

The Human Capital Project: Frequently Asked Questions

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

Human capital consists of the knowledge, skills, and health that people 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 their productivity. Investments in human and physical capital complement and reinforce each other. To be productive, a workforce requires 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 forthcoming [*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 without strengthening human capital, countries cannot sustain 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. And the cost of inaction on human capital development is going up.

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

There is a massive human capital gap today. Despite unprecedented human development gains over the past 25 years, serious challenges remain, especially for developing countries.

- Nearly a quarter of all young children are stunted (with low height for their age—a red flag indicator for the risk of physical and cognitive deficits).
- A learning crisis is holding many countries back. Data show that children in some countries acquire five fewer years of learning than in others, despite being in school for the same length of time.
- Globally, half the world's population cannot access essential health services, and many are pushed into poverty each year because of out-of-pocket health expenses.
- In the world's poorest countries, four out of five poor people are not covered by a social safety net, leaving them extremely vulnerable.

This gap in human capital is in immediate danger of widening amid rapid global changes in technology, demography, fragility, and climate. Yet investment in people is often neglected. This is unacceptable in a world where there are many examples of rapid national transformation of human capital—including

Singapore, the Republic of Korea, and Ireland—and cases of specific successes in some of the poorest countries in the world. For example, Malawi has made very fast progress on reducing stunting.

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 countries 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?

We have been proud to support many human capital successes and foundational investments. Examples include big [reductions of stunting in Peru](#) and other countries, a well-functioning social safety net system in Ethiopia, education reforms that have contributed to student learning in Vietnam, and incentives that brought girls into secondary school in Bangladesh. There are many others.

Investing in people is one of three main ways the World Bank Group is working to reach its goals of ending extreme poverty by 2030 and boosting shared prosperity in all countries. Human capital development is thus at the center of our global strategy for development, and closely integrated with our efforts to promote sustainable, inclusive growth and build resilience across developing countries.

In 2017, we announced a new Human Capital Project to help accelerate more and better investments in people for greater equity and economic growth. The project is underway, and close to 30 countries are already working with the World Bank Group on strategic approaches to transform their human capital outcomes. The Bank Group will also launch a new Human Capital Index in October 2018.

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

The Human Capital Project will help create the political space for national leaders to prioritize transformational human capital investments. The objective is rapid progress toward a world in which all children arrive in school well-nourished and ready to learn; can expect to attain real learning in the classroom; and are able to enter the job market as healthy, skilled, and productive adults.

The project has three pillars:

- (i) The **Human Capital Index** will quantify the contribution of health and education to the productivity of the next generation of workers. Countries can use it to assess how much income they are foregoing because of human capital gaps, and how much faster they can turn these losses into gains if they act now.
- (ii) To complement the Human Capital Index, and help countries take effective action, a robust **measurement and research** effort will be put in place. This help countries gain further insights into what works, and where to target resources.

- (iii) **Country engagement** based on a “whole of government” approach will help countries tackle the worst barriers to human capital development. Work has begun to support nearly 30 countries in developing strategic approaches to accelerating human capital outcomes. This effort will extend to more countries in the coming months.

Importantly, the project will help countries leverage resources, where relevant, as well as achieve greater spending efficiency in health, education, social protection and many other sectors that contribute to human capital acceleration. It will tackle governance and service delivery issues that are among the worst barriers to human capital development facing countries today.

5. What will the Human Capital Index (HCI) 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 attain by age 18, given the risks of poor health and education that may exist in the country where she lives.*

A significant innovation of the index is that it 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 will be presented as a country average and will also offer a breakdown by gender for countries where data is available.

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

The HCI can be calculated separately for boys and girls for 126 of the 157 countries included in the index. Lack of sex-disaggregated school enrollment data prevents calculation of the HCI separately for boys and girls in the remaining countries. Of note, a disproportionate share of low-income countries are lacking sex-disaggregated HCI data, emphasizing the need to continue to invest in better data systems.

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

This first edition of the HCI is limited in scope (see 10 below) and does not capture other important differences in human capital outcomes between girls and boys. Starting at the very beginning, the HCI does not measure the prevalence of sex-selective abortion and missing girls. Moreover, the HCI uses 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 secondary level -- for both girls and boys. When girls grow up and enter the labour market, they face additional challenges in realizing the returns to their human capital, such as occupational sex segregation, lack of childcare and adequate leave policies; sexual harassment and unsafe transportation; and differential constraints in access to finance and markets, and legal /regulatory barriers 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.

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

The methodology for the Human Capital Index is discussed in the World Bank Group's forthcoming *World Development Report 2019: The Changing Nature of Work*. The report 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 *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.

There has also been close collaboration with David Weil (professor and leading expert, Brown University).

8. How does the Human Capital Index differ from UNDP's Human Development Index?

While both indices draw much-needed attention to 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.

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.

The World Bank Group's 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.

9. How does the Human Capital Index relate to the Sustainable Development Goals (SDGs)?

The components of the index (survival, school, 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 at least as low as 12 per 1,000 live births and under-5 mortality to at least as low as 25 per 1,000 live births.

Learning-Adjusted Years of School: The index introduces learning-adjusted years of school, an innovation that supports SDG 4.1—to ensure, among other things, the completion of equitable and 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 helps achieve SDG target 3.4. Prevalence of stunting among children younger than 5 is one of the key indicators for achievement of SDG target 2.2, which aims to end all forms of malnutrition by 2030.

One of the objectives of the index is to draw attention to a wide range of actions across multiple sectors that can build human capital and accelerate progress towards the SDGs.

10. Does the Human Capital Index capture all aspects of human capital?

In its first iteration, the index focuses on the productivity of the next generation. Like all such exercises, the index has limitations, and there is scope for improvement and expansion. Going forward, the index may incorporate more data, which will expand its coverage of other aspects of human capital.

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 the quality of data.

11. 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 effort to transform human capital outcomes. The project works across the whole of government, helping build sustained leadership and evidence-based reform to tackle the worst barriers to human capital

development. This effort complements countries' long-standing engagement with the World Bank Group in the sectors that contribute to human development.

Nearly 30 countries are participating in the Human Capital Project, as of September 2018.

Some additional resources:

- Story: "[Investing in People to Build Human Capital](#)"
- Article: "[The Human Capital Gap](#)" by Jim Yong Kim, Foreign Affairs, June 2018

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