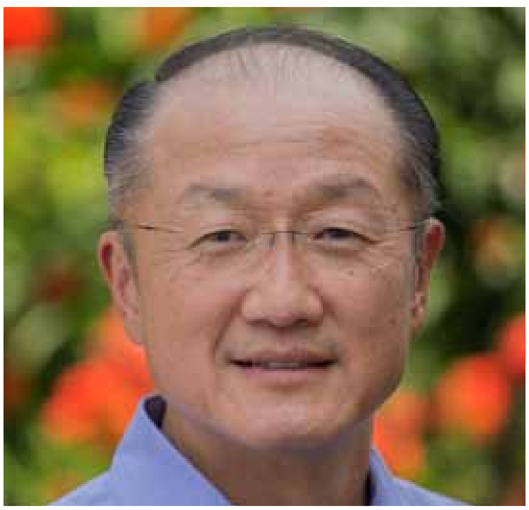
Jim
Yong Kim

President
World Bank Group

A New Approach to Solve the World's Human Capital Crisis



To prepare for this increasingly digital and interconnected future, countries must invest more—and more effectively—in their people.

At the beginning of the year, I visited a primary school on the outskirts of Dakar, Senegal and talked with dozens of children aged six to 12 who all have big dreams for their future.

These children are the lucky ones. In Senegal, 86 percent of children start primary school, but only 38 percent make it to secondary school. Less than a third of students reach the minimum standards for math and reading, and at least 35 percent of children aged seven to 12 aren't even in school.

Senegal's education challenges serve as a microcosm of the human capital crisis we see around the world: 155 million children are stunted, which means that their brains don't develop properly, and in the economy of the future they may already be hardwired to fail; 400 million people lack access to essential health services; 250 million children cannot read or write, despite some schooling; and roughly 264 million children aren't even enrolled in primary or secondary school.

When it comes to the quality of education, the situation isn't much better. Our recent research suggests that one year of schooling in Singapore is worth about twice as much as in countries like Malawi or Yemen or Ghana. All told, the gap in learning between the best-performing and worst-performing countries is equivalent to four to five years of school.

This human capital crisis is even more urgent because of two overarching trends we're seeing in every region. First, aspirations are rising. Smart phones, the internet, and social media allow nearly everyone to know how everyone else lives. And there's little question that aspirations will continue to rise. Some studies estimate that by 2025, all eight billion people around the world could have access to broadband. Second, automation and technology are doing away with scores of tasks and eliminating many low-skilled jobs. Last December, a report from the McKinsey Global Institute found that half of all jobs are at risk of being automated—just with the technologies we have today.

We see the effects of innovation all over the world: in Bangladesh for example, many garment factories are becoming fully automated, doing away with thousands of jobs. Because of technology and automation, the traditional development path from agriculture to light industry to heavy manufacturing may be closing for all but a handful of countries.

We face some critical questions: if everyone's aspirations are going up, and technology is replacing cheap labor in developing countries, what on earth are people going to do? How will they support their families? How can we best help countries prepare for what's coming?

One thing is clear: to prepare for an increasingly complex, technological, and interconnected future, countries must invest more—and more effectively—in their people. Too often, ministers of finance don't prioritize these investments, preferring to invest in what they see as "hard" infrastructure. Too often, they only make these investments if they are funded by donor grants or near zero-interest loans from IDA, our fund for the poorest countries.

Too often, we still hear from leaders, "First we'll grow our economies, then we'll invest in our people." But investing in people *is* investing in economic growth. We just released a report called "The Changing Wealth of Nations," which measures changes in wealth to monitor countries' long-term economic well-being. For the first time this year, we added human capital to our wealth analysis, in addition to produced capital (things like machinery and buildings), natural capital (energy, forests, agricultural lands), and net foreign assets. We found that more than 65 percent of the wealth of all nations in the world is in human capital. When you invest in people, you're putting in place the foundations to grow your economy.

To help countries make these crucial investments, we launched the Human Capital Project, a rigorous, detailed measurement of the human capital in each country–information that heads of state and finance ministers need to invest more effectively in their people. The project will include an index, ranking countries according to how well they're investing in the human capital of the next generation, which will make the measurements hard to ignore. The goal is to drastically change the system for financing human capital from one that's supply-driven to one in which leaders and their constituents *demand* much more investment in people. We know this will be controversial, but we think it is the only way to fundamentally change the system. We hope the rankings will be taken into account by ratings agencies and that investors will consider the rankings when deciding where to invest their capital.

At the World Bank Group, we are working with governments in developing countries to help them optimize their finances and free up more public resources for investments in people. But public funding simply won't be enough to fund the massive investments needed. We need more knowledge and investments from the private sector and the philanthropic world. That's why we're using our expertise, convening power, and resources to de-risk investments, create markets, and help move some of the trillions of dollars sitting on the sidelines to developing countries. We're creating win-win solutions, where investors still get a good return, but also help countries invest in infrastructure and in their people to drive sustainable growth and lasting prosperity. In a time of profound transition, we have an obligation to make the critical investments today that will lead to a more secure, more stable, more prosperous future—where everyone has a chance to achieve their highest aspirations. And we need all of you to make this happen.

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