The Human Capital Project: Frequently Asked Questions
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Frequently asked questions:

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1. What is human capital and why does it matter?

Human capital consists of the knowledge, skills, and health that people invest in and accumulate throughout their lives, enabling them to realize their potential as productive members of society. Investing in people through nutrition, health care, quality education, jobs and skills helps develop human capital, and this is key to ending extreme poverty and creating more inclusive societies.

Economic growth and development depend on both human capital and physical capital, and on the factors affecting productivity. Investments in these areas complement and reinforce each other. To be productive, a workforce needs physical capital, such as infrastructure, equipment, and a stable well-governed economy. In turn, a healthy, educated workforce can earn more and invest more in an economy’s physical capital.

As noted in the *World Development Report (WDR) 2019: The Changing Nature of Work*, the frontier for skills is moving rapidly, bringing both opportunities and risks. There is mounting evidence that unless they strengthen their human capital, countries cannot achieve sustained, inclusive economic growth, will not have a workforce prepared for the more highly skilled jobs of the future, and will not compete effectively in the global economy. The cost of inaction on human capital development is going up.

Finance Ministers who have been meeting to discuss human capital at recent Spring and Annual Meetings of the World Bank Group have emphasized the importance of human capital to the jobs and economic transformation agenda in countries at all stages of development.

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2. What is the state of human capital in the world today?

Despite unprecedented human development gains over the past 25 years, serious challenges remain, especially for developing countries.

- An estimated 21.3 percent of young children are stunted (with low height for their age—a red flag indicator for the risk of physical and cognitive deficits) (JME, March 2020)

- A learning crisis is holding many countries back. Data show that in some countries, children acquire significantly fewer years of learning than in other countries, despite being in school the same length of time.

- The latest figures from the World Health Organization and the World Bank show that every year, people in developing countries pay over half a trillion dollars out-of-pocket for health care. In addition, this causes financial hardship for more than 900 million people and pushes nearly 90 million people into extreme poverty every year.

- In the world’s poorest countries, four out of five poor people are not covered by a social safety net, leaving them extremely vulnerable.

- Nearly 300,000 children die every year from diarrhea linked to a lack of access to safe water and sanitation.

The first edition of the Human Capital Index (HCI), published by the World Bank Group in October 2018, shows that nearly 60% of children born today will be, at best, only half as productive as they could be with complete education and full health (as defined by the index, see question 5). This reflects a serious human capital crisis, with strong implications for economic growth and the world’s collective ability to end extreme poverty by 2030.
Gaps in human capital are at risk of widening amid rapid global changes in technology, demography, fragility, and climate. Conflict events and pandemics such as the current Covid-19 crisis can have a devastating effect on human capital through loss of life, livelihood, nutrition, and interruption of essential health and education services. The impact of conflict and pandemics will likely reverberate throughout many individuals’ lifespan limiting their productivity. Yet investment in people is often neglected. This is despite many examples of rapid national transformation of human capital—including Singapore, the Republic of Korea, and Ireland—and specific successes in some of the world’s poorest countries.

Human capital development is critical for countries at all income levels. While the poorest or most fragile countries face big hurdles to improving their health and education outcomes, even those with the world’s strongest human capital must stay focused on investing in their people if they want to remain successful and competitive in the global economy.

3. How is the World Bank Group prioritizing human capital development?

Human capital is at the center of our global strategy for development. Investing in people is one of three main ways we are working to reach our goals of ending extreme poverty by 2030 and boosting shared prosperity in all countries. It is closely integrated with our efforts to promote sustainable, inclusive growth and build resilience across developing countries. It is also a cross-cutting priority for IDA-19, the next cycle of financing from IDA, our fund for the world’s poorest countries.

The Human Capital Project is a global effort to accelerate more and better investments in people for greater equity and economic growth. In early
2020, 77 countries at all income levels are working with the World Bank Group on strategic approaches to transform their human capital outcomes. We are scaling up human capital investments in Sub-Saharan Africa with a strong focus on women's empowerment, leveraging technology and innovation, among other priorities. In the Middle East and North Africa, we are focusing on investments in early childhood, building the resilience of vulnerable people and other critical areas.

We have launched a Human Capital Project country network to connect governments that are prioritizing human capital and to channel expertise where it is most needed. Focal points, usually based in the Ministries of Finance, Economy, or Planning (and sometimes in sectoral ministries) connect regularly to exchange knowledge and feedback.

The World Bank Group is prepared to deploy up to $160 billion over FY20-21 to support COVID-19 measures that will help countries respond to immediate health consequences of the pandemic and bolster economic recovery. There will be a strong poverty focus in these operations, with an emphasis on policy-based financing, and protecting the poorest households and the environment. Read more about the first set of health emergency response projects approved for 25 countries.

4. What is the Human Capital Project expected to achieve?

The Human Capital Project is helping create the political space for national leaders to prioritize transformational investments in health, education, and social protection. The objective is rapid progress toward a world in which all children are well-nourished and ready to learn, can attain real learning in the classroom, and can enter the job market as healthy, skilled, and productive adults.
The project has three pillars:

- **The Human Capital Index (HCI)** quantifies the contribution of health and education to the productivity of the next generation of workers. Countries are using it to assess how much income they forego because of human capital gaps, and how much faster they can turn these losses into gains if they act now. Learn more from [this video](#).

  The index was launched in October 2018 and will be updated in 2020. The update will leverage new PISA results and include 16 additional countries. The 2020 HCI will also have a more complete gender disaggregation.

- To complement the index and help countries take effective action, a robust **measurement and research** effort is underway. Within countries, credible measurement of education and health outcomes sheds light on what works and where to target resources. It also increases policy makers’ awareness of the importance of investing in human capital, creating momentum for government action. Globally, comprehensive measurement and novel primary data collection efforts are essential to identify areas of strength and opportunity to improve human capital outcomes. The Human Capital Project will help nourish the research and analytics on what promotes human capital development, for example, by scaling up the [Service Delivery Indicators](#) program and the [Measuring Early Learning Quality and Outcomes](#) survey.

- **Country engagement**, based on a “whole of government” approach, is helping countries tackle the worst barriers to developing their human capital. This approach encourages high-level leadership across time, connecting the dots between sectoral programs and strengthening the
evidence base. Our work with countries emphasizes efficiency and quality, policy reforms, and domestic resource mobilization, so that they aren’t just spending more—but spending better.

One example of this approach as seen in World Bank country engagement is Madagascar’s new Investing in Human Capital Development Policy Operation, which supports the Government of Madagascar's investment in human capital, by improving human resources in health and education, availability and predictability of financial resources in the social sectors, and legal protections for women and children.

The Human Capital Project is supporting the scale-up of this type of support for policy and institutional reform, and also working on a range of tools and products to help countries achieve their goals, for example, on human capital public expenditure and institutional reviews, and case studies capturing country-level successes and innovations.

5. What does the Human Capital Index cover and why? How is it calculated?

The index is a summary measure of the amount of human capital that a child born today can expect to acquire by age 18, given the risks of poor health and poor education that prevail in the country where she lives. A full accounting of the HCI methodology is available on the World Bank's Open Knowledge Repository.
A significant innovation is that the index measures the *contribution of health and education to the productivity of individuals and countries*, anchored in rigorous micro-econometric studies.

Ranging between 0 and 1, the index takes the value 1 only if a child born today can expect to achieve full health (defined as no stunting and survival up to at least age 60) and complete her education potential (defined as 14 years of high-quality school by age 18).

A country’s score is its distance to the “frontier” of complete education and full health. If it scores 0.70 in the Human Capital Index, this indicates that the future earnings potential of children born today will be 30 percent below what they could have achieved with complete education and full health.

The index can directly be linked to scenarios for the future income of countries as well as individuals. If a country has a score of 0.50, then future GDP per worker could be twice as high if the country reached the benchmark of complete education and full health.

*The index* is presented as a country average and includes a breakdown by gender for countries where data is available.

6. **Why doesn’t the Human Capital Index cover all countries?**

The [2018 Human Capital Index](https://humancapitalindex.worldbank.org) covered 157 World Bank Group member countries and their territories, as well as the West Bank and Gaza. The HCI 2020 will include 16 additional countries.

Data are not reported for some member countries where the World Bank Group does not have active operational engagement. In addition, HCI
scores cannot be calculated for member countries that have not to date participated in any of the international testing programs on which harmonized learning outcomes are based.

7. What does the Human Capital Index show for girls and boys?

Gender disaggregation will be strengthened in the 2020 HCI. In the 2018 version, the HCI can be calculated separately for boys and girls for 126 of the 157 countries included in the index. In the 2020 version, we can expect a gender disaggregated HCI for more than 150 countries.

Lack of sex-disaggregated school enrollment data prevents this in the remaining countries. A disproportionate share of these are low-income countries, emphasizing the need to continue to invest in better data systems.

Many countries have made progress in reducing differences between girls’ and boys’ human capital outcomes. In most countries, the distance to the human capital frontier for children overall is much larger than the remaining gaps between boys and girls. In education, girls in middle- and high-income countries have largely caught up with or even passed boys in enrollment and learning. And in some dimensions of the index related to health, most countries show a slight advantage for girls over boys.

The 2018 edition of the HCI is limited in scope and does not capture some important differences between girls’ and boys’ human capital outcomes. It does not, for example, measure the prevalence of sex-selective abortion and missing girls. It relies on broad proxies for the disease environment, which by themselves say little about how gender roles and relations between males and females shape that environment. While girls’
enrollment has increased, attendance and completion remain a challenge—especially at the secondary level—for both girls and boys. When girls grow up and enter the labor market, they face additional challenges in realizing the returns to their human capital. These include occupational sex segregation, lack of child care and adequate leave policies, sexual harassment and unsafe transportation, differential constraints in access to finance and markets, and legal/regulatory barriers that hinder women's ability to start and grow firms. These constraints must be addressed for all people to be able to reap the returns to human capital investment.

8. How has the methodology for the Human Capital Index been reviewed?

The HCI methodology is discussed in a Human Capital Project booklet that can be downloaded here. The methodology was first presented in the World Development Report 2019: The Changing Nature of Work, which also focuses on skills needed for those entering the labor market, a crucial aspect of human capital.

Some of the analytical underpinnings of the index are also presented in the World Development Report 2018: Learning to Realize Education's Promise, which highlighted the learning crisis. Both reports involved extensive, global review from a wide range of stakeholders.

Research has also entailed close collaboration with David Weil, a professor and leading expert on development accounting with Brown University.

Policy Research Working Paper 9020 by D'Souza, Gatti, and Kraay features an HCI disaggregated by socioeconomic status (SES). Data is currently available for over 50 countries, mostly LMICs and UMICs. [All SES data.]
Subnational disaggregation has been done for 15 countries and can be calculated at any subnational level with relevant representative data.

Report: Insights from Disaggregating the HCI.

9. How does the Human Capital Index differ from UNDP’s Human Development Index?

UNDP’s pioneering Human Development Index is a summary measure of average achievement along key dimensions of human development—a long and healthy life, being knowledgeable, and having a decent standard of living.

While both indices spotlight human capabilities as central to national development, the Human Capital Index also strengthens the economic case for investing in people. The two are highly complementary but differ in the way they are formulated.

The Human Capital Index links selected human capital outcomes with productivity and income levels. It is a forward-looking measure of how current health and education outcomes (including a new measure of learning-adjusted years of school) will shape productivity for the next generation of workers.
10. How does the Human Capital Index relate to the Sustainable Development Goals (SDGs)?

The components of the index (survival, schooling, and health) have direct links with at least three of the global goals that countries around the world have set to achieve by 2030.

**Survival to Age 5:** By including under-5 mortality, the index links to SDG target 3.2—to reduce neonatal mortality to 12 per 1,000 live births or lower and under-5 mortality to 25 per 1,000 live births or lower.

**Learning-Adjusted Years of School:** The index introduces this innovative measurement of learning, which supports SDG 4.1—to ensure, among other things, the completion of equitable and good-quality primary and secondary education. By tracking changes in the expected years of quality-adjusted education, countries will be able to monitor their achievement toward this education target.

**Health:** The index includes the adult survival rate and the prevalence of childhood stunting. The adult survival rate represents the probability that a 15-year-old will survive to age 60. To improve this indicator, countries will have to work on reducing causes of premature mortality, which will also help achieve SDG target 3.4. Prevalence of stunting among children under 5 is one of the key indicators for achievement of SDG target 2.2, which aims to end all forms of malnutrition by 2030.

The index aims to draw attention to a wide range of actions across multiple sectors that can build human capital and accelerate progress towards the SDGs.
11. Does the Human Capital Index capture all aspects of human capital?

The index focuses on the productivity of the next generation. There is scope for improvement and expansion over time. Going forward, the team will explore how other dimensions of human capital could be reflected in future iterations.

For human capital, as in all areas of development data, the World Bank Group is engaging closely with member countries to help build capacity and improve data quality.

12. How can a country participate in the Human Capital Project?

All World Bank Group client countries can participate in the Human Capital Project as part of an accelerated, global effort to transform human capital outcomes. This complements our long-standing engagement with countries in the sectors that contribute to human development.

By early 2020, 77 countries were participating in the Human Capital Project. Each of them has expressed a commitment to improve human capital outcomes.

For enquiries, please contact: humancapital@worldbank.org
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