1. Country and Sector Background

Indonesia is Southeast Asia’s largest country with a population of over 220 million. GDP per capita reached US$1,920 in 2008 confirming Indonesia’s status as a lower middle-income economy. Since the economic and political crisis of the late 1990s, Indonesia restored its macroeconomic and financial stability with prudent economic policies including extremely low budget deficits. Economic growth accelerated to a 10-year high of 6.3 percent in 2007. Even with the current slowing of the global economy and global financial crisis, Indonesia has come into the current financial crisis in a strong position due to measures taken over the decade before. It is the only major economy in East Asia that did not experience growth slowdown in the first half of 2008 and growth is expected to continue albeit at a more modest 4 percent in the near term. In real terms, education spending doubled between 2000 and 2006. In 2007, spending on education was greater than any other sector, reaching an equivalent of US$14 billion, or more than 16 percent of total government expenditure. As a share of GDP (3.4 percent) this compares favorably to similar lower middle-income countries.

2. Since the 1970s school enrollment rates have increased significantly. Net primary enrollment rates increased from 72 percent in 1975 to 93.5 percent in 2006 (the corresponding gross rate stood at 110 percent). The net enrollment rate for junior secondary education rose even faster but started from a low level of 18 percent in the 1970s reached 67 percent in 2006 (with a
3. However each year, despite these successes, and primarily as a result of socio-economic circumstances\(^1\), 3.3 million young people in Indonesia leave formal schooling before completing high school either dropping out during the school year or not re-enrolling for the following year. Tracking any given cohort reveals approximately 27 percent drop out or do not continue past Primary School; by the end of Junior Secondary School the percentage having dropped out or not continuing to Senior Secondary has risen to 67 percent of the cohort, and the percentage of the cohort leaving before completing Senior Secondary School is greater than 80 percent. Non formal education and programs such as the proposed Life Skills Education for Employment and Entrepreneurship (LSE3) project provide a second chance opportunity for many of these disadvantaged young people.

4. The Indonesian economy has recorded an average 5.6 percent economic growth across almost three decades but employment and under-employment remain problematic. Employment elasticity\(^2\) has decreased over this period suggesting jobless growth rather than progress in reducing unemployment which remains around 10 percent. The incidence of poverty remains around 17 percent. In Indonesia 15-29 year olds make up around 27 percent (or 60 million) of the total population. The youth unemployment and underemployment problem in Indonesia can be characterized as being at a crisis level with youth being nearly two-thirds (or 8.3 million) of the unemployed, their unemployment rate two times higher than the adult rate, and underemployment even higher; young women and those living in rural areas are disproportionately adversely affected. A significant proportion of poor youth and particularly those who have dropped out of school (formal, vocational or technical schooling) due to their socio-economic circumstances, require a ‘second chance’ in order to become more competitive and skilled for employment. The economic, social, political and security payoff of addressing youth unemployment is significant.

5. In recognition of the above, the top priority of Indonesia’s Medium Term Development plan (RPJM; 2004-2009) is the reduction of unemployment and poverty with a specific emphasis on disadvantaged youth. Despite the available supply of young potential workers and a demand for labor, particularly overseas, Indonesia is unable to curb unemployment merely by its successful economic growth. The proposed Life Skills Education for Employment and Entrepreneurship (LSE3) creates a critical intervention by scaling up a well tested process of linking unemployed youth with private training providers who train, certify and match them, through what is known in Indonesia as a “3 in 1” strategy, to domestic and overseas jobs in either the formal or informal sectors across 43 skill areas ranging from elderly care to electronics technician. But formal employment alone cannot generate adequate employment for Indonesia’s youth. New jobs also need to be created through entrepreneurship. LSE3 will provide

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\(^1\) A child coming from a poor family is 20 percent less likely to be enrolled in junior high than a non-poor child, Indonesia Poverty Assessment; 2006

\(^2\) Employment elasticity is the percent increase in employment associated with a 1 percent increase in GDP. Elasticity fell from 0.435 in the 1980s to 0.379 in the 1990s; (Felipe and Hasan 2006). This represents an approximately 13 percent contraction in jobs generated by GDP growth over these two decades.
disadvantaged youth with business development training support and access to finance so that they can attain and extend self employment.

6. The Government’s strategy as outlined in the RPJM is three-fold: job creation, economic growth and poverty reduction and specifically identifies young people as a target group. There are multiple constraints to generating employment in Indonesia in general, and well known market failures constraining youth employment in particular. These failures include, (i) some current labor market policies, such as excessive severance payment requirements and high minimum wage; (ii) asymmetric information between unemployed youth, training providers, and employers-industries inhibits fluid school to work transitions; (iii) credit market failures create roadblocks, for young entrepreneurs with viable business models, to start and expand businesses thus inhibiting an essential alternate mechanism of generating new jobs. A survey of youth led Micro, Small and Medium Enterprises (MSMEs) by Bank of Indonesia’s Credit Bureau identified that they lack access to credit and relevant business development services thus constraining entrepreneurship; (iv) lack of equity disproportionately constrains poor youth, and in particular, young women from opportunities, and (v) there is a mismatch between supply and demand for skills because training institutions do not have the right incentives and information base to provide those skills demanded by a changing labor market.

7. LSE3 is being prepared by the Directorate General of Non-formal and Informal Education (DG NFIE) based on the results of three key feasibility studies: (i) a pilot program Education for Youth Employment (EYE); (ii) Program Kursus Para-Profesi (KPP); and iii) Profile of Micro- Small- and Medium- Enterprises in Indonesia, a study undertaken by Bank of Indonesia’s Credit Bureau. The studies found that non-formal education interventions; providing incentives to skills training providers to identify out of school youth, provide market oriented and competency based training, certification and guaranteed job placement in both local and overseas jobs; and providing young entrepreneurs business development services such as entrepreneurship education and access to finance, are highly effective strategies in reducing joblessness.

8. LSE3 scales up these well tested and effective interventions. The proposed project targets the chain of supply and demand, providing block grant scholarships to link poor youth and private training providers. LSE3 requires that training providers receiving support already have firm job orders to be filled, and youth participating in their training program receive training in skill sets to meet those market demands. LSE3 supports curriculum enhancement and the accreditation of the training providers to ensure that the youth receive high quality competency based training, leading to certification, and therefore have higher, long term, earning potential.

B. Rationale for Bank Involvement

9. The proposed project intervention is directly related to the Bank’s education and poverty reduction core engagement strategies for Indonesia as articulated in the Country Partnership Strategy for Indonesia FY2009-2012 (CPS) and supports a key priority of MONE’s RENSTRA (2005-2009); to reform and revitalize its non-formal education sector in order to reduce poverty.

3 Country Partnership Strategy for Indonesia FY2009-2012; Investing in Indonesia’s Institutions for Inclusive and Sustainable Development
and unemployment and increase income, particularly among disadvantaged youth. The proposed project links the shared priorities of GOI and the Bank on these issues and provides a mechanism to develop and strengthen partnerships and joint approaches. The project focuses on improving the effectiveness, efficiency and equity of existing Indonesian institutions supported by DG NFIE; the strategy reflects a move away from creating new institutions to strengthening existing competent ones. A recent Bank-ILO-UN sector report, also notes, public-private partnership support for the upgrading of Indonesia’s vocational education and technical training, certification and job placement is essential to meeting the President’s goal of raising employment opportunities.

10. The Bank’s input will complement rather than substitute for GOI funding. In particular the proposed project focuses on refining and defining government processes to develop the regulatory framework within which non-formal and informal education will operate. In so doing the value-added of the Bank’s input will be to facilitate, through the provision of market responsive incentives, transparent certification and accreditation practices as pillars of a national, standardized, quality assurance mechanism.

C. Higher-level Objectives to which the Project Contributes

11. The higher level objective to which the project contributes is to improve the functioning of the labor market for youth by addressing key bottlenecks on both the demand and supply side of the skills market. LSE3 draws disadvantaged, out of school, young people, (particularly females) into strengthened private training programs that provide relevant, market oriented skills training leading to competency based certification for either formal or informal sectors domestically or overseas; and, through life skills for entrepreneurship training, to business development support and access to finance, creating further pathways to employment, self employment and increased income for Indonesian youth.

2. Description

12. The proposed project is comprised of three fully integrated components which in tandem aim to increase the quantity and quality of graduates from LSE training providers. Component 1: Life Skills Education will provide unemployed youth with increased access to quality LSE specifically tailored to the demands of the job market and in so doing lead to employment in the domestic or foreign, formal or informal sectors. Component 2: Institutional Strengthening for Quality Assurance will support the creation of a regulatory framework so that the training providers offering LSE have appropriate incentives to ensure that participants completing their courses do so with a level of competency commensurate with national standards. This will involve developing incentives for institutional accreditation, the certification of instructors and assessors and enhancing the quality of learning materials and methods of instruction. Component 3: Program Management, Integration and Sustainability will have four key

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elements: (i) supporting anti-corruption efforts, (ii) public awareness through a media campaign, (iii) development studies contributing to strategic planning, and (iv) monitoring and evaluation.

13. **Component 1: Life Skills Education** *(Estimated IBRD US$ 35.9 million)* has three sub-components. **Sub-component 1.1** expands the number of LSE opportunities for targeted youth leading to *formal employment* either in the *domestic* or *foreign* employment sectors. **Sub-component 1.2** expands the number of LSE opportunities for targeted youth leading to *entrepreneurship and self-employment*. **Sub-component 1.3** will *increase the quality of LSE opportunities* for targeted youth leading to *informal employment* in the *foreign* employment sector, (domestic helper).

14. **Component 2: Institutional Strengthening for Quality Assurance** *(Estimated US$12.18 million, comprised of IBRD US$ 9.50 million and GOI US$ 2.68 million)* will support the creation of a regulatory framework. **Sub-Component 2.1.** will (i) Develop a set of competency standards required to define a vocational skill set; (ii) Develop training modules for LSE; and (iii) Identify the specific needs of LSE instructors employed by private training providers to develop as industry standards the set of skills, knowledge and experience required to become a certified instructor. **Sub-component 2.2** will provide development grants to selected Competence Certification Institutes (LSK) established by professional associations and their associated competency test site (TUK). **Sub-component 2.3** will build the management capacity of LSE training providers and lay a sound foundation for the development of institutional accreditation instruments, methodologies and standards.

15. **Component 3: Program Management, Integration and Sustainability** *(Estimated US$6.92 million, comprised of IBRD US$ 4.60 million and GOI US$ 2.32 million, Sub-component 3.1** will cover the incremental operational costs associated with the implementation of the project in accordance with the Anti Corruption Action Plan (ACAP), at the central and regional level; **Sub-component 3.2** will finance a Public Awareness and Media Campaign to ensure that stakeholders and beneficiaries are aware of their rights and responsibilities under the project; **Sub-component 3.3** will finance Development Studies to guide strategic planning for expanding project initiatives to a national scale; an impact evaluation is planned; **Sub-component 3.4** will fund routine Monitoring and Evaluation and design a management information system (MIS) that will monitor the progress of recruitment, skills training, certification and placement of LSE graduates in employment.

3. Financing

<table>
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<tr>
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<td><strong>Total</strong></td>
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</table>

4. Implementation

16. Agreement was reached between the GOI and the Bank during the preparation phase that LSE3 would be a central project designed as the pilot of a national program.
17. At the national level, A Project Secretariat (PS) will be established within DG NFIE. The PS will consist of Directorate of Course and Institutional Development (DCID) staff, and consultants; procurement specialist, financial management specialist, communication specialist and monitoring and evaluation specialist. The PS will be responsible for the day-to-day oversight and coordination of the project throughout its life. The activities of the PS will be guided by a Project Operation Manual (POM) which will be agreed with the Bank. A National Steering Committee (NSC), consisting of representatives from Bappenas, MONF, MOF, MOMT and the Indonesia Chamber of Commerce (KADIN) will be established to advise the PS and will convene at least twice a year. For technical issues, the PS will be supported by a National Technical Committee (NTC) which includes representatives of the National Accreditation Board for Non Formal Education (BAN-PNF), the National Education Standards Agency (BSNP), Bappenas, MONF, MOF, and MOFA.

18. At the regional level, there will be Regional Coordinating Team (RCT). RCT will consist of staff from the Development Agency of Non Formal and Informal Education (BPPNFI / P2PNFI), consultants and a proposal evaluation team established by DG NFIE Decree. A Memorandum of Understanding (MOU) will be signed by MONF and Provincial Bappeda which commits the local government to active involvement in implementing LSE3 and to support LSE3 sustainability by capturing best practices and lessons learned for future replication of the design.

19. At the provincial level, a Provincial Task Force (PTF) will be established by PS decree. The PTF will consist of local government officials (Provincial Bappeda, Provincial Education Dinas, Provincial Manpower Dinas), representation from the Provincial Bursa Kerja Khusus and local NGOs selected by the PTF team. The PTF will recommend quality training providers to their coordinating RCT, provide mentorship and consultancy to training providers, support monitoring and evaluation, and conduct an effective public awareness campaign.

20. **Arrangements for the Life Skills Education Grants LSEG** (sub-component 1.1 and 1.2.). Funds will be awarded on a competitive basis to selected training providers. The DCID will undertake a performance evaluation of training providers in 2009 ranking them as “A”, “B” or “C”. An “A” rank will be one of the pre-qualification criteria for training providers. **Arrangements for Quality Improvement Incentive Grants QIIG** (sub-component 1.3) QII grants are designed specifically to support training providers improve the quality of pre-departure training provided to prospective workers in the overseas domestic / household helper sector. An “A” rank will be an eligibility criterion. There will be two competitive tiers based on training providers’ annual capacity to train and place trainees, the grant contract will include the obligation to deliver enrichment modules, such as: financial literacy, language and culture in the destination country, legal rights, and work ethic. **General arrangements for Development of Standards** The development of standards will involve joint work between the Sub-directorate of Institutional Development and Sub-directorate of Quality Improvement, both under the DCID. The PS will hire a qualified representative from a skill consortium to develop the draft standard which will then be tested with training providers. The final standard documents will be submitted to BSNP as the authorized institution to request endorsement from Minister of National Education. **Arrangements for Incentive Grants to Strengthen LSK and their associated TUK**

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5 LSK = Competence Certification Institution, and TUK = Competence Testing Institution
The purposes of these grants are twofold: (i) to accelerate the further development of LSK and TUK established by professional associations; and (ii) to require the LSK to build partnerships with relevant industries and assist training providers in channeling their graduates to employment in the labor market.

21. **Arrangements for Project Monitoring.** In addition to establishing the independent monitoring system (CIMU), the project will support the strengthening and expansion of the internal monitoring system. The internal monitoring system will routinely track the progress of project implementation and its results. At the central level, the internal monitoring system will be managed by the PS and at the regional level by the RCT. The independent monitoring unit, CIMU (Central Independent Monitoring Unit), will not replace the function of internal project M&E system for LSE3 but rather operate concurrently to augment and support the overall M&E process. CIMU will focus on ensuring adherence to program guidelines; safeguards against corrupt practices; complaint handling and resolution; and conduct rapid assessments for evaluating program effectiveness. CIMU will report directly to the Director General of NFIE and communicate with the PS to discuss follow up measures where necessary. CIMU will make periodic reports available to the public through a newsletter and through maintaining a website. CIMU will work closely with government partners, civil society and the press in carrying out their tasks including dissemination of findings. The independence of CIMU will be ensured by its funding through a Dutch Trust Fund managed by the Bank.

5. **Sustainability**

22. The sustainability plan for LSE3 is shaped by two key preceding interventions EYE and KPP, which have become core to the Education RENSTRA for life skills education by DG-NFIE. Sustainability of program structures and activities are not entirely dependent on the willingness of national and/or local governments to allocate APBN (national budget) or APBD (local budget) to continue with the “incentive scheme” to improve the quality of life skills education and the process employed by training providers to recruit, train and place its graduates in jobs. Rather, the incentive based program is necessary only until private training providers see the value of providing better quality training to its students and offering better social protection measures since market-driven skilled youth armed with knowledge valuable to employers would ensure that youth trained by these training providers are continued to be sought by employers, thus positively affecting their revenue stream from brokerage fees.

23. Another key aspect of sustainability is the continual supply of young, unemployed drop outs to private training providers that have “job orders” that guarantee job placement for those who sufficiently pass the skills improvement training. As a result, it is expected that the publicly-financed social marketing campaign under the project will be continued and financed by private training providers in the future.

24. LSE3 will operate within existing organizational structures at each level – national, regional, provincial, and institutional – thus no new organizational or structural burdens will be placed on the government. The two primary indicators of government commitment and, thus, the chances for project sustainability are: (i) that the project development objective, and
strategies for achieving that objective, are exactly aligned with the top priority of Indonesia’s Medium Term Development plan (RPJM; 2004-2009) and the current Renstra (5-year Strategic Plan) for MONE and MOMT. Drafts of the soon to be released development and strategic plans for the coming five years indicate a continuing precise alignment of priorities and strategies for addressing those priorities. (ii) commitment and the likelihood of sustainability at the district level is evidenced by the willingness of participating districts to enter into a formal agreement to commit funding towards implementation costs.

6. Lessons Learned from Past Operations in the Country/Sector

25. LSE3 was prepared based on lessons learned from both the Bank’s global experience and knowledge gained from three Indonesia specific feasibility studies conducted between 2004 and 2007. Project design also draws on a series of recent programs conducted in Indonesia: (i) the Education for Youth Employment (EYE) pilot project, which was a grant financed with support from the Japanese Social Development Fund (JSDF), administered by The World Bank, initiated and implemented by DG NFIE; (ii) the Program Kursus Para-Profesi (KPP), a block grant scholarship program, piloted by DG NFIE in 2006 and 2007; and (iii) assessments conducted by Bank Indonesia’s Credit Bureau and The World Bank.

26. In summary the design of LSE3 is guided by five key lessons from the above sources: (i) demand-driven non-formal educational interventions are highly effective in reducing joblessness, especially for the young; (ii) the lifetime earning potential of participants in the skills training programs (KPP) who received a market-oriented skills training block grant, are on a higher earning pathway than those who did not receive a market oriented skills improvement scholarship; (iii) the recently prepared Global Inventory of Interventions to Support Young Workers: Synthesis Report (World Bank, February 2007) when summarizing the lessons of some 289 studies of interventions from 84 countries around the world concluded that, “…youth entrepreneurship programs have the highest impact rating of all intervention types for youth employment on a cost effectiveness basis…”; while the authors acknowledged that “…the number of these interventions in the inventory is too small to draw firm conclusions…” the project preparation team draw in the observation as strong support to undertake further experimentation and expand experience with this type of intervention; (iv) young entrepreneurs are constrained by a lack of business development services such as entrepreneurship education and a lack of access to finance; and (v) “Financial Literacy” and “Legal Rights” should be incorporated into pre-departure training programs for potential overseas workers as increased knowledge in these areas may enhance social protection and reduce vulnerability, (the preparation team take this observation as supportive of the inclusion of these aspects of LSE in training for the domestic market as well).

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6 Specifically; (i) a Bank Indonesia review of the constraints facing young entrepreneurs across Indonesia, (ii) an assessment of programs to assist young entrepreneurs and young people in general jointly conducted by the NGOs; Sampoerna Foundation and the ImagineNations Group and The World Bank and (iii) joint World Bank and International Office of Migration analytic corridor studies assessing the economic value generated to Indonesia from remittances and the need for pre-departure skills improvement and legal rights training, (see Annexes 2 and 14 for further detail).
27. In addition lessons learned from Bank-financed operations (*Chile Lifelong Learning and Training Projects* (Loan 7106-CH), the *Mexico Technical Education and Training Modernization Project* (Loan CPL-3805) and the *Argentina Lifelong Learning and Training Project* (Loan 7474-AR), include the following, successful interventions: (a) emphasize outcomes as measured against approved competency-based standards rather than inputs and process; (b) anchor the competency-based training and out-of-school educational delivery in a demand-driven approach determined by the needs, interests and characteristics of employers, workers and beneficiaries; (c) ensure recognition of skills and knowledge acquired throughout the life of beneficiaries independent of the sources; (d) make service provision flexible and modular; (e) are underpinned by a multi-sectoral approach and networking to improve the likelihood of success; (e) adapt international norms and standards when possible; and (f) training should rank higher in priority than certification.

7. **Safeguard Policies (including public consultation)**

The table below outlines the safeguards that are triggered by LSE3.

<table>
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<th>Table: Safeguard Policies Triggered by the Project</th>
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The LSE3 project is designed to provide better access to disadvantaged youth (including out-of-school, poor, unemployed and/or underemployed, aged 15-35) years to life skills education which will take them to employment and better earnings. An Indigenous Peoples Planning Framework (IPPF) as required by OP 4.10 is available as Annex 11. A key proposed mitigation measure is that a grievance and complaint handling system will be put in place to address concerns arising from the implementation of LSE3, including issues related to the proper treatment of IP. The system will be web-based for public disclosure of the complaints as well as for actions taken to address the complaints. The project does not involve land acquisition or involuntary resettlement, and project activities will not result in loss of income sources or means or livelihood.

* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties’ claims on the disputed areas
8. List of Factual Technical Documents


- SAKERNAS (2007). “Unemployment Rate by Education Attainment: Youth vs. Adult”


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