors because of the associated rise in labor costs relative to machines. Another potential reason behind these trends might be skills mismatch. In recent years, employers have reported difficulty filling semi- and high-skilled jobs, which may suggest that these positions may be filled by people with inappropriate skill levels or trained in fields of study where there is weaker labor demand.

[3] The gap is largest in North Kalimantan, where 45% more men participate in the workforce than women, and it is the smallest in Bali, at 13%.
[4] Asian Development Bank (2018), "Indonesia: Enhancing Productivity through Quality Jobs."

Employment by skills categories



Source: National Labor Force Survey (Sakernas)

The potential to upskill the Indonesian labor force is high. While Indonesian firms demand higher skills level, a large part of the Indonesian workforce is not able to meet these needs.[5] It is estimated that approximately 3 million of Indonesians attend formal and non-formal education every year and enter into the labor market. Of those, 2 million have the skills to perform occupations at the operator level (qualification framework level 1, 2 and 3), 0.1 million at the technician and analyst level (level 4, 5 and 6), and the 0.8 million at the expert level (level higher than 6).[6] On the other side, the estimated demand for experts is twice the supply, and the demand for technicians is four times the estimated supply. Indonesian firms are becoming more customer- and export-oriented, increasingly demanding soft skills such as leadership, communication, and relationship management. Most employers also report difficulty filling high-skilled positions, specifically managerial roles. English and digital skills are lacking in the labor force, and high turnover rates and talent poaching may create disincentives for firms to train employees. These skills demands are not being met by Indonesian job-seekers, generating high levels of skills mismatch where employees either have too many or too few skills for their jobs.

Furthermore, Indonesian employers do not believe the education and training system is producing quality graduates, an issue is likely going to get worse in light of ongoing technological transformation and automation ("Industry 4.0") unless the system is reformed. Current returns to TVET are close to zero as compared with workers that completed senior high school, suggesting that TVET today adds very little to improved job prospects.[7] A weak training system eliminates signaling, making it difficult for employers to identify candidates with a satisfactory level of skills across the spectrum (managerial, technical, digital, behavioral, etc.). Skills imbalances may be caused by several different factors. In Indonesia, these factors include: 1) Inadequate labor market information; 2) Weak fundamentals to engage in technical vocation education and

[5] The OECD PIAAC assessment measures adult literacy, numeracy, and problem solving in technology-rich environments. In 2014-15, PIAAC was administered for the first time in Jakarta to 7,229 adults aged 16-65. Indonesia was the worst-scoring participating country. The share of adults scoring at or below Level 1 was 70% for literacy and 60% for numeracy. At this level, individuals can only read brief texts or complete simple math processes such as counting. Less than 1% attained Level 4 or 5 for literacy, which demonstrates sophisticated knowledge, and only 1.4% attained similar levels for numeracy. The OECD average, for comparison, of test-takers reaching Level 4 and 5 is 10.6% for literacy and 11.2% for numeracy.

[6] The Indonesia Qualification System accommodates nine level of skills advancement. Officially endorsed by the issuance of Presidential Regulation No. 8/2012 on the Indonesia Qualification Framework, the system consists of three main categories: Operator (Level 1-3), Technician (Level 4-6), and Expert (Level 7-9). These leveling was established as a main reference for all occupational sectors to determine required learning outcomes as a result from different learning pathways (i.e. formal education, work training, and prior learning/working experience).

[7] International Labor Organization (2017), "Indonesia Jobs Outlook 2017: Harnessing Technology for Growth and Job Creation."

training (TVET); 3) Local mismatch and heterogenous quality of TVET providers; 4) Limited opportunities for on-the-job training; 5) High labor mobility costs; and 6) Rapid structural change and technological development. The table below describes how each of the factor mentioned above may be led to skill imbalances in the Indonesian labor market.

Potential Sources of Skills Imbalances in Indonesia

Inadequate labor market information and intermediation: Indonesian workers mainly find jobs through informal networks rather than through formal messaging boards, job announcements, or job matching services. The majority of TVET providers do not have the mechanisms to assess labor market performance of their graduates. The labor market matching service from the Ministry of Manpower has limited capacity, specially in the smaller districts. Additionally, this service does not gather information systematically to guide the skills development system. Therefore, students and jobseekers interested in further investing in skills may not invest in the skills that are being demanded by employers because of lack of information on labor demand and other labor market indicators.
Weak fundamentals to engage in TVET. Only 65 percent of Indonesian workers have completed a senior secondary education, indicating a relatively low level of education. In recent decades, enrollment in upper secondary education has increased substantially, suggesting future generations will be better-educated. However, Indonesia still suffers from poor school quality. Scores from the OECD's Programme for International Student Assessment (PISA) show that more than half of Indonesian students do not possess adequate skills to compete in the labor market.
Local mismatch and heterogenous quality of TVET providers. The supply of TVET providers has increased significantly over the last decade, but, in many cases, the expansion has not aligned with local demand. Additionally, the quality of TVET providers is highly heterogenous. The use of accreditation of TVET institutions and certification of graduates, as a quality assurance mechanism has been limited.
Limited opportunities for on-the-job training: According to the World Bank's Labor Market Stakeholders' Perception Survey 2016, only one-third of Indonesian medium-size firms provide training to workers. Meanwhile, one-third of large firms that are required under Indonesian labor regulations to provide worker trainings have failed to comply with it. Only just 5 percent of the labor force reported receiving formal training.
High labor mobility costs: Recent evidence shows that higher housing prices and rising minimum wages in Indonesia have limited the ability of individuals who experience negative economic shocks to find a job.[8]
Structural changes and rapid technological change (Industry 4.0): The Indonesian economy is transitioning from an agriculture-based economy towards a more manufacturing and service-led economy. In addition, the quick adoption of new technology, may lead to skills imbalances as the labor supply adjusts to changing needs. One important aspect is digital and ICT skills, in the context of Industry 4.0, currently undersupplied by the training system (recent estimates suggest that the country currently falls short of 9 million ICT-skilled workers).[9]

[8] Source: Cali, M., T. Hidayat, C. H. Hollweg, "Determinants of Labor Mobility Costs in Indonesia," preliminary and incomplete draft, July 2018.

[9] Tan, K. and J. Tang (2016), "New skills at work: Managing skills challenges in ASEAN-5."

In Indonesia, the TVET system consists of formal and non-formal tracks, that cover several trades.[10] The Ministry of Education and Culture (along with the Ministry of Religious Affairs, and the Ministry of Research, Technology, and Higher Education) oversee formal education institutions, while both the Ministry of Education and Culture and the Ministry of Manpower oversee (independently) thousands of non-formal training institutions. Around 16 different line ministries, along with local governments, also have direct implementation control or oversight of many of these training institutions, with limited coordination among themselves. Formal vocational education prepares young people (16-24 years old) for their first job and consist of vocational high-schools (SMKs) at the secondary level, and polytechnics and community colleges at tertiary level. Latest data indicates that there are 13,410 SMKs, almost 75% private, with more than 4.9 million students in 2018. At the same time, 2,131 institutions at tertiary level serve nearly 620,000 students.[11] Non-formal training programs are designed to provide skills for initial job seekers without formal vocational education background and workers whose jobs have become obsolete (re-skilling) or as part of workers' career development (up-skilling). For non-formal education, 5,706 work training centers (BLKs) covering 2.0 million students, and 19,633 operated training institutions (LKPs).[12] More than half of training institutions (SMKs, BLKs) are relatively small compared to international standards, with less than 200 students each.

Two major skills training streams in Indonesia

	MOMT	MoEC
Competency Standards	Oversees the development of competency standards	BSNP (Indonesian National Education Standard Board)
Accreditation Authorities of training providers	LA-LPK (Non-formal Accreditation Authority, MoM)	BAN-PNF (Non-formal Accreditation Authority, MoEC)
Training	Non-formal training private institution (LPK) BLKs (Vocational training center) Apprenticeship system	Non-formal training private institution (LKP) Formal vocational education in SMKs, polytechnics, academies, community colleges
Certification	**BNSP (MoMT provides secretarial support)** LSP (Professional Certification Institution) Third party, private institutions	**BSNP** LSK (Competency Certification Authority) Third party, private institutions
Association of training providers	HILLSI (Association of Indonesian Training Institutions)	HIPKI (Association of Indonesian Training and Course Providers)

Source: World Bank (2017), "Revitalizing the Skills Training System in Indonesia: Proposed reform options"

[10] "Formal education" refers to traditional courses related to education, i.e. upper secondary, university, and polytechnics, or other studies that lead to a degree (and skills acquired can be certified). "Informal education" refer to shorter courses that can lead to a certification but not a degree (nonetheless, through a modular approach, an accumulation of shorter courses could lead to a degree).
[11] Malik, A., T. Jasmina, and T. Ahmad (2019), "Chapeau Paper: Indonesia Technical and Vocational Education and Training."
[12] World Bank (2019), "Mapping of Training Institutions in Indonesia".

TVET: Programs, Institutions and Students

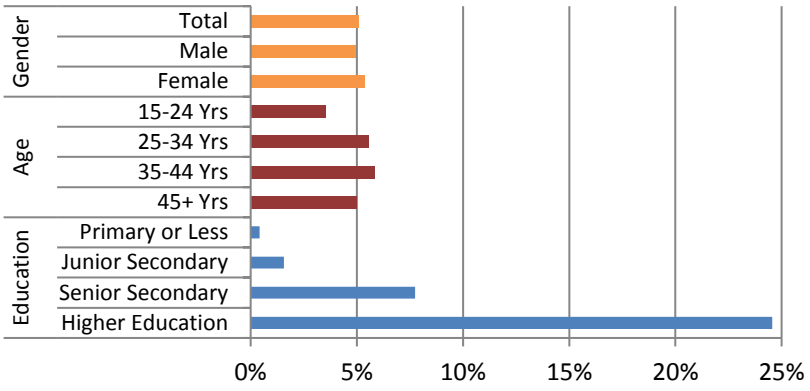
	Non-Formal		Formal		Total
	BLK	LKP	SMK	PT	
Number of Programs	**13,012**	**23,391**	**29,485**	**5,705**	**71,593**
Agribusiness	620	227	1,942	131	2,920
Arts	1,206	994	1,321	116	3,637
Business & Management	5,428	656	6,196	1,538	13,818
Energy & Mining	235	-	96	-	331
Health	666	374	2,602	1,208	4,850
ICT	4,349	6,565	13,856	1,478	26,248
Maritime	-	15	1,084	1	1,100
Tourism	98	1,445	1,922	128	3,593
Others	410	13,115	466	1,105	15,096
Number of Institutions	**5,706**	**19,633**	**13,410**	**2,131**	**40,880**
Number of Students	**2,004,723**	**n.a.**	**4,934,847**	**619,596**	**7,559,166**

The training system is plagued by quality concerns and mis-matches. For instance, recent statistics show that the unemployment rate among SMKs graduates is 11.2%, the highest across all educational levels. Involvement of industry is limited, and very few trainees acquire the relevant practical experience. Certification is also a serious issue: most SMKs are not yet licensed as professional institutions by the Indonesia Professional Certification Authority (BNSP). And despite the large number of graduates, they are concentrated in specific areas where there may be oversupply of graduates, while at the same time not covering much others plagued of shortages.[13] SMKs often lack appropriate infrastructure and facilities, such as computer network, internet bandwidth, laboratory facilities, etc. BLKs also suffer from similar issues and constraints as SMKs. A World Bank survey in 2011 revealed that 67% of BLKs had never received equipment in the previous two decades, and only 36% of the instructors had industry experience. And around 95% still conducted evaluation without independent verification. Though most of the BLKs are under the authority of local governments, their operationalization depends on funding at central level.

The fact however, remains, that the coverage of the current skills training system is very low. Only 5 per cent of the labor force reports having received further training, the majority of whom completed at least secondary education (see Figure 3). Workers who did receive training are mostly employed in the financial sector and in the public service. The low coverage of skills training can be in part attributed to the supply of low-quality training available but must also be considered in respect to the low demand from firms due to employers' financial constraints and lack of incentives for on-the-job training. Firms in Indonesia offer much fewer training opportunities to their employees compared with firms operating in other East Asia countries and globally. Small and medium sized firms offer very little training, while large firms offer less compared to those in the region. The lack of a critical mass of firms in Indonesia demanding quality training in certain sectors contributes to an under-developed supply of relevant training, as does wage compression, which reduces the demand from workers for quality training.

[13] Malik et al (2019).

Share of Labor who report having received training (Sakernas, 2015)



Source: World Bank (2017), "Revitalizing the Skills Training System in Indonesia: Proposed reform options"

Share of Firms that Conduct Formal Training	(%)
East Asia and the Pacific	31.7
Middle Income Countries	36.2
Indonesia 2009	10.1
Indonesia 2015	12.9
Malaysia	30.9
Philippines	56.1
Vietnam	25.1
Thailand	35.9

Source: Gomez-Mera and Hollweg (2018), "Firm Performance and Constraints in Indonesia".

Percentage of firms that cited inadequate skills in trying to hire each type of worker

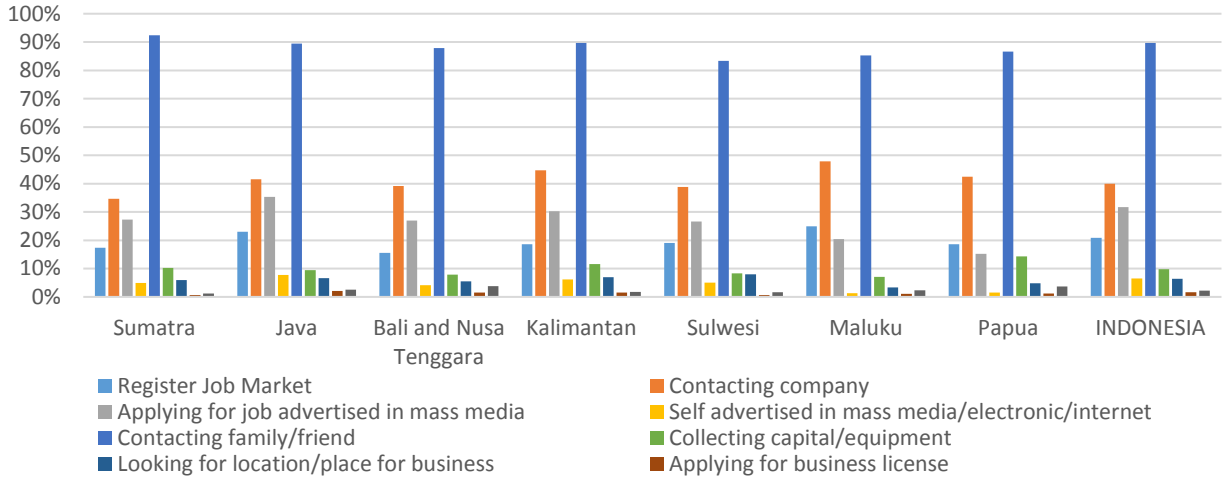
Type of worker	Indonesia (2009-2015)	Malaysia (2015-2016)	Thailand (2015-2016)	Philippines (2015-2016)
Managers	76.7	30.2	75	34.2
Non-production technicians, associate professionals, and sales workers	67.3	50	86.7	55.6
Skilled production workers	55.1	39.5	46	69.3
Unskilled non-production workers	43.4	25.6	57.1	38.9
Unskilled production workers	21.8	38.5	25	48.1

Source: Gomez-Mera and Hollweg (2018).

Even for those workers or prospective workers undertaking training, services to match to available employment opportunities are underdeveloped. Over 90% of job seekers report contacting family or friends to find a job, making it the most common search method in Indonesia. Whole several labor market information programs exist, there is little analysis

of their impact or their functioning. In general, these programs are regulated by Ministry of Manpower and are operated by its regional offices, also known as Disnaker offices. Their quality varies depending on the capacity, interest and resources of the local Disnaker office. There are indications that these systems are not effective at connecting employers with potential candidates and offering signals to the market on the skills and experiences sought by employers. In addition, these systems only cover the formal economy, not the informal economy, which is a significant source of employment creation for disadvantaged and poor people, and are not linked effectively to TVET institutions, nor in active coordination with professional associations, chamber of commerce, industrial zones, etc., to facilitate the job vacancy posting process.

Employment Search Methods (% of Job-Seekers) by Region

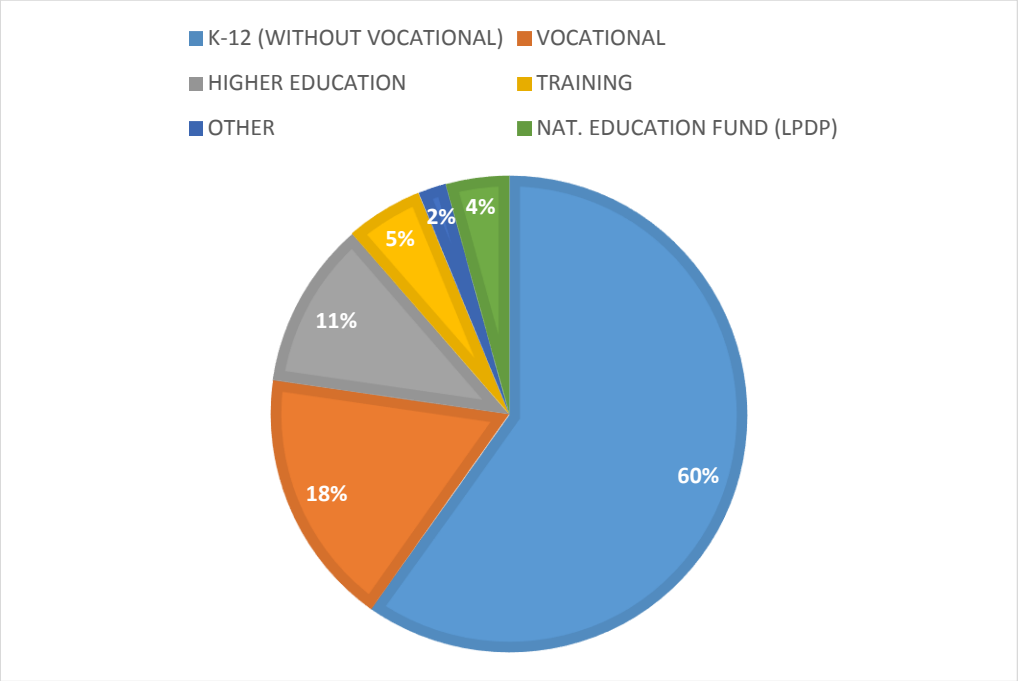


Source: Sakernas, 2016

The Government of Indonesia has recognized the importance of skill development to economic growth. The skills system is regulated by the Law 20/2003 on the Education System, Law 13/2003 on Labor and Manpower, Presidential Regulation 8/2012 on the Indonesian National Qualification Framework, Presidential Regulation 9/2016 on Revitalization of SMKs, Government Regulation 31/2006 on the National Training System, and the Government Regulation 10/2018 on the Indonesian Professional Certification Authority. The 2015-2019 National Development Plan (RPJMN) also recognizes the need to improve competitiveness of labor and human capital and has identified skills development as a priority area through which such competitiveness can be improved. The RPJMN further elaborates the need to (i) harmonize competency standards and certification; (ii) develop partnership in skills development between the Government and the private sectors and between the central government and the local government; (iii) develop a skills development fund; and (iv) to improve quality of existing competency-based training institutions by introducing a more comprehensive program management. Moreover, in September 2016, President Joko Widodo issued Presidential Instruction No. 9 2016, mandating the revitalization of Indonesia's vocational education system. This action acknowledges the urgency of skill development reform. It also recognized that the Indonesian economy must adapt to structural changes in order to reap the benefits of the country's demographic bonus, strategic position, and past economic growth.

Consequently, the overall government budget has doubled over the past 15 years in tandem with economic growth, benefiting all sectors, particularly education and training. Growth of the government budget, coupled with a constitutional mandate to allocate 20 percent of the budget to education and training, expanded sector resources significantly, to IDR 492.5 trillion (US$32.8 billion) in 2019. The Government is also considering use of other potential resources to use for scholarships, such as the Endowment Fund for Education (DPPN), which by the end of 2019 will have US$ 6.3 billion in capital.

Distribution of Education and Training Public Expenditures



Source: World Bank calculations based on 2019 budget.

Despite this impressive fiscal effort, several challenges still hamper the well-functioning of the skills development system:

- The existing mechanisms to identify the competencies that the industry needs have been only partially implemented. Per mandate, competency standards are to be developed by the line ministries, with participation of the private sector under the technical guidance of Ministry of Manpower. A recent study for ten ministries that provide training found that only 23% occupations have developed their competency frameworks.[14] The main reason is lack of prioritization of the competence development by line ministries, both in terms of financial and human resources.
- Given poor quality assurance, there is high heterogeneity in the quality of TVET providers and many are not delivering the right competencies. Quality assurance mechanisms are weak, allowing poor quality TVET institutions to operate. Focus is mostly on technical skills, without adequate attention to soft-skills complementary development.[15] Additionally, given the lack of approved competencies, many training institutions and certification bodies operate without them (defined competencies are only used in 33% of training programs and 36% of certification programs).
- In practice, several independent skills development mechanisms operate with limited coordination and limited participation of the private sector in the governance structure. For example, there is little collaboration between BLKs under MoM and under local governments, between BLKs and SMKs, and between SMKs and Polytechnics.

[14] World Bank. 2018. Assessment of Development and Implementation of Competency Frameworks (SKKNI) In Indonesia.

[15] The Institute of Technology in Bandung conducted a survey of their students' soft skills on a scale of 1 to 7, which 7 demonstrating a strong skill level. Practical thinking scored high, with 71% of students scoring above a 5. Similarly, 88% of students scored above a 5 for concentration. However, other skills such as leadership, autonomy, and adaptation scored poorly with over 50% of the students below a 3.

- The use of data for planning is limited. Information is not captured in a systemic way to adapt the training sector to changes in labor demand from public and private sector. Recent developments are promising, as MoM has started development of a labor market information system (*AyoKitaKerja*) to facilitate job matching and guide priorities in competence and skills development. Similarly, CMEA is establishing a "critical occupations list" that identifies the most demanded occupations and is expected to be updated periodically.

In order to implement the RPJMN 2015-2019, different ministries have developed several “roadmaps” and Operational Guidelines, though in a parallel and not well articulated way. For instance, CMEA has developed the Roadmap of Vocational Policy in Indonesia 2017-2025, which provides an overview of the future need and outlines the direction for development of VET (including SMKs, BLKs, and Polytechnics). In parallel, the Ministry of Manpower has developed the Grand Design of National Vocational Training 2017-2019, which includes guidelines on the development of non-formal skills in training at BLKs and LKPs. The Ministry of Education and Culture has developed the Roadmap of SMK development 2017-2019 and the Strategy for Implementation of SMK Revitalization. Finally, the Ministry of Research, Technology, and Higher Education has developed their Vocational Higher Education Revitalization Program, and the Teacher Training Institution Revitalization Strategy, both in 2016.

To implement the different plans, line ministries have also started several important actions. On the institutional side, the Ministry of Manpower has established a TVET committee with participation of the private sector, to provide guidance for their decisions with regards to training. Most line ministries continued in their effort to finalize the development of their respective sectoral competency frameworks, as well as the acceleration of the accreditation of TVET institutions (particularly at the SMK level). With regards to data management, the Ministry of Manpower has launched a labor intermediation system (*Ayokitakerja*), and initial actions have been taken to elaborate a first Indonesian Critical Occupation list. Finally, with regards to the supply side, in recent years there has been a massive expansion of the number of vocational education training providers, specially at the SMK level. Also, through the BLK revitalization program, the Ministry of Manpower has restructured the course content of their BLKs, creating 17 high quality BLKs directly under their direct supervision support other training institutions (owned by local governments or the private sector). At the same time, beside accommodating the expansion of SMK, the Ministry of Education and Culture has also started the implementation of the SMK revitalization program, to improve the alignment with the private sector, the infrastructure conditions, and teacher quality at the SMKs (though given resource constraints, the program has reached less than 10 percent of the existing SMKs).

More recently, the Government of Indonesia (GoI) has announced the creation of a subsidy scheme for technical training and certification (*Kartu Pra-Kerja*) for “triple skilling”: a) up-skilling the employed (job competency improving, skills updating); b) re-skilling those terminated and in unemployment; and c) skilling first-time graduates and job seekers. Initial targets are to reach 500,000 individuals in 2019, and 2 million in 2020. The scheme will also provide a cash incentive scheme during training and after for up to 6 months, until trainees can find a job. The intended modality will rely on new digital technologies, for selection of training courses, and in same cases for online delivery as alternative to traditional face-to-face approach. It is expected that a newly created National Vocational Education and Training Committee, co-chaired by the Coordinating Ministry of Economic Affairs (CMEA), the Coordinating Ministry for Human Development (Kemenko PMK), Bappenas, and Ministry of Finance, with a Program Management Office (PMO) sitting in CMEA, will implement *Kartu Pra-Kerja*.

Finally, the Government is also intended to reform DPPN to pay for scholarships, and for potential financing for TVET in the near future. According with LPDP (the agency managing DPPN) there is increasing focus on allocating scholarships to achieve broader policy objectives, in particular through allocating 80% of funding to “affirmative action” scholarships (including potentially TVET) in four groups: (a) students from lagging regions, (b) civil servants/police/army, (c) training of

university lecturers and (d) religious school students. This reform is likely to be combined with a new Skills Development Fund, which would provide most of the funding for results-based training approach under the reformed scheme.

Nevertheless, all actors recognize that to achieve improved allocation, quality and efficiency of public spending on the Indonesian TVET system, the following principles should be followed:

- *Respond to the evolving needs of the industry and of the population.* The TVET system should provide workplace skills through both education and training institutions and enterprises and adapt rapidly to the technological change associated with Industry 4.0. It should provide education and training for students of all ages and backgrounds, from operators to experts, and opportunities of frequent upskilling throughout the lifetime. This will require a more modular approach to course offerings, with an emphasis on short course training and soft skills in addition to technical skills.
- *Incentivize high quality.* TVET institutions should provide graduates with the skills required by the industry and employers, with certifications that are recognized nationwide. Moreover, TVET institutions should become outcome oriented, focusing on the skills students will need in the job market. Many of the current institutions may not operate at the optimal scale, so some of them may be forced to merge or close for inability to operate in a high standard context. The agencies in charge of quality control must monitor compliance with national standards and investigate quality concerns.
- *Provide adequate funding under the right governance structure.* Resources should guarantee an adequate supply of TVET providers, and crowd in resources from government, enterprises and individuals. The governance structure, with a central role of the private sector, must ensure that resources are allocated to high quality programs in areas under high demand.
- *Be based on data and consumer information*. The system should collect information on student training records and provide publicly available information on occupation descriptions, courses and training providers. Based on labor market information, critical occupation lists should be used to prioritize resources.

The proposed Program-for-Results thus focuses on enhancing the efforts in revitalizing the education and training system in Indonesia as a critical step to develop a more skilled workforce to meet labor demand across sectors, and thus continue underpinning Indonesia's economic growth prospects. There is a critical role for the education and training system to address the skills mismatch by helping to re-orientate labor to more productive sectors of the economy, through the provision of relevant skills training that enables this transition; and to upgrade the curricula of the training and worker closer with employers for the education system to train persons with the skills demanded by employers. Most of the efforts are in this direction, though need better articulation and unified strategic direction that this Program for Results intends to provide.

Relationship to CAS/CPF

The proposed Program-for-Results is well aligned with the World Bank's twin goals of eliminating extreme poverty and increasing shared prosperity. It supports the Country Partnership Strategy (CPF) for Indonesia FY16-FY20, in particular under the Engagement Area (EA) 6: Collecting More and Spending Better; and the Supporting Beam (SB) II: Shared Prosperity, Equality, and Inclusion. The task is also contributing to the achievement of CPF objective indicators on: (i) Central government spending on health, capital expenditure and social assistance (EA6); and (ii) Support creation of and access to productive jobs (SB II). Similarly, with a strategic focus on delivery systems strengthening, and promoting human capital, the Program is aligned with the Bank's Social Protection and Labor Strategy 2012-2022. The proposed Program is also closely linked to the priorities of the World Bank's 2018 World Development Report (WDR) on "Learning to Realize Education's Promise", and the 2019 WDR on "The Changing Nature of Work". Both reports provide evidence for improving

education and training systems at scale and discuss how to prepare the labor force to cope with technological change through alignment of competences to emerging labor demand, and to improve job matching.

Rationale for Bank Engagement and Choice of Financing Instrument

The Bank is well positioned to support the GoI in the reform of its skills development system. Through the last several years of engagement in the skills, education, and job sector, the Bank has established itself as a knowledge organization that is uniquely positioned to bring international good practice to bear. The Bank has supported a range of analytical work that has strengthened the overall jobs and skills sector: a) the 2010 Indonesia Jobs Report: Towards Better Jobs and Security for All; b) the programmatic task Delivering Work Opportunities for All Indonesians: An Engagement Program (P146480) during 2013-2017; and c) the ongoing programmatic Indonesia Jobs Action Program (163964). Additionally, the Bank's convening authority in the sector is well recognized, as is its commitment to supporting government-led, multi-donor processes.

In particular, the Bank has an extensive track record in leveraging substantial expertise in expanding/reforming VET and broad skills development sectors, bringing the best available global knowledge to the project. Moreover, the Bank is among GoI's major external partners, and the Government sees value in having the Bank's backing in reforming its ambitious skills development program. The Bank brings expertise to develop the instruments and tools required to operationalize the scale-up of large skills interventions and monitor them adequately. The Bank financing support can also allow deep engagement and dialogue with other central ministries (Ministry of Finance, Ministry of Planning/Bappenas) on the importance of continuing to support the skills agenda, and in helping protect the budget needed to fulfill this mandate.

Providing the financial resources through the Bank's Program-for-Results (PforR) instrument will also ensure that the proposed operation effectively supports this multi-sector agenda, by incentivizing institutions delivering skill services to address issues across sectors and levels of government and to use existing resources more effectively. This operation will also draw from the successful experience of two recent Bank PforR operations in the Human Development sector: the Social Assistance Reform Project (P160665), and the Investment in Early Years (P164686).

Successful implementation of a skills development reform Program in a complex institutional environment will require sustained high-level engagement and commitment, and the PforR instrument will provide the incentives for more efficient and coordinated service delivery of the required interventions. This will be done by (a) establishing a management mechanism to regularly set targets, monitor results, and hold implementing agencies accountable for performance; (b) addressing multisectoral and multilevel coordination problems that constrain effective delivery of programs and interventions; (c) prioritizing delivery of core services that are critical to skills development; and (d) establishing a system to generate, collect and manage regular and reliable data for results-based management of interventions. The PforR can thus enable a strategic focus on the interventions of the Indonesia skills development system that the World Bank considers key triggers for enhancing it. Second, it can ensure a sharper focus on the most important results GoI wants to achieve, by linking World Bank funding directly to the achievement of specific results rather than inputs. Third, it can leverage and strengthen country systems, including public financial management, procurement management, and social and environmental systems management needed for the Program to achieve its desired results. Fourth, it can incentivize central and local governments, and training institutions, to focus on delivering results, while providing them flexibility to innovate and develop their skills development systems. Fifth, it can strengthen the skills system's focus on output and outcome monitoring and development and implementation of an independent and credible verification system. Finally, it can leverage World Bank assistance in innovative ways by fostering partnerships with the private sector for greater development effectiveness.

C. Program Development Objective(s) (PDO) and PDO Level Results Indicators

Program Development Objective(s)

To support the Government of Indonesia' development of a more skilled workforce by enhancing the institutional mechanisms for skill development and increasing access to quality and market-relevant training for the workforce.

PDO Level Results Indicators

The progress towards achieving the PDO will be measured through five key results indicators provided below:

i. Percentage of institutions and programs following revised competency frameworks
ii. Number of certified trainees under *Kartu Pra-Kerja* modality
iii. Number of certified trainees under reformed DPPN
iv. Percentage of trainees in prioritized occupations with high demand
v. Number of industry councils established

D. Program Description

PforR Program Boundary

The PforR is anchored in the Government of Indonesia (GoI)'s overall program for skills development, as identified in the country's medium-term national development plan (RPJMN, 2015-2019), in conjunction with the different subsequent roadmaps and plans led by different line ministries and described in the previous section. The graph below illustrates the key areas of coverage of PforR within RPJMN framework. The next RPJMN 2020-2024 is expected to expand this overall program, by including new aspects as worker's entitlement card program, and reform to public sector scholarships, as well as a revised institutionality for the sector under the National Vocational Education and Training Committee.

Reform of the skills development system is both complex and wide-ranging, and the RMJSN represents the full range of what needs to be done in the long term to transform the Indonesian skills system. Given the evolving status of the next RPJMN, the program boundary of the PforR can be expected to change, along the depth and scope of the operation. During preparation of this proposed Program, agreement will need to be reached in what is a manageable set of reforms for the next four years.

Initial discussions indicate the following possible priority results areas and activities, as selected elements within the Government's program areas:

Results Area 1: Development of competency frameworks and strengthening the quality assurance system and portability of certification credentials. Competence frameworks, that later will be used for training and certification, should explicitly take into account industry needs (including the socioemotional skills needed to perform different occupations) and included in training packages[16]. In Indonesia, despite several explicit legal mandates, the development of competence frameworks has not been finalized, and their use in accreditation and training is limited. This results area will support the completion of the competence frameworks and their regular updating. To ensure the use of the

[16] A training package for an economic sector includes the education and training supply across all the levels of the Indonesian Qualification Framework and the content of that supply.

competence frameworks, this results area will also support their use in the accreditation process of TVET institutions and the creation of a single national database of TVET institutions, including type of trade and their level in the qualification framework, accreditation status, output and outcomes. The database will be developed and initially maintained by Coordinating Ministry of Human Development (given the multiplicity of actors in the sector provision). To promote certification and facilitate recognition of prior learning, this results area will create a national database of TVET recipients, including certification obtained. The database will be initially maintained by the Ministry of Manpower and focus on a system for collecting certificates for new graduates of training programs. Given that accreditation and certification will require a large number of specialized institutions, BNSP will create and maintain a national database of accredited and certified institutions (LSPs).

Results Area 2: Expanding access to quality training, especially for disadvantaged groups. This results area will ensure adequate prioritization of resources across line ministries' budgets, for adequate financing of key training packages, under a new Skills Development Fund. The PforR will stipulate that for all ministries, additional resources for TVET institutions should go only to accredited institutions, based on payment per graduate that achieves certification (results-based approach). The proposed PforR will also create incentives for TVET providers to build short modular courses (including online), such as competitive funds to develop the course, and then subsequent payments per graduate. It will also develop a voucher scheme, such as entitlement cards (*Kartu Pra-Kerja*), where users (in particular, disadvantaged groups, including women, the poor, the disabled, that currently has few opportunities to access) can purchase skills development services from public or private accredited providers. Finally, to ensure that training packages cover all levels of the qualification framework, including specialist levels, this area will also support the revision of the public sector scholarship scheme (DPPN) to align the beneficiaries to the priorities of skills development needs.

Results Area 3: Strengthening of the labor market information system to guide skills development priorities. The redesign of Indonesia's Labor Market Information System (*AyoKitaKerja*), and the establishment of a Critical Occupation List will actively inform training providers and general public on priority occupations and competences (technical, soft skills) for both private and public labor markets. The PforR will thus support the development of an information system of all the occupations with skills needed and institutions/on-line courses that teach those skills[17]. This area will also support the continued upgrading of employment offices (equipment, training of manpower), as essential actors to facilitate job-skills matching.

Results Area 4: Reform to the governance structure by increasing the role of the private sector. This results area will support the establishment of a Presidential-level council, the National Vocational Education and Training Committee, to define policies that will ensure the right skills Indonesia needs. The National Vocational Education and Training Committee will lead the skills development platform, and will be co-chaired by CMEA, Kemenko PMK, Bappenas, and Ministry of Finance. It will also include as members the Ministry of Manpower, the Ministry of Education and Culture, the Ministry of Religious Affairs, the Ministry of Research, Technology, and Higher Education, and the Ministry of Industry. It will also count with representatives from the private sector (APINDO, KADIN). Similarly, a PMO will be established under the lead of CMEA. The PMO would function as a Secretariat to the Committee and advise it on policies, particularly on their relevance to the existing demand. The Committee will oversee and get advice from different Industry Councils. The Industry Councils, which will have the lead of the respective line ministry and include the relevant private sector and research institutions, will effectively oversee skills development within a given industry (including public sector civil service), and elaborate, and periodically revise, the training packages within each industry and assess skills trends in each industry. The Industry Councils will also identify collaboration opportunities with different institutions participating in the system, across subregions in Indonesia.

[17] The system will be integrated with the databases created under Results Area 1.

Activities	Outputs	Intermediate Outcomes	Outcomes
Results Area 1: Development of competency frameworks and strengthening the quality assurance system and portability of certification credentials.			
Revision of competence-based training curricula of key sectors, including private sector participation	***Competency frameworks approved in key sectors****	***Implementation of competency frameworks in training programs*** **(PDO Indicator i)**	**Increased quality and pertinence of training**
Blueprints for development of databases on TVET providers, certification institutions, and TVET recipients	***Databases developed and rolled out****	Databases updating information on frequent basis	
Results Area 2: Expanding access to quality training, especially for disadvantaged groups.			
Strategy to finance TVET provision based on results-based approach in key sectors	Approval of budgeting for TVET institutions in key sectors using results-based financing	***Allocation of budget for TVET institutions in key sectors following results-based approach****	**Improved access and effectiveness of resources allocated to training**
Strategy for incentivizing the development of online short courses, and prior learning certification	Approval of incentives for development of short courses, including prior learning	***Roll out of awards of short-course development incentives****	
Design of Kartu Pra-Kerja established and approved	Implementation of *Kartu Pra-Kerja* modality for training courses (face to face and online)	***Number of certified trainees of Kartu Pra-Kerja modality**** **(PDO indicator ii)**	
Strategy to reform DPPN public scholarships	Approval of DPPN reform	***Number of certified DPPN trainees under new modality**** **(PDO indicator iii)**	
Results Area 3: Strengthening of the labor market information system to guide skills development priorities.			
Conceptual design of skills monitoring platform	***IT development and software for skills development platform***	Information released on competences needed for sector development	**Improved job placement opportunities**
Data analysis for establishing critical occupation lists	***Critical occupations list developed and updated periodically****	Training prioritized in occupations with high demand (PDO Indicator iv)	
Stocktaking of current situation of employment offices	*Strategy elaborated to strengthen employment offices*	***Usage of public employment offices across Indonesia by employers and job seekers ****	
Results Area 4: Reform to the governance structure by increasing the role of the private sector.			
Strategy for improved linkages between TVET providers and private	***Protocols and memorandums of cooperation signed with***	***Establishment of industry councils**** **(PDO indicator v)**	**Establishment of new governance structure for TVET sector**

sector representatives	***key industry players****		

Note: Proposed DLIs are bold and in italic. * indicates scalable DLI.

The Bank will disburse funds for $200 million over four years through disbursement-linked indicators (DLIs) for the Program. The three main criteria for selecting these DLIs are that: (a) the desired results are within the control of the implementing agencies; (b) the DLIs are achievable in the program period; and (c) the DLIs are verifiable. The DLIs will be designed combining both scalability (financing proportional to the progress towards achievement) and floating (disbursements made when they are met) features. During Program preparation, agreements will be reached on how the DLIs will be reflected in targets for individual ministries, and how results-based approaches will be integrated into government activities and sub-programs.

E. Initial Environmental and Social Screening

In conjunction with the OP/BP 9.00, the Environmental and Social Systems Assessment (ESSA) should take into account applicable and relevant environmental and social issues. The initial screening of ESSA indicated that activities and investments included under the proposed PfR Skills Development Project do not include hard infrastructure assets, but are focused on enhancing institutional mechanisms for skill development and delivery of technical skills and capacity building. No adverse environmental impacts are foreseeable from these TA-type activities, and no physical footprint that could cause adverse impacts is expected. Potential environmental risk is considered to be low. This is also the case of the government expenditures co-financed by the program (devoted to benefits or grants to provide training and other active labor market policies). Under these considerations, it has been proposed that the ESSA to focus on mainly social aspects, as detailed in the paragraphs below.

Potential challenges are mostly related to the process by which the poor and vulnerable are included in and have access to skills development interventions. Uneven access and training capacity as well as dealing with IT among regions in Indonesia, especially in remote areas should take into in the project intervention. The interventions introduced through this operation are intended to improve social inclusion measures in the identification and targeting of subsidies for training. The expansion of skill opportunities also aims to reach underserved areas such as Papua and West-Papua Provinces and outer islands in East Indonesia, where concentration of Indigenous Peoples and vulnerable community groups is highest in the country. Still, expanded implementation is likely constrained by the current capacity of local providers to effectively deliver training of desired pertinence and quality, and target potential beneficiaries accurately.

The ESSA will assess the outreach, targeting practices, delivery of training services, consultative and participatory processes, incentives and disincentives as well as potential social impacts and perceptions of impacts both at the participant and implementing institutions levels. The ESSA aims to serve as a diagnostic assessment of how the current skills development systems operate and what measures are needed to improve social inclusion and reduce exclusion issues. Action plans will be presented and consulted to relevant stakeholders both at the national and sub-national levels during appraisal to ensure that inputs are widely captured and reflected in the final ESSA.

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Legal Operational Policies	Triggered?

Projects on International Waterways OP 7.50
Projects in Disputed Areas OP 7.60

Summary of Screening of Environmental and Social Risks and Impacts of the IPF Component

Note To view the Environmental and Social Risks and Impacts, please refer to the Concept Stage ESRS Document**.**

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