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Address by **JIM YONG KIM**,
President of the World Bank Group,
to the Boards of Governors of the World Bank Group,
at the Joint Annual Discussion

REMARKS

Chairman Orpo, President Jokowi, Madame Lagarde, Governors, Ministers, Friends,

Welcome to the 2018 IMF-World Bank Group Annual Meetings. It's an honor to be here in Bali, and we're grateful for the very warm welcome from president Joko Widodo, Coordinating Minister Luhut Pandjaitan, Minister Sri Mulyani Indrawati, and the government and people of Indonesia.

- Saya menyampaikan/
- belasungkawayang mendalam/
- atas kehilangan jiwa/
- dan kerusakan di Sulawesi Tengah dan Lombok.
- Kami semua di Grup Bank Dunia/
- siap mendukung pemerintah/
- dan rakyat Indonesia.

We stand shoulder-to-shoulder with Indonesia. Indonesians are a resilient and compassionate people, and they will rise from this challenge stronger than ever.

I'd like to take a moment to thank our Governors, our Board, and our dedicated staff around the world for delivering an historic capital increase. Thank you for the faith you put in us, and for giving us more resources to tackle the world's biggest problems like the tragedies that struck Indonesia this year.

The natural disasters in Lombok and Sulawesi are a reminder of why we gather every year. We have to agree on ways forward in tackling the biggest challenges our clients face:

- How can we help them build resilience to natural disasters such as earthquakes and tsunamis, and tackle the climate shocks that exacerbate them?
- How can countries manage debt levels, so they don't stifle economic growth?
- How do we help countries invest in their people and prepare for an increasingly complex future?

- And above all – what will it take to promote economic growth and help lift people out of poverty everywhere in the world?

We've gathered here this week to share new ideas and approaches to answer these questions and accelerate progress toward our twin goals: to end extreme poverty by 2030; and to boost shared prosperity among the poorest 40 percent around the world.

Our bi-annual *Poverty and Shared Prosperity* report, which we will release next week, shows how much progress we've made – and how much further we have to go. Over the last 25 years, more than **one billion people** have lifted themselves out of extreme poverty. The global poverty rate is around **10 percent** – the lowest it has ever been in recorded history.

This is one of the great achievements of our time, but **736 million people** still live in extreme poverty – less than **a dollar-90 cents** a day. A quarter of the world's population lives on less than **3 dollars-20 cents** a day which is the poverty level in lower-middle-income countries. And nearly half of the people on Earth live on less than **5-and-a-half dollars** a day – the poverty level in upper-middle-income countries.

The pace of poverty reduction is also slowing, which means that we have to accelerate our efforts on the three pillars of our strategy to achieve the twin goals:

- First, to drive inclusive, sustainable economic growth by crowding in private sector investment, help countries manage debt levels, and harness the power of technology like FinTech;
- Second, to build resilience to shocks and threats by taking urgent action on climate change, and help countries share the risks of disasters with the capital markets;
- And finally, to help countries invest more – and more effectively – in their people to prepare for what is certain to be a more digitally-demanding future.

The final pillar has been our focus for much of the past year. We're approaching it with what Martin Luther King used to call a “fierce sense of urgency” because of two overarching trends that we're seeing in every region:

First, aspirations are rising all over the world. Smart phones, the internet, and social media allow nearly everyone to know how everyone else lives. Our economists found that this changes their reference income – the income to which they compare their own, which is a powerful accelerator of aspirations.

And there is little question that aspirations will continue to rise. Some studies estimate that by 2025, all **8 billion people** in the world could have access to broadband, and nearly everyone will likely have access to a smartphone.

Second, technology is changing the nature of work – the focus of our *World Development Report* this year. Technology and automation are replacing scores of tasks and doing away with some jobs. Innovation is also changing the scope of existing jobs, creating new occupations, and launching career fields that didn't exist a few years ago.

So, if technology is helping raise aspirations and changing the nature of work, we're going to have to answer some very difficult questions: What are people going to do? How will they support their families? How will they reach their ambitions in an increasingly complex world?

The good news, is that we know more than ever about helping countries prepare for this future. The key is making the right investments in people – ensuring that they accumulate the health, knowledge, and skills they need to realize their full potential.

Yesterday, we announced a new tool to help make the case for those investments: the first Human Capital Index. It's a summary measure of the human capital that a child born today can expect to attain by age 18 – given the risks of poor health and poor education in the country where that child lives.

The Index focuses on outcomes – not inputs – in three components:

- **Survival:** What is the probability that a child born today will survive to age 5?
- **School:** How much school will they complete, and most importantly, how much will they *learn*?

- **Health:** Will children be stunted before age 5? And will they be healthy into adulthood, ready for work, with a foundation for lifelong learning?

I'm sure you've seen the numbers, so let me explain what they mean:

- We examined the contributions of health and education to the productivity of the next generation of workers. Each country falls into a range between **0 and 1**.
- A **1** is only possible if a child born today can expect to achieve full health – which is defined as no stunting and survival up to at least age 60; and complete education – 14 years of high-quality school by age 18.
- That means that if a country scores **0.70** in the Index, the future earnings potential of children born today will be **30 percent lower** than what they could have achieved at the “frontier” – complete education and full health.

With the Human Capital Index, we're working to change the conversation around human capital. For the last few decades, we relied on donors and emotional appeals to invest in the next generation. The appeals worked, and financing for global health and education increased dramatically from a low base. We've had enormous successes like PEPFAR and the Global Fund, but these efforts – and even a dramatic expansion of ODA – won't solve the problem.

The Index draws a direct line between better health and education outcomes, and future economic growth. It paints a very clear picture for leaders of how much more productive their workers could be with full health, a complete education, and the skills needed in the future.

For example, if a country has a score of **0.50**, the future GDP per worker could be **twice as high** if the country reached the frontier. Over the course of 50 years, this works out to **1.4 percent** of GDP growth every year.

Building human capital takes time, but in the long term it pays off in faster growth and more poverty reduction. We have simulated what would happen if all countries improved their human capital outcomes at rates equivalent to the top quartile of good performers over the past decade. At this ambitious – but realistic – pace of improvement, global poverty in 2050 could be nearly

half of what it will be if countries don't make these improvements. And the benefits would be concentrated in low and middle-income countries.

So far, **28 countries** have signed on as early adopters of our Human Capital Project, and we're working with them to close gaps and design country-wide plans to improve health and learning. Here are a few examples:

- Peru is committing to raising tax revenues to improve health and education outcomes by 2021. They set a goal to achieve **95 percent** enrollment of children in pre-school and near universal health coverage.

These commitments build on Peru's success reducing childhood stunting. In 2008, **28 percent** of children in Peru were stunted. The World Bank supported a strong, country-led program that used cash transfers in targeted communities to support poor mothers and ensure that their young children had proper nutrition and stimulation. In just seven years, Peru cut the stunting rate in half, to **14 percent**. We're now taking the lessons from Peru and helping to apply them around the world – including here in Indonesia.

- Poland, a high-income economy that's working with us on human capital development, has valuable lessons to share. Poland's education reforms at the start of this century produced enormous improvements in student learning. The most notable policy is 3 years of comprehensive secondary school for all students before they move into vocational or academic tracks. As a direct result of this reform, between 2000 and 2006, Poland moved from below the OECD average on PISA scores in reading, to number 9.
- Ethiopia is emerging from a period of political and social crisis. In his inaugural address, Prime Minister Abiy said that one of the key solutions to the country's problems is to be found in education. He pledged to redouble the government's efforts with absolute determination to focus on education quality. We're prepared to work with Prime Minister Abiy to support human capital development, alongside economic reforms.

- Egypt reduced regressive energy subsidies to make human capital investments across the board. Four years ago, subsidies for energy were **6.6 percent** of GDP – more than the government spent on health, education, and social protection combined. We helped bring in private sector investment to transition to solar energy, which increased the government’s fiscal space by around **14 billion dollars** a year.

Egypt used those resources to roll out two new cash transfer programs that now reach **9.5 million people**; increase food subsidies for the poorest by **300 percent**; and expand its school meals program, which covers **12 million children**. Egypt has started a system-wide transformation of its health, education, and rural sanitation systems, including changing incentives to produce better outcomes.

- At the last Annual Meetings, President Paul Kagame helped make the case for human capital, and Rwanda has made the reduction of stunting a national priority. The country is targeting children under 2 years old in districts with the highest burden of stunting; rolling out mass media and radio campaigns to raise awareness; and using conditional grants through its flagship social protection project to improve the delivery of health and nutrition services. Rwanda is also strengthening its mechanisms to hold authorities accountable for results at all levels of government.
- Indonesia set ambitious targets for reducing stunting – from **33 percent** to **22 percent** by 2022. The government is following through with financing reforms – including taxes on tobacco – to collect more resources for human capital investments.

In July, I visited Dakung, in central Lombok, with Vice President Kalla. This is one of **31 districts** where they are testing a new, grass-roots approach to delivering key health and education services. I saw “human development workers” measuring the growth of babies using length mats, which I’m told has raised awareness in the community about the consequences of stunting. The workers counseled pregnant women and mothers on nutrition and interacted with young children in an early childhood development program.

The World Bank helped design this pilot, and we will support its expansion throughout the country. Working across the whole of government, Indonesia has committed **3.9 billion dollars** per year, and to action from **22 ministries**.

Earlier this year, President Jokowi said,

“We often talk about the wealth of our natural resources, but we seem to neglect the fact that Indonesia has great power in the form of human resources. This is truly the biggest and strongest capital in our possession...building Indonesian people is our investment to face the future.”

As all leaders face that future, they have more tools than ever to help build human capital. By raising aspirations and changing the nature of work, technology makes investments in people more urgent. But it also gives us new ways to improve outcomes in health and education.

I’ve made it a priority to learn from innovators from all over the world. In the past month, I’ve visited Silicon Valley twice, and we invited top innovators here to Bali to showcase how technology can accelerate progress toward financial inclusion and improved human capital. For example:

- The Mindspark app uses millions of data points from student tests to figure out common mistakes children make answering math problems, and the program designs remedial exercises for each student. This platform has helped **80,000 students** across India improve math and Hindi skills for a fraction of the cost of attending school.
- Digital Health startup Babylon developed a mobile app that uses AI and machine learning to set up virtual consultations with doctors and health professionals. In Rwanda, more than 2 million people use the app – around **30 percent** of the nation’s population. And last spring, Babylon announced a partnership with WeChat in China, where **1 billion users** can get instant healthcare advice through their mobile phones.

- It's not just about health and education – it's also about jobs. Today, we're announcing a new partnership with Stripe, who is here at our Innovation Fair showcasing how their technology supports millions of entrepreneurs around the world.

Together, we plan to survey entrepreneurs from over **100 countries** to better understand – *from the ground up* – the legal, regulatory, and bureaucratic bottlenecks for companies doing business on the internet, and the policies that help digital entrepreneurship thrive. We will eventually incorporate these insights into our *Doing Business* report.

Even the top-performing countries cannot let up in their efforts to build human capital.

Singapore, the country closest to the frontier on the Human Capital Index, is continuing to improve its education system to teach “21st century competencies” such as self-awareness and responsible decision-making, and focus on universal early childhood education.

The initiative builds on Prime Minister Lee Hsien Loong's commitment to making health and education national priorities. In his 2017 National Day address, Prime Minister Lee said the goal was to “build our future so that Singaporeans can start right, stay healthy, and live smart at every age.”

World leaders must take the same approach: invest in your people – with a fierce sense of urgency. As innovation continues to accelerate, it will be harder to catch up. Every day that you don't build human capital, your economy, and your country, will fall farther and farther behind.

This is the economic reality of our time. It's also personal. I was born in South Korea in 1959, when it was one of the poorest countries in the world. The World Bank wouldn't give Korea even the lowest interest rate loan. The country's literacy rate was around **23 percent**.

In 1962, Korea received its first loan from the World Bank—for a railroad. Its second loan was for education. And Korea kept investing in education—

- The country's constitution and laws made primary school mandatory. In 1945, **54 percent** of Korean children were enrolled in primary school; by 1959 it was **96 percent**.

- In the 1960s, Korea made it possible to attend middle school without taking a test; by 1974 the government had a policy of standardizing high school education.
- The Korean government drew up a five-year plan for science and technology education in the 1960s, in tandem with its five-year economic plan. They founded the Korean Advanced Institute of Sciences and several other government-funded research institutes.

Today, South Korea's literacy rate is nearly **98 percent**; in the last 37 years, the GDP has increased **47-fold**. Investments in people can transform lives, livelihoods, and the trajectories of entire countries—*if* they are an urgent priority for a country's top leaders.

As we work to drive economic growth, accelerate the reduction of poverty, and build human capital, we would do well to follow the words of former Indonesian President Sukarno from more than half a century ago.

In 1955, Indonesia hosted the Asia-Africa conference in Bandung – a meeting of 29 newly-independent countries, which between them represented roughly half of the world's population. President Sukarno challenged the leaders not to be guided by fear, but instead:

“Be guided by hopes and determination; be guided by ideals; and yes, be guided by dreams.”

Our dream is a world free of poverty, and we have never been closer to realizing that dream. But none of us can hide from the stark reality of this human capital crisis.

Generations from now, our grandchildren and great-grandchildren will ask: what did you do when you *knew* how critical investments in human capital were for my future, my world?

What did you do when you found out that improving health and education could change billions of lives and the course of entire countries?

- Did you commit to ending stunting?
- Did you enhance learning for every child?
- Did you ensure that everyone has access to healthcare and a chance to lead a long, healthy life?

- Did you prepare young people for the jobs of the future?

If we don't act now to answer those questions, I fear that aspirations will be met with frustration, and more countries may go down the path of fragility, conflict, violence, extremism, and eventually migration. Given how quickly aspirations are rising, we won't just have Arab Springs. We'll have African Springs, South Asian Springs, Latin American Springs, and the list will go on.

For the leaders of the world, especially heads of state and ministers of finance: now that we know the importance of these investments, we have no excuse but to act – with the sense of urgency that this crisis requires – to invest for productivity and economic growth, in our people.

We have the data. I've described innovative, transformational examples of how some countries have succeeded, and as many of you know, I have been working for most of my adult life to provide complex medical care and education, at all levels, in some of the poorest places on earth. Today, I'm here to tell you that we can do this. And it very well may be the most important thing you do to prepare your country for the future – to give every child, everywhere in the world, a chance to reach for the stars.

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